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International Business Environment: Challenges and Changes

Gupta Abhishek
Administrative-cum-Accounts Officer & Head of Office, Sardar Swaran Singh National Institute of Renewable Energy
Ministry of New and Renewable Energy, Govt. of India, Wadala Kalan, Kapurthala, Punjab, INDIA

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Abstract

In the twenty first century, Business Environment is becoming more complex, interdependent and dynamic. Managements have to restructure their strategies and management styles according to the regions of the world, they are operating in. The typical challenges that managements face are political, economic and cultural changes along with advancement in technology. In addition to the vast opportunities while operating in global community, it is also associated with relative high risks and the projected return on investments in the global market. Business Environment risk has increased obligations of managements to improve their ability to develop, produce and market global brands. To compete aggressively, organizations have to make considerable investments globally, not only capital investment but also human resource investment like trained managers, skilled workforce to operate effectively in a multicultural environment. Managements are focusing to become accustomed to global environment change and attain new capabilities, in job skills, modes of learning, management approaches and research efforts. Managing political and economic risk is a challenge for multinational organizations, they have to maintain an up to date profile of countries they are operating in. Global operations of organizations are also associated with social responsibility, ethical behaviour and interdependence which directly affect their sustainability and profitability. The ethical challenge that globalization presents is political and economic freedom, that is essential for the development of any society, but human resource development is critical in developing these capabilities. Due to interdependent nature of developing economies the global organizations must set high ethical norms and lay the groundwork for future economic development by cooperating with social, political and economic conditions prevailing in the regions they are operating in.

Keywords: Business environment, global brands, business environment risk, globalization, ethical norms.

Introduction

The word global means "spread throughout the world". Globalization means the companies, the regions, the nations and the continents are struggling to attract business investments. The term globalization means that the phenomenon of evolutionary transition to a new stage of contemporary society in terms of the economic system, socio-political or cultural. Globalization refers to the social and economic development relationships that extend throughout the world. The East Asian Economic Miracle represented rapid economic growth of East Asian Counties like Japan, Taiwan, Hong Kong and Singapore, from 1960 to 1980, played a significant role towards global business approach. Despite poor political system and old egalitarian society these countries achieved high economic growth. This miracle motivated many countries and organizations to operate their business globally so as to follow the path for development. International Business is commercial transaction i.e. sales, investments and transportation, between two or more countries. In this modern world of globalization, liberalization and privatization, its importance has increased due to increase in multinational organizations worldwide. It has great contribution in developing economies because it has stimulated business organizations to grow worldwide and enabled business organizations to compete and operate on international level. Companies engage in International Business due to following factor: To increase sales; to utilize global resources; to minimize risk.

Global Business of Growing Organizations

Need for globalization of business arises due to the many factors. Rapid progress in the field of communication, technology and transportation has enabled communities to interact with other communities and the products and services used by them[1]. In order to develop trade and business the Governments today are imposing less restriction thus allowing products and services across the borders. This has enabled the governments to provide easier access to variety of goods and services at competitive prices. Countries are developing infrastructure as per international norms to provide favorable conditions for foreign investment that is the key to development in this modern world. This includes laws, policies, banking, transportation etc. Consumer behavior is changing due to new innovative products and services that they require to meet their requirements thus pressurizes organizations to introduce new innovative products and carry out research and development activities to satisfy their customers and gain market share. Global operations of organizations lead to development of good quality cheap products as they are able to fully utilize global resources to develop such products and thus give rise to competition in different markets especially to domestic organizations. The factors constituting Global Business Environment are Political, Economic, Technological, social and Cultural Environment. Political and Economic Environment relates to global trade agreements, liberalization policy influencing trade barriers, foreign investments, privatization and the opening up of the economies[2]. Technological Environment relates to innovative communication technology, global communication networks, internet and network computing, quick and safe logistic services, innovative methods of production using new technology. Social and Cultural Environment relates to elements of social traditions and cultural behaviour like attitude, belief, opinion that characterizes distribution of human population worldwide.

International business differs from domestic business, as it involves three environments: Domestic; Foreign; International[3]. The kinds of forces are the same but their values often differ and changes in the values of foreign forces are at time more difficult to assess. International environment interacts between the domestic environmental forces and the foreign environmental forces and interactions between the foreign environmental forces of two countries when an affiliate in one country does business with customers in another. The three environments in which an international company operates are domestic, foreign and international. Domestic environment is composed of all the uncontrollable forces originating in the home country that influence the firm's life and development. Foreign environment is composed of all the uncontrollable forces originating outside the home country that influence the firm, the kinds of forces are the same as those in the domestic environment but their values often differ and changes in the values of foreign forces are at time more difficult to assess. International environment is interaction between the domestic and foreign environment forces or between sets of foreign environment forces.

Global Business Environment: The external or uncontrollable forces in both the domestic and the foreign environments surround the internal forces controlled by management. The domestic environment of the international firm's home country is surrounded by as many sets of foreign environments as there are countries in which the company does business[4]. Solid lines connecting the internal forces at the home office to the internal forces in the foreign affiliates indicate the lines of control. The orange areas indicate the international environment in which personnel in the headquarters of the firm work. The light orange is the domestic environment and the blue depicts foreign environment. The global business operation issues constitute Global issues, market analysis, competitive advantage, organization management, effective marketing strategy. Global issues include raises concern about the existing political system, legal system, policies, social and cultural issues etc. Market Analysis is required by organization before they enter into the new market i.e. type of products and services that are required to be offered. Competitive Advantage is the major factor for business operation worldwide. It is only the competitive advantage that will benefit the organization to take a leading edge in the market that helps in reducing costs by achieving economies of scale. Organization Management is essential to operate an organization internationally as skilled manpower will be required for its functioning with consideration of social and cultural differences. Without an effective strategy the organizations cannot succeed. So it has to formulate its strategy according the conditions prevailing in the market.

Global Business: Opportunities, Challenges and Network Approach: The business environment in twenty first century is increasingly complex, interdependent and dynamic. Organizations operating globally have to adjust their strategies and management styles to those regions of the world in which they want to operate, whether directly or using an alliance / partnership. The organizations perceive the world as one market and thus they do not want to confine themselves to domestic market. They perceive international markets as an opportunity therefore their main focus is growth and sustainability through global operations. To achieve this, the firms produce highly specialized customized goods for international markets and they have access to international networks, human resources and financial markets. Their focus is on internationalization i.e. to develop capability for internationalized operation, to form a strategy to operate internationally, to utilize worldwide resources in order to compete internationally and follow a sustained growth. Typical challenges that the organizations face in international operations are political structure, legal, social and cultural system, technology and primarily the opportunities and risks in investment in global markets[5]. To compete internationally, organizations have to make investment, not only capital investment but also investment in human resource in order to have well trained and skilled workforce so as to work effectively. Global management is a process of developing strategy as per existing conditions, designing and operating work systems and intermediating with people having different social traditions and cultures, around the world.

Business competitiveness has now evolved networks of international linkages that bind countries, institutions, and people in an interdependent borderless world. As reported by the World Trade Organization, differences in regional output growth rates have narrowed, as economic activity picked up, it is clear that world trade is phenomenal and growing and, importantly, is increasingly including the developing nations. Almost all organizations around the world are affected to some extent by globalism. Organizations from any country now compete with organizations both at home and abroad and desire to expand their operations to other countries with experience workforce and an understanding of what it takes to do business in other countries and to work with people of other cultures. Comprehensive political, economic and social changes around the world, today present new challenges to organizations. The increase in democratic form of Government is on the rise and communism is losing its ground. Liberalization and

Privatization, has had an enormous influence on the world economy. Economic freedom is a critical factor in the relative wealth of nations. One of the most striking changes today is that almost all nations have suddenly begun to develop decentralized, free market systems in order to manage a global economy having intense competition, high-tech industrialization, innovative communication and technology.

Organizations use local business partners in the early stages of international operations because they required local support to utilize local available resources[6]. Due to lack of sufficient information and knowledge and international policies, it is difficult to establish its fully owned subsidiary overseas. Thus, business network is required to enable extensive global coverage and to get exposure to multiple markets. Such need for business network resulted in formation of MNC's (Multi-National Corporations) that follow a global network approach to operate in foreign markets. Small companies are also affected by globalism and they play a vital role in contributing to their national economies by entering into partnerships with MNC's, thus generation employment, developing new products and providing international services, typically importing or exporting. The vast majority of businesses in developed economies are small and medium sized enterprises (SMEs), which are typically referred to as those companies having less than 500 employees. Small businesses are rapidly discovering foreign markets with the help of global network approach.

A study of Different Business Environment

Stable Political Environment worldwide builds confidence in business organizations and helps in promoting business. The Organizations need to examine the political risks associated with certain countries and the implications of those risks for the economic success. Political risks are any governmental action or politically motivated event that could adversely affect the long run profitability or value of an organization[7]. International organizations must conduct political risk assessment to manage their exposure to risk and to minimize financial losses. Typically, organizations assess destabilizing issues and evaluate their future impact on their operations, making strategy accordingly to deal with future problems that can arise.

In case of less developed countries (LDC's), the political risk is high on account of less distinct Government policies and laws. The gross national product (GNP) and per capita income in LDC's is low and they are trapped in vicious circle of economy that constitutes of undeveloped infrastructure, unskilled and unemployed workforce, relatively less educated population and high international debt. Their economic condition is miserable and so cannot attract foreign investment that they need. Many countries in Central and South America, the Middle East and Africa desperately fail to attract foreign investment to stimulate economic growth. Organizations hesitate to invest in such economies due to economic and political risks.

Technology, in general, is the application of the sciences to the objectives of industry, business, government systems, and human endeavours in general. Technology, as a process, is a socio technical means of defining and solving problems. Global business today is transformed due to rapid advancement in the field of information technology (IT). The speed and accuracy of information transmission have broken geographic barriers and information can no longer be centrally or secretly controlled by nations / governments. The political economic, market and competitive information is available almost instantaneously all around the world, enabling accurate and timely decision making possible. Even cultural barriers are being lowered gradually by the role of information in educating societies about one another. Consumers today, around the world, have become more aware, through various media, about living standards, tastes and their preferences. The growth of information technology is both a cause and an effect of globalism. The information revolution has contributed in increasing productivity around the world. In addition, use of the Internet is propelling electronic commerce around the world. Companies around the world are linked electronically to their customers, distributors, suppliers, and alliance partners in many countries. So, perhaps IT is not yet "borderless" but rather is subject to the same norms, preferences, and regulations as "human" cross-border interactions.

Culture is the context in which an organization operates[8]. It constitutes behavior of groups characterized by customs, values and habits. It is Collective programming of the mind which distinguishes the members of one human group from another. It is glue that binds groups together. Without cultural customs, values, habits, shared beliefs, attitudes, norms; rules people would have difficulty living together. Modern cultures are thus characterized by an individual orientation, basis of purchasing power display exercise of individual freedom; emphasis on material achievements and values of this area; an economic sense, materialistic time; a tendency to disregard the past in relation to the future; a high degree of utilitarianism. The influences of cultural factors in this complex system level integrated markets, international trade, international investment, multinational corporations; technology convergence is a major significance[7]. In the same time a combination of globalization Culture is a risk factor for both the international trade system, but also cultures and national identities and individual affected by this phenomenon. The global business environment is different depending on the type of response of the receiving area of culture. Thus, there were three main types of reaction: passive, participative or conflict. The combination of different cultures results in variety and diversity of cultural products, threats to local cultures and evolves a mixture of cultures resulting in a global blend.

Risk Management

The attribute of Management is the decision making capability; which means to take right decision from a variety of possible actions, by consideration the business environment, in order to achieve the target objectives[9]. An international business is carried on in extremely diverse external environments and in unpredictable conditions. The organizations have to accept the constructive opportunities and neglect unfavourable conditions to limit the possible losses by taking right decision at right time. From this point of view, the adopted short or long run decisions, for the moment carries the mark of three situations, in which the decedents may found themselves decisions taken in certainty conditions, decisions taken in uncertainty conditions, decisions taken in risk conditions. Under the impulse of the need of conceptual synthesizes and practical operability, there exists the tendency to define the three statuses as concise and relevant. If the risk is relatively low in a particular country or that a high-risk environment is worth the potential returns, then organizations try to overcome risk by using the next explained strategy. Equity sharing includes the initiation of joint ventures with local organizations or government to reduce political risks. Participative management requires that the firm actively involve local organizations or government, in the management of the subsidiary. Localization of the operation includes the modification of the subsidiary's name, management style and so forth, to suit local tastes. Localization seeks to transform the subsidiary from a foreign firm to a national firm. Development assistance includes the organizations active involvement in infrastructure development process of local country[10]. A country's level of economic development generally determines its economic stability and, therefore, its relative risk to a foreign firm. Most industrialized nations pose little risk of economic instability; less developed nations pose more risk. MNC's operating overseas exposes itself to some level of economic risk, often affecting its everyday operational profitability, organizations constantly re-assess the level of risk that they may face in any specific country or region of the world. Four methods of analyzing economic risk, or a country's creditworthiness are recommended are quantitative approach attempts to measure statistically a country's ability to honor its debt obligation; evaluates a country's economic risk by assessing the competence of its leaders and analyzing the types of policies they are likely to implement; Checklist approach relies on easily measurable and timely criteria indicators that measure credibility of a country. Researchers develop various susceptible indicators that categorize countries in terms of their ability to withstand economic volatility.

Differences in laws and regulations from country to country are numerous and complex. A country's tax system influences the attractiveness of investing in that country and affects the relative level of profitability for an MNC. Foreign tax credits, holidays, exemptions, depreciation allowances and taxation of corporate profits are additional considerations the foreign investor and it must be examined before investing[11]. Many countries have signed tax treaties that define such terms as "income," "source," and "residency" and spell out what constitutes taxable activities. The level of government involvement in the economic and regulatory environment varies a great deal among countries and has a varying impact on management practices.

Managing Interdependence: Social Responsibility and Ethical Standards

Global business mandates that companies manage their worldwide operations efficiently and effectively on the basis of openness, corporate integrity, and ethical standards[12]. Although global markets have become a reality in many countries, national rules and the regulatory environment continue to be local, often providing loopholes for the companies because of weaker supervision by the enforcement agencies. Many organizations have been found abusing their corporate powers and breaking rules that led to massive corporate losses and bankruptcies. Global interdependence is a compelling factor in the global business environment, creating demands on international organizations to take a positive stance on issues of social responsibility and ethical behavior, economic development in host countries and ecological protection around the world. Organizations are usually quite sensitive to issues of social responsibility and ethical behavior because of pressures from the public, from interest groups, from legal and governmental concerns and from media coverage[13]. In August 2003, for example, the United Nations published draft guidelines for the responsibilities of transnational corporations and called for companies to be subject to monitoring, verification, and censure. Though many companies agree with the guidelines, they resist the notion that corporate responsibility should be regulated and question where to draw the line between socially responsible behavior and the concerns of the corporation's other stakeholders. In the domestic arena, organizations are faced with numerous ethical complexities. In the international arena, such concerns are compounded by the larger numbers of stakeholders involved, including customers, communities, allies and owners in various countries.

Social responsibility issues of social responsibility continue to center on the poverty and lack of equal opportunity around the world, the environment, consumer concerns and employee safety and welfare[14]. MNC's operate in a global environment, they should use their capital, skills, and power to play proactive roles in handling worldwide social and economic problems and that, at the least they should be concerned with host country welfare. The sales, debts and resources of the largest multinationals exceed the gross national product, the public and private debt, and the resources, respectively, of some countries. The international social responsibility includes the expectation that MNCs concern themselves with the social and economic effects of their decisions. The issue is how far that concern should go and what level of planning and control that concern should take. The responsibility of a business is to make a profit, within the confines of the law, in order to produce goods and services and serve its shareholders' interests and along with this organizations should look forward to solve problems in society. The increased complexity regarding the social responsibility and ethical behavior of firms across borders is brought about by the additional stakeholders in the firm's activities through operating overseas like discontinuing bankruptcy, corruption, child labor etc. With the growing awareness of the world's socioeconomic interdependence, global organizations are beginning to recognize the need to reach a consensus on what should constitute moral and ethical behavior. Some think that such a consensus is emerging because of the development of a global corporate culture an integration of the business environments in which firms currently operate.

Globalization has multiplied the ethical problems facing organizations. Yet business ethics have not yet been globalized. Globalization has multiplied the ethical problems facing organizations. Yet business ethics have not yet been globalized. Attitudes toward ethics are rooted in culture and business practices. Corporate world has learned that international business ethics is a major priority and that companies must pay attention to their relationships with society and other entities. The biggest single problem for MNCs in their attempt to define a corporate wide ethical posture is the great variation of ethical standards around the world[15]. Many practices that are considered unethical or even illegal in some countries are accepted ways of doing business in others. Social responsibility and ethical standards are not options but rather integral parts of organizations global operations. Organizations should adhere from bribery, making illegal payments or other gifts, or political contributions to foreign government officials for the purposes of influencing them in business transactions, failing which, in the long run, MNC's will be considered as irresponsible outsiders and dim their prospects for the future

Conclusion

The globalization of businesses and markets led to the appearance of the global business environment, which is concerned about the context of the international commercial transaction enrolment on the ground on the depth of the global work division and the multiplication of global economy fluxes and circuits realization. Regarding the global environment, the problems and issues receive a higher complexity, of risk and uncertainty, because organizations don't have to deal with a known, familiar environment from the national space, but rather with an international environment, in which manifests other factors too than from the original space of the firm, hardly detectable and controllable ones. MNCs help developing nations by contributing new technology, managerial skills, infra-structure development, creating jobs and bringing in investment capital from other countries by exporting products and providing better services. Global business demands that companies manage their worldwide operations efficiently and effectively on the basis of openness, corporate integrity, by following ethical standards and understanding the sense of responsibility.

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