Why international business differs from domestic business

It is almost common place today to find businesses venturing into international markets. Thanks to advancement in communication and information technology, this trend will most certainly persist for the predictable future. Most domestic organisations when considering expansion will usually look outside their geographical location. This usually means looking at opportunities in international markets. It is believed that managing and running a domestic business is less complex than undertaking international business for a number of reasons. Nation states typically have unique laws governing trade and investment, variations in business ethics and culture, different political systems, monetary policies, currencies and so on. And these are all possible factors that could make international business more complicated and therefore, riskier than doing business at home.

In discussing the differences between international business and domestic business, it will make sense to discuss issues involved in doing business internationally which will not otherwise be present or prove as complicated as when doing business at home.

International business could range from the smallest of firms with the smallest possible activities with just a single country, to a much larger world-wide organisation with more interconnected operations and strategic alliances all over the globe. Comparison are frequently made within this range, alongside other forms of international business, and these differentiations make it easier to comprehend an organisation’s strategy, structure, and decision making processes. A notable comparison is that between nation-wide operations, and standalone subsidiary companies which act basically as domestic organisations, and global organisations, with subsidiaries which are tightly integrated and interconnected; like double ends of a band, with multiple openings in the middle. However, it will be less likely that you will find organisations at any one end of the band because, nowadays, companies frequently mix elements of domestic activities with those of global operations.

Domestic versus international business

All enterprise, whether domestic or international, and in all sector, have the same business aims; which is to be successful in its functions in order to be able to stay operational. In what ways, can we say that international business is distinguishable from domestic business? One can say loosely that the difference is mainly about location; domestic businesses exist and do business within a nation while international businesses exist and do business beyond those national boundaries. Typically, most countries have unique systems of government, laws, monetary policies, cultural differences, etc. For example, someone travelling to a new place on a visit will be required to be in possession of the right travel documents, have the appropriate foreign currency, some basic understanding of the local language (or device a way to interact with people), etc. Similarly, an individual or organisation going to do business in a different land will be faced with many such issues, making it potentially more difficult if he was to stay domestic. I am going to spend the next few sections of this essay comparatively discussing some of these issues which makes doing business internationally different from doing it domestically .

International trade and investment theories

A good place to start painting a picture of international business is to have a general conception of why business takes place beyond national borders. We can examine trade and investment as an expression of the comparative advantage of nations. That is, to suggest that every nation will usually be exceptionally excellent at producing some sort of goods or services or both. This is what is known as a country's comparative advantage and it is based on a nation's ample factors of production, such as land, labour, and capital. A country will therefore export such products and services that draw more on its rich factors of production. Take for example, labour and capital, two factors of production, and two countries, A and B. Country A may have a wealth of human resources and country B, a comparative richness in capital. It will therefore make sense for country A to export products or services that draw on labour intensively. Country B on the other hand, could export products or services that require a lot of capital.

This is a rather one-dimensional way of looking at it. Many factors of production abound and in varying amount and will usually have more impact on trade. However, this is a an ideal point to start to get a clearer picture of what countries need in exchange for what they might in turn be able to supply to other countries. The flow of investment, one of the most versatile and mobile of all factors of production, can also be better explained by this comparative advantage concept. So, a country rich in capital but not enough labour force may want to invest in another country with abundance of labour but less capital to take advantage of that country's richness in labour.

Differences in business environment

When a business takes its operations outside its national borders, the business environment changes. Clearly, an organisation will have‘ inside-out’ knowledge of its domestic environment, but this will rarely be the case when it decides to go international. Understanding the business environment of the foreign country is crucial to the successful launch of an international firm. Therefore, organisations must commit to a greater extent, time and resources in order to understand the new environment. Below are some of the business environments that may affect international business, their complexity are the main distinction between international and domestic operations.

Economic environment

The economic environment changes as you move from country to another. There are generally three main categories of world economies; the developed nations, the developing or third world nations and the emerging economies. These classifications are usually based on the gross domestic product per capital (GDP) income of the nations. Within these economies exist huge gaps in the standard of living, educational standards, health care provision (from excellent health care system in a developed country, for example, to a complete lack of such facilities in a developing or poor country), trade standards and culture.

Additionally, one could also classify nation states by such activities as:

Free-market economies; those markets where there is very little or no interference from the central government and demand and supply determines what’s produced and sold for what price.

Centrally planned economies; where government controls production and price. or

Mixed market economies; where some activities are determined by market forces and some controlled by government.

Since the last part of the 20th century we have seen significant move to free-market economies globally. However, countries like China, Russia and a few other communist inclined societies, have maintained mostly centrally projected economies, with most business activities remaining under the direct influence of the government.

The level of government control of the market, available infrastructure, political climate, etc, impacts the business environment and organisations venturing into international market will need to be aware of this to be effective.

Political environment

Different types of government, the relationship between government and business, and the political hazard in a country all impact the environment in which people do business. Organisations doing business internationally will have to deal with different types of political authority, one that may be radically different from its home country, with varied legislation and different degrees of risk.

The political system of one country may be different from that of another; unilateral states, multi-party republics, monarchies, dictatorships, etc exist in various forms from place to place. There are also differences in the way power changes among countries worldwide. Some happen through some sort of democratic election process, military coups, regime change through war, and so on. The relationship between government and businesses also varies from country to country. Some countries favour capitalism, and business may be seen as a positive catalyst for development. It may also have a negative outlook in some places where it may be seen as exploitative particularly when firms from rich countries takes advantage of cheap labour in disadvantaged countries.

The biggest issue that international business needs to grapple with in terms of the political environment is the level of political risk. Some countries have unstable government, uncertain legislation, occasional or frequent social unrest, high level of corruption, acts of terrorism, war, etc, which could make doing business very difficult and dangerous. However, some organisation may particularly find it more attractive to do business in high risk zones as the financial rewards will usually be exceptionally high. For example a firm supplying security personnel may see a country at war an opportunity despite the high risk. An international organisation therefore needs to be aware of the political environment in the foreign country order to function successfully.

Cultural environment

Culture is one crucial and complex part of the international business environment. The complexity of culture lies in its abstract nature. According to Kluchohn and Strodtbeck (1961), culture can be conceptualised as a body of general beliefs, values shared by a group of people. Common beliefs and values shared by a people are usually as a result of common history, religious beliefs, educational background, geography, etc. International businesses therefore will seek to understand these elements that make up peoples beliefs and values in the foreign location.

Some scholars have proposed various models of culture. Hofstede (1980), developed one of such models. He posited a four dimensional cultural values which included masculinity, power distance, avoidance of uncertainty and individualism.

According to Hofstede (1980), masculinity refers to the extent to which a country consents to traditional male or female values. Power distance means the extent to which a society acknowledges differences in power. Avoidance of uncertainty is the extent to which society shows willingness to acknowledge and handle uncertainty. And individualism refers to the level to which a country respects and promotes individual action. The application of this model by Hofstede has been extensive in its use as it makes available data for a range of countries. It has also proved popular among academics and managers who find it useful in researching management styles that may be suitable in a number of cultures.

Competitive environment

The cultural, political and economic environment affects in part the changes in competitive environment from one nation to another. One can say that the environmental elements collectively determines to a large extent the level of competition that exist within a nation or internationally

Competition may have different roots. It could come from small or large companies, operating in both private and public sectors, domestic or global, and so on. Organisations may find it easier to understand their competition when operating domestically as opposed to when operating in foreign territory. In the UK for instance, most businesses are owned privately and competition is usually among companies in this sector. Countries like china on the other hand have mostly state-owned companies. Therefore, a UK company doing business in China may end up with competition from state-owned organisation which could lead to tremendous change in the competitive environment.

Types of competition faced by businesses will change according to location. Some countries may encourage competition or discourage it in order to favour some sort of cooperation, state legislations in some societies may allow or forbid certain competitive activities. International firms will therefore, need to grasp these issues that can affect the business competitive environment.

Technological advancement and innovation has helped create more competitive advantage in today business, as a result, companies are increasingly vying for access to latest technological development. The internet has made it easier for businesses of all sizes to gain global exposure and expand their market. Nevertheless, it is worth noting that some countries are more receptive than others when it comes to technological innovations.

Differences in modes of entry

There are different ways that organisations can do business internationally. It could be through exports, outsourcing, joint ventures, franchising and so on. Exports are probably the most common form of entry option for organisations considering international business. Outsourcing on the other hand has also become very popular in the last couple of decades particularly in the technology sector. Effective outsourcing requires careful consideration and concise definition of the terms of the contract. For example both parties to the outsourcing agreement need to be clear as to what is expected of them right from the onset.

Outsourcing are used frequently by organisations that provide specialised services, such as management, technical knowledge, engineering, information technology, education, and so on, usually for a contractual period of time and fee. Outsourcing contracts are particularly appealing for firms as it allows the opportunity to provided services utilising talents that they would otherwise not have. Contracts maybe long-term or short-term, leaving room for flexibility and because the cost of the contract are usually fixed, income forecasts are easier to make. One shortcoming however, is that, due to the short-term nature of the contracts, organisations utilising outsourcing will constantly need to be involved new business negotiation which are usually a many month process and often requires more money and specialist negotiation skill.

Another issue international business need to consider is that of licensing. Different countries have different rules governing such things as patents, copyrights, trademarks, etc. Organisations need to be aware of the various licensing laws in the country they operate in.

Franchising involves selling or buying whole business operational rights. What makes a franchise valuable is typically the name, product and perhaps a tradition. Most franchises will usually have set requirements, terms and conditions for granting a franchise license. This could be a very complicated process when been considered outside national borders.

Joint ventures are about partnerships. It enables a firm to invest in another country with only a share of the responsibility. The amount of responsibility will usually depend on the level of investment. For instance, there could more organisations involved in a single venture where they are all partners. The level of responsibility will be determined by their stake. Deciding on whom to go into partnership with is very crucial. Agreement need to be struck at the onset on such issues as what the objectives of the venture will be and how conflicts will be resolved. Joint ventures can be a great entry choice for international business if done properly.

Conclusion

Doing business is a lot more complex when in foreign land than when at home as we can see from the discussions above. There is no doubt that entry into international business has become easier for organisations due to a more wide spread liberalisation and relaxation of trade laws, and of course, immense advancement in high tech. However, an organisation desirous of entering into international business has more environmental issues to contend with in addition to issues of actually running the business. Treading into international market is very delicate and organisations will need to take into consideration virtually all issues in their desired location. In other words, no stone can left unturned or ignored as doing so will jeopardise their chances of success.