UNIT-I
INTRODUCTION TO INTERNATIONAL BUSINESS

1. What is International Business? Describe its features.

Ans. International business refers to business across countries. It includes any type of business activity that crosses national boundaries. International business involves transfer of goods, services, capital, knowledge and information across national boundaries with a view to satisfy the needs of individuals, organisations and governments

"According to International Business Journal, 'International business is a commercial enterprise that performs economical activity beyond the bounds of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries."

Characteristics of International Business

(i) Involvement of two or more countries: Movement of goods and services beyond the national boundaries, where two or more countries are involved in buying and selling activities is termed as international business. International business offers diverse and equally lucrative opportunities to those firms which are newly emerging in the global arena along with to those who are giant global players. Involvement of many countries in international business enables the world wide consumers to enjoy varied products of superior quality at reasonable and affordable prices.

(ii) Economic integration: Economic integration has expanded the spectrum of global cohesiveness and promoted the economic activities with a synergistic approach. Due to market integration the scope of international business has enlarged. The combination of economies resulted into huge cross border flow of goods, capital, technology and resources and is benefitting these countries mutually.

(iii) Large scale operations: The operations of international businesses are conducted on a very large scale all over the world. It involves transfer of goods, technology, managerial knowledge, capital, labour and so on. This enables production at lower cost offering wide ranges of product choices to the world-wide scattered customers that to at reasonable price; thus guaranteeing economies of scale to the firms involved in international business.

(iv) Intense competition: International business is characterised by intense competition, compelling participants to compete at global level. The participants have to face keen competition in the world market. The competition is between the unequal partners that i.e., both developed and developing economies. Developed nations enjoy dominance in terms of technology and capital resources that gives a tough contest to the emerging developing nations. The developing economies confront multi-faced competition and find it difficult to stand and survive with the global players.

(v) Benefits to participating countries: International business offers benefits to all the participating countries. The participating nations get foreign capital and technology aid that is used for rapid industrial development; which in return generates employment opportunities that result in economic prosperity of those countries. Therefore, international business gives break to developing countries and opens up these economies to face competition at the global front.

(vi) International restrictions: International business faces several international restrictions and challenges. Due to abnormal international economic policies, participating nations may experience restrictions in the inflow and outflow of capital, technology and other factors. They may be the victims of trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful and narrow downs the scope for international business, which do not allow them to enjoy economies of scale.

(vii) Dynamic in nature: International business is highly dynamic. It is influenced and affected by the changes in economic, political, technological and legal policies. It operates in extremely diverse external environment. All these factors are uncontrollable in nature and often affect the functioning of business. Therefore, a proper research and analyses on various elements of business and marketing should be conducted by the firm before going overseas market.

(viii) Risk and Uncertainties: The environment in which International business operates is highly risky and uncertain. The business firm confronts numerous types of risks namely political risk, economic risk, currency risk etc. The use of different currencies across countries and regions tend to increase uncertainty in international business. However these risks and challenges cannot be ignored. Therefore the firm going international should forecast potential risks associated with international markets that can help the new entrants to face these uncertainties and challenges effectively.

2. Describe the complexities and problems involved in international business.

Ans. Companies taking decision of going global have several entry mode options. It is sometimes effortless for the firms to enter into international market but they may find difficult to survive in that market due to numerous challenges they confront to. MNCs today play a pivotal role in shaping the dynamics of global trade. But they are influenced by several forces that questions on survival of those organisations in the international market. Develop nations put forth restrictive trade policies that limits the trade activities of underdeveloped and developing nations. Some of the challenges are given below:

(i)Taxation: Tax compliance is perhaps the most crucial element in international business. Tax regime is a driving force marking increased complexities in overseas business survival. Accounting can present a challenge to multinational businesses that may be liable for corporation tax abroad. Different tax systems, rates, and compliance requirements can make the accounting function of a multinational organization significantly challenging. A nation's economic structure as a free market, centrally planned market, or mixed market also plays a distinct role in the ease at which international business efforts can take place.

(ii)Political challenge: The political environment of international business refers to the relationship between government and business, as well as the political risk of a nation. Therefore, companies involved in international business must expect to deal with different types of governments, such as multiparty democracies, one-party states, dictatorships, and constitutional monarchies. Multinational enterprises face the challenge of political instability when doing business in international markets.

(iii)Challenge of operations and supply chain management: Managing supply chain risks are critical to the success of any business. One of the key challenges for many companies operating globally with different resellers, franchisees, and wholly owned subsidiaries is the ability to control local operations. However, managing these risks can be challenging. Supply chain risks are continually evolving as new business trends emerge. A disruption in its supply chain can have devastating effects on a company, potentially resulting in damage such as a tarnished brand, loss of customers and market share, and an overall fall in revenues and share price. If not resolved quickly and efficiently a supply chain disruption can impact a company's liquidity by hindering its ability to secure financing.

(iv)Cultural difference: Culture differs beyond geographical and political boundaries. Culture and tradition dictates business roles, procedures, and customer expectations. The cultural environment of a foreign nation remains a critical component of the international business environment

(v)Stringent rules and regulations: Legal environment vary from country to country. Businesses operating in some countries have strict laws relating to wages, anti-bribery, environmental laws, taxes, human rights etc. Gaining widespread inclusive understanding on international rules and regulations pertaining in that target market is essential. Failing to this can make dreadful effect on the operations of emerging business in overseas market. This can raise question on the survival of these businesses at global level. Rapidly changing business environment

(vi)Fluctuating exchange rates: Currency rate fluctuation is one of the most challenging international business problems. Global economic volatility can pose threat to the new emerging businesses in foreign countries.

(vii)Energy and environmental security: Concern about energy security and climate sustainability is a burning topic in many economies. It has emerged as the primary issue on the global agenda. Corporations cannot survive ignoring environmental issues. Existence of MNCs is multiplying with time; their presence is felt in most pollution intensive industries. It is very much an issue of the present century of corporate accountability and government responsibility. Universal bodies today are emerging with stringent rules and regulations to protect and preserve ecology that is becoming a bigger challenge before MNCs making their survival difficult.

International business is subject to international rules and regulations that vary from country to country. There is a uniform code for every business that enters into international business. Therefore, it is apparent that every international business transaction has to comply with provisions of both domestic as well as international law. The business has to follow regulations form imports and exports. There are regulations related to tariffs, trade contracts, payment regulations, packaging and transport laws etc.

3. Explain the modes of entry into international business, stating their merits and demerits of each mode of business.

Ans. Modes of Entry into International Business

(I)Exporting: This is the traditional and most widely used route to international business. A firm can export directly or through middlemen such as export houses and buying agents. Exporting can be in the following forms:

(a) Direct Exporting: A company may directly sell its products in a foreign country through its distribution channels or through a company of the host country.

(b) Indirect Exporting: In this mode a company exports its products through another domestic company. For example, several publishers in India sell their books to UBS Publishers' Distributors Ltd., New Delhi which in turn exports them to many foreign countries.

(c) Intra-corporate Transfers: A company in one country may sell its products to its affiliated company in another country. For example, Hindustan Unilever (India) may sell its products to Unilever in the United States.

Advantages:

(i) Exporting is the simplest and easiest mode of entering foreign markets.

(ii) It requires no or less funds. If a company exports through intermediaries, no investment is needed. Some investment is required when it creates its own distribution network,
(iii) Exporting involves less risk. Once a company's product is accepted in the foreign country's market, it can enter on a full scale later on.

Limitations:

(i) Cost of products increases and they become less competitive due to packaging, transportation, insurance expenses and customs duties and other charges,
(ii) Exporting is not possible when import restrictions exist in a foreign country. Other options have to be adopted in such a case.

(iii) Exporting firms are not able to establish close contacts with customers in foreign countries.

Firms usually start their overseas operations with exports and imports. Once they become familiar with foreign markets, they switch over to other forms of international business.

(II)Contract Manufacturing: Under this strategy, the company enters into a contract with a firm in the foreign market to manufacture or assemble the product as per its specifications. The company, however, retains the responsibility of marketing the product. For example, Reebok, Nike, Levis, and Wrangler get their products and components produced in developing countries. Contract manufacturing is also called outsourcing.

The advantages of contract manufacturing are as follows:

(a) The company has not to invest resources in setting up production facilities abroad.

(b) The company is free from the risk of investing in foreign markets.

(c) The company can start immediately when idle production capacity is available in the foreign country.

(d) The product cost in the foreign country may be lower due to lower wages and overheads.
(e) Local producers in foreign countries also gain in terms of better utilisation of capacity, incentives, etc.

The disadvantages of contract manufacturing are as under:

(a) Potential profits from manufacturing are not available.

(b) The company has less control over manufacturing.

(c) Local firms might not adhere to production design and quality standards.

(d) Local producer in the foreign country loses control over manufacturing process and is not free to sell in open market.

(e) There is risk of developing a potential competitor.

(III)Licensing and Franchising: Under **Licensing**, the local firm (licensee) obtains licence (written permission) from a foreign firm (licensor) to use the latter's patents, trademarks, copyright, technology, know-how or marketing skills in consideration for fee called royalty.

Franchising is a contractual arrangement in which one firm (called franchiser) grants to another firm (called franchisee) the right for use of technology, trademark, brand name and patent in return for the agreed payment for a specific period of time. The franchiser may be a hotel, a restaurant, bank, travel agency or a retailer who has developed a unique technique for creating and marketing of services under its own name and trademark. McDonald, Domino's Pizza Hut and Wal-Mart are examples of leading franchisers who operate worldwide.

Advantages of licensing and franchising are as follows:

(i) It requires virtually no investment and is, therefore, a less expensive mode of entering into international business.

(ii) The licensor/franchiser gets a regular fee and is not liable for the losses, if any.

(iii) There is lower risk of business takeovers or government interventions because the local person manages the business in the foreign country.

(iv) The licensee/franchisee has market knowledge and contacts which can be helpful to licensor/franchiser in his marketing operations.

(v) Firms other than the licensee/franchisee in foreign market cannot make use of the copyright, brand names, trademarks and patents of the licensor/franchiser.

Limitations of licensing/franchising are as under:

(i) Once the licensee/franchisee becomes skilled in the production and marketing of the product, he may start marketing a similar product under a different brand name. This can create severe competition for the licensor/franchiser.

(ii) In case the licensee/franchisee divulges trade secrets in the foreign markets, the licensor/franchiser may suffer heavy loss.

(iii) Over time conflicts may develop between the licensor/franchiser and the licensee franchisee. Such conflicts may result in litigation causing loss to both the parties.

(IV) Joint Ventures: In this method, the company which wants to enter foreign market sets up an enterprise in collaboration with a local firm in the host country. The two firms share the ownership and control of the joint venture. Generally, the multinational provides the capital and technology whereas day-to-day management is left to the local firm. For example, Hero Honda Motors was a joint venture between Hero Cycles of India and Honda Motors of Japan.

A joint venture may be created in any of the three ways: (a) The foreign firm may buy equity in a local company, (b) The local firm may acquire equity in an existing foreign firm, (c) The foreign firm and the local firm may jointly form a new company,

Advantages of a joint venture are as follows:

(i) The international firm can expand globally with less investment because the local partner also contributes the equity capital.

(ii) The foreign firm benefits from the local partner's knowledge of market, political system, culture, language and business system.

(iii) Joint venture helps the international firm to share the risks and costs with the local partner.

(vi) Joint ventures are helpful in executing large projects involving huge capital outlays and manpower

Limitations of joint ventures are as under:

(i) The local partner may leak the technology and trade secrets of the foreign firm.

(ii) Dual ownership of the joint venture may lead to conflicts between the partners over control of business.

(V)Wholly Owned Subsidiaries: The foreign firm may establish a wholly owned firm which is registered under the relevant law of the host country. Such an enterprise is known as a Greenfield venture. Alternatively the foreign firm may acquire an existing company in the host country.

Advantages of a wholly owned subsidiary are as follows:

(i) The parent firm can exercise full control over its business in the host country.
(ii) The parent company need not disclose its technology or trade secrets to others.

Limitations of a wholly owned subsidiary are given below:

(i) The parent company has to invest 100 per cent equity capital.

(ii) The parent company has to bear full risk of loss from failure of its foreign operations.

(iii) Some countries do not allow wholly owned foreign firms. Therefore, political risks of a wholly owned subsidiary are high.

Franchising is similar to licensing except two differences. First, licensing is used in connection with production and marketing of products, while franchising applies to service business. Second, franchising is more stringent than licensing, Franchisers lay down strict rules and regulations which franchisees are required to follow while running their business.

4**. Distinguish between Direct Exporting and Indirect Exporting.**

Ans.

Basis	Direct Exporting	Indirect Exporting
1.Meaning	Exporting activities undertaken by manufacturer/ exporter without intermediaries is called direct exporting.	Exporting activities undertaken where intermediaries are involved in the process is known as indirect exporting.
2.Control over business	In direct exporting process, exporter exercises direct control over the business operations.	Here the exporter has no control over business operations
3.Profit	Enjoys high profit margin	Profit is distributed among margin intermediaries
4.Risk	The exporter has to bear all the risk from production to distribution	Risk is spread among intermediaries
5.Suitability	Direct exporting is suitable to big and large exporters.	This method is suitable to small firms and start-ups

5. Distinguish between Franchising and Licensing.

Ans.

Basis	Franchising	Licensing
1.Meaning	Franchising is an arrangement in which the franchisor permits a franchisee to use sells business model or brand name for fee.	Licensing is an arrangement in which a company (licensor) sells the right to use intellectual property or produce a company's product to the licensee, for royalty.
2.Degree of Control	Franchisor exerts considerable control over franchisee's business and process.	The licensor has control on the use of intellectual property by the licensee, but has no control on the licensee's business.
3.Registration	Registration is mandatory Fee	Not necessarily required
4.Return	Franchisor enjoys Fee	Licensor takes royalty
5.Governed by	Franchising is governed by Securities Law.	It is governed by contract Law

6. Distinguish between Internal Trade/Domestic Business and External Trade/International Business

Ans.

Basis	Internal Trade/Domestic Business	External Trade/International Business
1.Meaning	Internal trade refers to buying and selling of goods within the geographical limits of a country.	External trade refers to buying and selling of goods beyond the geographical limits of a country.
2.Countries involved	Only one country is involved.	Minimum two countries are involved.
3.Risk	Less degree of risk is involved.	High degree of risk is involved.
4.Currency used	Payments are made and received in home currency only.	Payments are made and received in foreign currency only.
5.Procedure involved	No long procedures or formalities have to be completed before starting	Long procedures and many formalities have to be completed before starting.
6.Mode of payment	Payments are made by cash or cheque	Payments are made through bill of exchange or through banks.
7.Legal rules and regulations	National laws, rules and regulations are applicable.	International rules and regulations are applicable.
8. Mode of transport	It used road, railway mode of transport	It uses sea transport and air transport.
9. Cost involved	Operating cost of internal trade is lower.	Operating cost of external trade is higher due to involvement of long distance.
10. Effect on foreign reserves	Internal trade has no effect on foreign reserves of a country.	External trade has direct impact on the foreign reserves of a country.

7. What is Globalisation? State its features.

Ans. Globalisation means the process of integration of national economies through cross-border flows of products, services, capital, technology, man power and information. According to the International Monetary Fund (IMF) globalisation is "the growing interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and wide-spread diffusion of technology"

The concept of Globalisation involves within its ambit the following features:

(**i) Liberalisation:** It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.

(ii)Free trade: It stands for free flow of trade relations among all the nations. Each state grants MFN (most favoured nation) status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes**.**

(iii)Globalisation of Economic Activity: Economic activities are be governed both by the domestic market and also the world market. It stands for the process of integrating the domestic economies with world economy.

(iv)Liberalisation of Import-Export System: It stands for liberating the import-export activity and securing a free flow of goods and services across borders.

(v)Privatisation: Keeping the state away from ownership of means of production and distribution and letting the free flow of industrial, trade and economic activity across borders.

(vi) Increased Collaborations: Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernisation, development and technological advancement.

(vii) Economic Reforms: Encouraging fiscal and financial reforms with a view to give strength to free world trade, free enterprise, and market forces.

8. Explain the impact of globalisation on international business.

Ans. Globalisation is a mixed blessing. Along with its benefits it has disadvantages. Some of the positive and negative impacts of globalisation are discussed below:

Some of the positive impact of globalisation includes:

(i)Increased Foreign Investment: Globalisation has increased investments in the world remarkably investments. It has given a way to the investors all over the world to access new investment opportunities. FDI increases at a much greater rate with the advent of globalisation are helping to boost technology transfer, industrial restructuring, and the growth of global companies.

(ii)Resource mobilisation: Globalisation has expanded businesses, capital and operations across borders. It has revolutionised the way of conducting business by giving identical opportunities to the economies. Globalisation has paved a way for exchange of resources from the country with abundance to the country facing deficit. These exchanges have significantly added to the increase of production and constructing activities all over the globe. Resource exchanges have stimulated new technology developments and have helped improve economic output by making processes more efficient.

(iii)Increase in employment opportunities: Globalisation has increased the number of multinational firms across the world. This set up of MNCs and TNCs have enlarged employment opportunities, thus expanding job avenues for the diverse global population. Globalisation has resulted into growth of consumer market that has significantly increased the rate of demand and supply in different industry sectors with high demand pushing up the production and distribution. This has led to high demand for quality workforce consequently resulting into increase in the job opportunities. With the opening of SEZs, the availability of new jobs has effective increased.

(iv)Wider scope of choice: Increased production and liberalised policies have further expanded exchange of goods and services across nations. Globalisation has expanded international trade thereby offering wider scope of choice to the global population.

(v)Economies of Scale: Globalization enables large companies to realize economies of scale by increasing production and reducing costs. This in turn supports further economic growth. Although this can hurt many small businesses that fail to compete globally.

(vi)Improved Standard of Living: Wealth generation across the world has enhanced since globalization. Improved employment opportunities and rising income has resulted into increased purchasing power of people. It has also led to better standard of living together with business development.

(vii)Common Culture: Globalisation facilitates cultural exchange between developed and developing countries. For example, Domino Pizza, McDonald Berger, India's masala dosa and Hyderabadi biryani have become global food items. The term global village indicates such cultural integration between nations.

(viii)Human Development: Increasing economic development enables governments in developing countries to provide educational, health and other public welfare facilities. There is improvement in the health and skills of people in developing countries

Negative impact of Globalisation: But at the same time globalisation has also exposed dark phase remarking negative effects on the economy. Following are the drawbacks of Globalisation:

(i)Globalisation has increased unequal distribution of economic power in the hands of economically powerful nations who then tend to dominate less powerful or poor nations.

(ii) Globalisation has lead to increased imports over exports which ultimately might result in growing trade deficits and give rise to balance of payment problems.

(iii) At one end globalisation increase job opportunities with labour mobility. On the other end it affects employment rates with more loss of jobs with technological up-dation and introduction of artificial intelligence which has lead to unemployment growth.

(iv) Due to globalisation small emerging firms cannot withstand the competition arising from well organized MNCs.

(v) One argument against globalisation is that it increases wealth inequality worldwide**.**

(vi)Globalization has increased interdependence on nations that has caused regional or global instabilities consequently leading to economic fluctuations impacting large number of countries relying on them.

(vii)Some see the rise of nation-states, multinational or global firms, and other international organizations perceive globalisation as a threat to sovereignty. Ultimately, this could cause some leaders to become nationalistic or xenophobic.

(viii)The benefits of globalization can be unfairly skewed towards rich nations or individuals, creating greater inequalities and leading to potential conflicts both nationally and internationally as a result.

9. Explain the importance of globalisation in the world economy.

Ans. The significance of globalisation in world economy is growing day by day. Globalisation offers the following advantages: **See 1st Part of Question No.8**

10. Mention the obstacles to and factors favouring the globalisation of Indian business.

Ans. Obstacles to Globalisation of Indian Business

(i) Restrictive Government policies and bureaucratic procedures.
(ii) High cost of power and other inputs.
(iii) Poor infrastructure.
(iv) Obsolete technology.
(v) Resistance to change.
(vi) Poor quality image of Indian products.
(vii) Supply constraints.
(viii) Uneconomic small scale of operations.
(ix) Lack of experience.
(x) Limited R&D and marketing research.
(xi) Growing competition in foreign markets.
(xii) Trade barriers by regional economic blocs

Factors Favouring Globalisation of Indian Business

(i) Low cost of labour.
(ii) Large pool of scientific and technical manpower.
(iii) Wide resource and industrial base.
(iv) Growing demand.
(v) Niche and expanding markets abroad.
(vi) Economic liberalisation.
(vii) Growing entrepreneurship.

11. What is business environment? State its features.

Ans. The term business environment means the aggregate of all the forces, factors and institutions which are external to and beyond the control of an individual business enterprise but which exercise a significant influence on the functioning and growth of individual enterprises.
In the words of Arthur M. Weimer," business environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted."
Thus business environment mean all those factors that have an impact on business.

The main features of business environment are:

(i)All the External Forces: Business environment includes all the forces, institutions and factors which directly or indirectly affect the business organization.

(ii)Specific and General forces: Business environment includes specific forces such as investors, customers, competitors and suppliers. Non-human or general forces are Social, Legal Technological, Political etc. which affect the business indirectly.

(iii)Inter –relation: All the forces and factors of business environment are inter related to each other. For example with inclination of youth towards western culture, the demand for fast food is increasing.

(iv)Uncertainty: It is very difficult to predict the changes of business environment. As environment is changing very fast for example in IT, fashion industry frequent and fast changes are taking place.

(v)Dynamic: Business environment is highly flexible and keep changing. It is not static or rigid that is why it is essential to monitor and scan the business environment continuously.

12. Explain the components of business environment.

Ans. The components business environment is broadly classified into two types:
(i) Internal Environment & (ii) External Environment.

(i)Internal Environment: Internal environment refers to all the factors existing with a business firm. The internal factors are considered controllable because the enterprise has control over those factors. For example, a company can modify or alter its organization structure, policies and programmers, personnel, physical facilities and marketing mix to suit the changes in the environment.

(ii)External Environment: The external environment consists of forces and factors outside an enterprise. The external forces are by and large beyond the control of a firm and are, therefore, regarded as uncontrollable. For example, a company has almost no control over national income, social forces, govt. policies, population etc.

Again, external environment of business is broadly classified into: (i) Micro Environment and (ii) Macro Environment.

(i)Micro Environment : Micro Environment or task environment refers to those individuals, groups and agencies with which the organizations comes into direct and frequent contact in the course of its functioning. Micro environmental factors exercise a direct influence on the operations of the enterprise. Therefore, it is also known as Direct Action Environment or Stakeholders Micro environment consists of the groups in the companies' immediate operating environments which have a stake in the company.

Following are the important factor which govern the micro environment of business:-

(a)Customers: The people who buy a firm's products and services are its customers. A business exists priests to create and satisfy customers. A firm may have different types of customers like individuals, households, Govt. departments, commercial establishment etc. In order to be successful a company must understand and meet the needs and expectations of its customers.

(b)Suppliers: Suppliers refer to the people and groups who supply raw -materials and components to the business. Reliable sources of supply enable the business to carry on uninterrupted operations and to minimize inventory carrying costs. Suppliers also influence quality levels and costs of manufacturing.

(c) Competitors: A business may have both direct and indirect competitors. Direct competitors are the others firms which offer the same or similar products and services. For example, Sony TV faces direct competition from other brands like L.G, Samsung, and Videocon etc.
Indirect competition comes from firms vying for discretionary income. For example, a cinema house faces indirect competition from casino and other firms marketing entertainment.

(d)Marketing Intermediaries: Several marketing intermediaries help a company in promoting, selling and distributing its products to customers. Middlemen like agents, wholesalers and retailers serve as a link between the company and its customers.
Transportation firms and warehouses assist in the physical distribution of products. Advertising agencies, marketing research agencies and insurances companies are other types of marketing intermediaries.

(e)Financiers: The shareholders, financial institutions, debentureholders and banks provide finance to company. Financial capacity, policies and attitudes of financers are important factors for the company.

(f)Publics: Publics include all those groups who have an actual or potential, interest in the business or who influence the organization's ability to achieve its objectives.
Media groups, environmentalists, non-government organization (NGO) and local community are examples of publics. These publics can have both positive and negative impact on a business firm.

(ii)Macro Environment: Macro Environment refers to the general environment or remote environment within which a business firm and forces in its micro environment operate. A company does not directly or regularly interact with the macro environment. Therefore, macro environment is also known as Indirect Action Environment. Forces in the macro environment however, create opportunities for and pose threats to the company. The macro environment forces are less controllable than the micro forces.

Macro environment of business includes all those economic and non-economic factors which influences on the business activity in general. These components of macro environment of business can be studied as under:

(a) Economic Environment: The economic environment varies from one nation to another and includes all the factors that relate to a country's attractiveness for foreign trade and business activities. The economic environment comprises the nature and structure of the economy, the stage of economic development, economic resources, the level of income, economic policies, distribution of income etc. The main components/aspects of economic environment are as follows:

(i) The nature of economic system-Capitalist, Socialist or mixed economy.

(ii)Economic structure : Occupational distribution of labour force, structure of national output, capital formation, investment pattern, composition of trade, balance/ imbalance between different sectors.

(iii)Economic Policies: Industrial policy, export import policy, monetary policy, fiscal policy etc.

(iv)Organisation and development of the capital market- banking system, securities market etc.

(v)Economic indices: Gross national product, per capita income, rate of savings and investment, price level, balance of payments position etc.

(vi) Economic infrastructure and stage of development of the economy.

(vii) Product markets and factor markets-degree of completion.

(b) Cultural Environment: The cultural environment remains the most difficult and distinctive component in International Business Environment. The culture of a country is described as its beliefs and values that are shared by the citizens of the country. Beliefs and values are based on factors such as language, history, religion, education, etc of the country. So, to understand the cultural environment of a country, the firms have to analyze these factors first.
To analyze the social & cultural environment, a firm may consider the below-given aspects carefully:

(i) Lifestyle and usage of the product by people.
(ii) People's level of acceptance and resistance to change.
(iii) Influence of cultural, social, and religious factors on the acceptability of a product.
(iv) Public demand and requirements.
(v) Consumption of the product.
(vi) Value adjoined with the product

(c) Political Environment: Political Environment comprises the elements relating to Govt. affairs. It serves as the regulatory framework of business. The main constituents of a country's political environment are as follows:

(i) The Constitution of the Country.

(ii)Political organization : Organization and philosophy of political parties, ideology of the Govt., nature and extent of bureaucracy, influence of primary groups, business donations to political parties, political consciousness etc.

(iii)Political stability: Structure of military and police force, election system, law and order situation, President's Rule, foreign infiltrations etc.

(iv) Image of the country and its leaders.

(v) Foreign policy of the Govt.

(vi) Defence and Military policy.

(d) Legal Environment: Legal environment constitutes the laws and various legislations passed in the Parliament. The businessman can not overlook the legislations because he has to perform his business transactions within the frame work of legal environment. The common legislation passed which has affected the business transactions are Trademark Act, Essential Commodity Act., Weights and Measures Act etc.
The common instances of Indian legal environment which have influenced business transactions recently are:

(i)Deregulation of capital market has made it easy for businessman to collect capital from primary market.

(ii)Removal of control from the foreign exchange and liberalization in investment is encouraging foreign investors and NRIs to invest in Indian capital market.

(iii)Advertisement of alcoholic product is prohibited.

(iv) Compulsory to give statutory warning in Tobacco production.

(v) Delincencing policy of industries.

(e)Technology Environment: Technological environment refers to changes taking place in the method of production, use of new equipments and machineries to improve the quality of product. The businessman must closely monitor the technological changes taking place in his industry because he will have to implement these changes to remain in the competitive market.
The main elements of technological environment are:

(i) Rate of technological change.
(ii) Approaches to production of goods and services.
(iii) New processes and equipment.
(iv) Research and Development (R & D) systems.
(v) Import & Export of Technology.

(f)Natural Environment: Natural environment also influences business in a diverse way. In natural environment we include geographical and ecological factors. Both these factors are relevant to business. The main natural forces are as follows:

(i) Climatic conditions.
(ii) Agricultural, Commercial and other natural resources.
(iii) Ecological system.
(iv) Levels of Pollution.
(v) Location aspect.

(g) Global Environment: Global environment is also playing an important role in shaping the business activity. With the liberalization and globalization of the economy, business environment of an economy has become totally different. When it has to bear all shocks and benefit arising out of global environment.
The main determinants of global/ international environment are as follows:

(i) The state of the world economy and distribution of world output.
(ii) International economic cooperation.
(iii) International market structure and competition.

13. What is Micro Environment of Business? State the factors influencing micro environment of business.

Ans. Micro Environment: Meaning - See Q.No.12

14. Explain the components of macro environment of business.

Ans. See Q.No.12

15. What is International Business Environment? Explain the components of international environment of business.

Ans. International Business Environment is limited to respective social and cultural factors that comprise several aspects such as technical, demographic, economic, natural, legal, political & socio-cultural environments. All these components play an important role in establishing a successful business.

IBE or the International Business Environment is a multidimensional system including various risks and issues like exchange risks, political risks, cultural differences, legal & taxation issues.
Hence, IBE comprises various components like economic, political, competitive, social and culture, social & cultural, legal, and technical environments.

For explanation see – see question no. 12 (2nd Part – macro environment)