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CHANGING GLOBAL ENVIRONMENT AND CHALLENGES OF INTERNATIONAL BUSINESS

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ABSTRACT

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Rapid advancement of Information & Communication Technology (ICT) provides a newer shape of business. Pattern of doing business has changed into a completely different format. Concept of free market economy got its existence from the conceptual base through the advancement of online marketing facility. Countries are working to come closer through different regional blockings as well as under the multilateral trading system through the World Trade Organization (WTO)s active intervention to make international trade easier than ever. World Customs Organization (WCO) introduced HS Code system to harmonize world trade facilitate quick customs clearance. After all globalization get a momentum in last decade and many non-tariff, Para-tariff barriers are addressed and in a considerable position of solution of the problems. Countries are negotiating and committed to co-operate each others to ensure free movement of trade around the globe. As a result new issues are coming into emergence with challenge or opportunity in its two sites.

Nowhere, perhaps, was it felt more keenly than in the world of international business. Political, economic, and environmental issues are increasingly becoming the remit of international business leaders as much as governments. The next generation of global business leaders, embracing the opportunities and challenges of international business. While the global marketplace becomes more interconnected and accessible, the risks involved in doing business abroad are not to be taken lightly. The aim of the research is to introduce and explain international business in an important emerging light of globalization. The paper concludes that business people and governments around the world will have to be more knowledgeable about the international dimensions of management than at any time in the past.

KEYWORDS: *World Customs Organization, International dimensions, Globalization, Communication Technology.*

INTRODUCTION

All countries around the globe are part of the global marketplace. As we entered into new millennium, more and more companies are going international. As a result, there are a growing percentage of their overall sales which are coming from other countries. We may argue that there has been considerable historical evolution of international markets, but in the recent years we have witnessing worldwide economic and managerial developments. These developments create the opportunities, challenges, as well as problems for managers in the global arena.

With the globalization of the world economy, there has been a concomitant rise in the number of companies that operate globally. Though international business as a concept has been around since the time of the East India Company and continued into the early decades of the 20th century, there was a lull in the international expansion of companies because of the Two World Wars. After that, there was a hesitant move towards internationalizing the operations of multinational companies.

What really provided a fillip to the global expansion of companies was the Chicago School of Economic Thought propelled by the legendary economist, Milton Friedman, which championed neoliberal globalization. This ideology, which started in the early 1970s gradually, became a major force to reckon with in the 1980s and became the norm in the 1990s. The result of all this was the frenzied expansion of global companies across the world.

Thus, **international businesses grew in scope and size to the point where at the moment; the global economy is dominated by multinationals from all countries in the world**. What was primarily a phenomenon of western corporations has now expanded to include companies from the East (from countries like India and China). This module examines the phenomenon of international businesses from different aspects like the characteristics of international business, their effect on the local, target economies, and the ways and means with which they would have to operate and succeed in the global competition for ideas and profits.

Above all, international businesses have to ensure that they blend the global outlook and the local adaptation resulting in a "Glocal" phenomenon wherein they would have to think global and act local. Further, **international businesses need to ensure that they do not fall afoul of local laws and at the same time repatriate profits back to their home countries**. Apart from this, the questions of employability and employment conditions that dictate the operations of global businesses have to be taken into consideration as well. Considering the fact that many third world countries are liberalizing and opening up their economies, there can be no better time than now for international businesses. This is balanced by the countervailing force of the ongoing economic crisis that has dealt a severe blow to the global economy. The third force that determines international businesses are that not only is the third world countries eager to welcome foreign investment, they seek to emulate the international businesses and become like them. Hence, these aspects would be discussed in detail in the subsequent articles.

Finally, international businesses have to ensure that they have a set of operating procedures and norms that are sensitive to the local culture and customs and at the same time, they stick to their brand that has been developed for global markets. This is the challenge that we discussed earlier as "Glocal" orientation. In conclusion, international businesses are facing the best of times and the worst of times at the same time and hence, the savvy and astute among them would succeed in this "Shift Age".

WHY COMPANIES ENGAGE IN INTERNATIONAL BUSINESS

To Expand Sales

The first and foremost reason is that western multinationals would like to expand their sales and acquire newer markets so that they can record impressive growth rates. Considering the fact that the developing countries are peopled with consumers who have aspirations to western lifestyles, it is, but natural that the western companies would like to target this need and hence, expand into these markets. Moreover, with declining sales in one region, the western companies hope to recoup the losses by expanding into other markets. Further, the attractive rates of return in the emerging markets are another reason as well.

Acquire Resources

This is one of the most important reasons for companies to expand internationally. Because the developing and emerging countries have large deposits of minerals, metals and land for agricultural production, the western multinationals eye these markets in order to get access to the resources. This is the reason why many international businesses operate in Africa and South Asia where the humungous deposits of minerals and metals are attractive for the profits that these multinationals can make. Many emerging markets and developing countries do not have the expertise or the resources needed to tap their reserves of these minerals and metals. Hence, they welcome the multinationals with open arms as it gives them royalties and other payments to grow their economies. As can be seen from the expansion of Vedanta and the South Korean steel company (POSCO) into India, the eagerness to tap the resources is one of the most important reasons for expansion.

Minimize Risk

Often, businesses expand internationally to offset the risk of stagnating growth in their home country as well as in other countries where they are operating. For instance, ever since the Western countries saw their growth rates slip to below 3% (in cases recording negative growth i.e. depression), the Western multinationals have made a beeline to the emerging markets that are growing in excess of 5%. Since firms exist to make profits and grow their bottom lines, it is but natural for them to expand internationally into countries that have better growth rates than their home country. Further, by operating in a basket of countries as opposed to a few, they are able to manage political, economic, and societal risks better. We had discussed the characteristics of these risks in earlier articles. Because they vary from country to country, it makes sense to spread risk across countries and diversify the portfolio rather than placing all eggs in one basket.

Growth of International Businesses in the Opening Decades of this Century

Though globalization picked up in the 1990s and gathered steam subsequently, the recession following the dotcom bust proved to be a setback to international businesses. Further, the 9/11 attacks proved to be another obstacle to the expansion of international businesses. The closing years of the first decade witnesses the 2008 Great Recession, which dealt a decisive blow to international businesses. In this gloomy scenario, the growth in the emerging markets was the silver lining for the international businesses, which was captured well by experts like Ruchir Sharma in his book, The Breakout Nations, who pointed out that western capital had no choice but to migrate to countries like India and China.

The Future Prospects of International Businesses in the Emerging Markets

If we look into the future (though predicting the future is hazardous in these fast changing times) we find, the next frontier for international businesses is the tier two emerging economies like Vietnam, Ireland, and African countries. Without being too optimistic, it is clear that the growth in these markets would drive the expansion plans of international businesses. it is also clear that international businesses can leverage on the demographic dividend that these countries. To explain the term, the higher proportion of young people in the country's population is called the dividend that these countries get because of their demography. Hence, with so many young people joining the workforce, it is apparent that the emerging economies offer the best possible means of growth for the international businesses.

Impact of the Global Economic Crisis on International Businesses

As the global economic crisis rocked the world in the autumn of 2008, there very few sectors and industries that were not affected by the crisis. In particular, the global economic crisis affected the international businesses or the global multinationals as they were unable to match the growth of the period from 2001-08 in the countries in which they were operating after the crisis struck. Indeed, the situation was so bad that many international businesses put on hold the expansion plans and their forays into other markets. Since international businesses rely on global trade to sustain themselves the shrinking of the global economy with exports falling and imports replaced by domestic consumption meant that the international businesses were left in the lurch. The Global Baltic Dry Index, which measures shipping activity, went into the negative territory, which means that shipping (a measure of growth of trade between countries) actually decreased and shrank when compared to the previous years.

Double Whammy of Stagnant Growth Back Home and Protectionism in Emerging Markets

The other aspect of the global economic crisis was that many international businesses were faced with the double whammy of stagnant growth in the emerging markets and a negative statistic of growth in their home countries. This meant that they could not make up for the lack of growth in their home countries by expanding into emerging markets. Further, the international businesses had to contend with protectionism and raising of the tariff barriers in many countries, which goes counter to the spirit of globalization. In other words, when economies decide to restrict imports by raising tariffs and when they place more importance to domestic industry as opposed to foreign businesses, then the implication is that the international businesses are no longer welcome.

Some Strategies employed by International Businesses to beat the Downturn

To combat these negative trends, international businesses used their accumulated cash reserves to acquire local companies so that they would control the economy indirectly. Since they were not as welcome as earlier in many emerging markets, they bought stakes in domestic companies so that they would still get returns in the process. Examples of this are the Chinese companies buying stakes in African and Middle Eastern companies and Western Multinationals acquiring leading companies in Europe and elsewhere. Even the recent moves of the foreign airlines to acquire stakes in Indian airlines are a move in the direction of entering the domestic market by proxy. What this means is that having adequate cash reserves is the key to surviving an economic downturn.

OVERALL PERSPECTIVE OF INTERNATIONAL BUSINESS

Worldwide developments

International business has brought the set of changes in the economic activities of almost every country in the world. One of the primary reasons is increase of foreign investment and trade. This trend has forced policy makers, managers, and entrepreneurs to refocus their efforts and look for new opportunities in the international markets. Today, every nation and increasing number of companies buys and sells products and services in the global marketplaces. In the last decade we have seen dramatic worldwide changes and developments which give the new dimensions to economic development in the political and business arena. Some of the major developments are:

1. The increased potential of a United States-Canada-Mexico free trade region through the North American Free Trade Agreement (NAFTA)
2. The emergence of the European Union with 27 member countries and around 480 million people.
3. Continental economic efforts to help rebuild Russia and the other countries of the former Soviet Union.
4. The continued economic power of Japan in the Pacific Rim and renewed progress of Chine.
5. Four Tigers of Hong Kong, Taiwan, South Korea, and Singapore
6. Southeast Asian countries of Malaysia, Thailand, Indonesia, and Vietnam.

Foundations for international business

Although more and more firms are going international, the most powerful and significant multinational corporations (MNCs) are headquartered in the United States, the European Union, and Japan (Hodgestts and Luthans, 1994). Examples stated by Hodgetts and Luthans include Motorola (United States), Royal Dutch /Shell (EU), and Toyota Motor (Japan). Managers from these corporations have a basic understanding of the foundation in international business.

Cultural context for managing in a global environment

Understanding the business in the changing global environment is an issue which, if it is not treated carefully, may produce unexpected problems in adjusting to a new business environment (Katavić, 2006). One of the major challenges of doing business internationally is to be aware and be ready to adapt different cultures. As more and more firms engage in international business, the economy of the entire world is becoming a single interdependent system that affects international management. The key issue is in understanding of cultural diversity.

MAJOR CHALLENGES OF INTERNATIONAL BUSINESS (2017)

1. International company structure

If your aim is to be **competitive globally**, you must have a team in place that's up for the challenge. One fundamental consideration is **the structure of your organization and the location of your teams**. For instance, will your company be run from one **central headquarters**? Or will you have **offices and representatives "on the ground"** in key markets abroad? If so, how will these teams be organized, what autonomy will they have, and how will they coordinate working across time zones? If not, will you consider hiring local market experts who understand the culture of your target markets, but will work centrally?

Coca-Cola offers one example of **effective multinational business structure**. The company is organized into continental groups, each overseen by a President. The central Presidents manage Presidents of smaller, country-based or regional subdivisions. Despite its diverse global presence, the Coca-Cola brand and product is controlled centrally and consistent around the world. While Coca-Cola is a vast international brand, the structure of your business and the number, nationality, and level of expertise of your team will vary depending on your industry, product, and the size of your business.

2. Foreign laws and regulations

Along with getting your company structure in place, gaining a comprehensive understanding of the **local laws and regulations** governing your target markets is key. From **tax implications** through to **trading laws**, navigating legal requirements is a central function for **any successful international business**. Eligibility to trade is a significant consideration, as are potential tariffs and the legal costs associated with entering new markets. Airbnb ran into trouble in 2014, with a crackdown on advertised rental properties falling outside local housing and tourism regulations. The company was forced to pay a **€30,000 fine** for a breach of local tourism laws in Barcelona. It's important to note that **employment and labor requirements** also differ by country. For instance, European countries stipulate that a minimum of 14-weeks maternity leave be offered to employees, while on the other hand, there is no such requirement for U.S. employers. With the complexity involved in foreign trade and employment laws, **investing in knowledgeable and experienced corporate counsel can prove invaluable**.

Beyond abiding by official laws, engaging in international business often requires following other unwritten cultural guidelines. This can prove especially challenging in emerging markets with ill-defined regulations or potential corruption. In response, companies doing business in the United States must abide by the Foreign Corrupt Practices Act, which aims at **eliminating bribery and unethical practices in international business**. A good rule of thumb is to beware of engaging in any questionable activities, which might be legal but could have future reputational repercussions.

3. International accounting

Of the main legal areas to consider when it comes to doing international business, **tax compliance is perhaps the most crucial**. Accounting can present a challenge to multinational businesses who 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**. **Accounting strategy is key to maximizing revenue**, and the location where your business is registered can impact your tax liability. Mitigating the risk of multiple layers of taxation makes good business sense for any organization trading abroad. Being aware of tax treaties between countries where your business is trading will help to ensure you're not paying double taxes unnecessarily. A focus on **tax efficiency is often the aim of international accounting efforts**. In the European Union, companies may benefit from the Common Consolidated Corporate Tax Base proposal, whereby companies with operations around the EU can limit tax liability to one corporate center. Tax consolidation is a feature of several multinationals' decision to be headquartered in Dublin, as Ireland is known for its "business-friendly" corporate tax policy. Well-known companies with operational headquarters in the Republic of Ireland include Google, Face book, and Intel.

4. Cost calculation and global pricing strategy

Setting the price for your products and services can present challenges when doing business overseas and should be another major consideration of your strategy. You must consider costs to remain competitive, while still ensuring profit. Researching the prices of direct, local-market competitors can give you a benchmark; however, it remains essential to ensure the math still works in your favor. For instance, the cost of production and shipping, labor, marketing, and distribution, as well as your margin, must be a taken into account for your business to be viable.

Pricing can also come down to how you choose to position your brand — should the cost of your product reflect luxury status? Or will low prices help you to penetrate a new market? Swedish furniture giant IKEA, known in Europe for its low-cost value, struggled initially in China due to local competitor costs of labor and production being much cheaper. By relocating production for the Chinese market and using more locally sourced materials, the company was able to successfully cut prices to better reflect its brand and boost sales among target consumers.

5. Universal payment methods

The proliferation of international e-commerce websites has made selling goods overseas easier and more affordable for businesses and consumers. However, payment methods that are commonly accepted in your home market might be unavailable abroad. **Determining acceptable payment methods and ensuring secure processing must be a central consideration for businesses who seeks to trade internationally**. Accepting well-known global payment methods through companies like World pay, as well as accepting local payment methods, such as JCB in Asia or Yandex Money in Russia, can be a good option for large international businesses. Accepting wire transfers, PayPal payments, and Bitcoin, are other possibilities, with Bitcoin users benefiting from no bank or credit card transaction fees. Despite the risk of fluctuating value, the lack of fees is one of the reasons a number of online companies, including Word Press, the Apple App Store, Expedia, and a number of Etsy sellers accept Bitcoin.

6. Currency rates

While price setting and payment methods are major considerations, **currency rate fluctuation is one of the most challenging international business problems** to navigate. Monitoring exchange rates must therefore be a central part of the strategy for all international businesses. However, global economic volatility can make forecasting profit especially difficult, particularly when rates fluctuate at unpredictable levels. Major fluctuations can seriously impact the balance of business expenses and profit. For instance, if your company is paying suppliers and production costs in U.S. dollars, but selling in markets with a weaker or more unpredictable currency, your company could end up with a much smaller margin — or even a loss. One way to protect yourself against large fluctuations in currency is to **pay suppliers and production costs in the same currency as the one you're selling in**. This may mean switching to more local production where possible in order to better balance your outgoings and sales revenue. Another option for mitigating the risk of unpredictable currency rates can be setting up a forward contract and agreeing a price in advance for future sales. Of course, this potentially means missing out on greater profit should rates shift in your favor. However, it can protect your sales from the risk presented by unstable currency.

7. Choosing the right global shipment methods

The potential of online sales presents a **huge international business opportunity for retailers** in the 21st century, but finding reliable, fast, and cost-effective shipment and distribution methods can be a difficult balance in some markets. Depending on the volume and destination of your shipments, will you send by land, sea, air, or a combination? **Your choice of shipping method can be a major influence on your revenue and may be a limiting factor to the products you can viably sell overseas**. Other considerations to address according to your company's products and your target markets include customs fees, the need and cost of storage, and local methods of distribution. There are also country-specific regulations and shipping requirements to take into account. For a quick check of costs and compliance, UPS International has created an online tool called Trade Ability to help businesses and individuals manage the movement of good overseas.

8. Communication difficulties and cultural differences

Good communication is at the heart of effective international business strategy. However, communicating across cultures can be a very real challenge. At Hult, developing cross-cultural competency and communication skills are a core focus inside and outside of the classroom. Effective communication with colleagues, clients, and customers abroad is essential for success in international business. And it's often more than just a language barrier you need to think about — **nonverbal communication can make or break business deals** too. Do your research and know how different cultural values and norms — such as shaking hands — can and should influence the way you communicate in a professional context. Being aware of acceptable business etiquette abroad, and how things like religious and cultural traditions can influence this, will help you to better navigatepotential **communication problems in international business**. **Cultural differences can also influence market demand for your product or service**. The need your business may address at home may already be met or not exist at all overseas. Local market insight is key, and there are a number of successful brands whose business models simply weren't viable in overseas markets. For instance, American coffee company Starbucks seriously struggled in Australia, where the demand for local, independent cafes and coffee shops vastly outweighed the appeal of the corporate giant. Small practical considerations can also be easily overlooked, such as creating quality translations of product and marketing materials, and even ensuring your brand name works well abroad. A number of well-known companies have had to consider adapting the names of their brand or product when launching in a foreign market. The Chevrolet Nova is perhaps the most commonly cited example, where "no va" literally translates to "no go" in Spanish—not the best product name for a car. Although slumping sales figures in Latin America have proven to be an urban legend, the story of the "no go" car serves as a useful reminder of the importance of preparing well before launching your business in a new market.

9. Political risks

An obvious **risk for international business is political uncertainty and instability**. Countries and emerging markets that may offer considerable opportunities for expanding global businesses may also pose challenges, which more established markets do not. Before considering expansion into a new or unknown market, a **risk assessment of the economic and political landscape is critical**. Issues such as ill-defined or unstable policies and corrupt practices can be hugely problematic in emerging markets. Changes in governments can bring changes in policy, regulations, and interest rates that can prove damaging to foreign business and investment. A growing trend towards economic nationalism also makes the current global political landscape potentially hostile towards international businesses. For instance, companies like Face book are banned in China, partially in preference for national social networks and also due to government regulation over internet content. Monitoring political developments and planning accordingly can mitigate **political risks of doing business abroad**.

10. Supply chain complexity and risks of labor exploitation

When it comes to sourcing products and services from overseas, **managing suppliers and supply chains can also be a tricky process**. Unfortunately, the length and complexity of supply chains increases the chance of working with suppliers who have unethical — and even illegal — business practices. Of growing concern is the risk in international business of forced labor and worker exploitation. In October 2015, the UK passed the Modern Slavery Act in response to this often-hidden human rights violation. Recent research led by a partnership between Hult International Business School and the Ethical Trading Initiative revealed that an astonishing **77% of businesses believe that modern slavery exists at some point in their supply chains**. To raise awareness and help local and international businesses respond more effectively to this issue, their published research report presents case studies of businesses who have implemented practices at the leading edge of the fight against modern slavery. As the research team continues to bring their findings to light, developing and supporting ethical and sustainable business practices remains a focus in the Hult classroom.

"International conventions and national legislation make modern slavery illegal, but we are still a long way from its final eradication. Businesses can play an important role in addressing modern slavery."- From Corporate Leadership on Modern Slavery

11. Worldwide environmental issues

As the environmental risks and effects of climate change are becoming better understood, **sustainability is high on the agenda of many major global corporations**. Recent international legislations and proposals, such as the UN's Sustainable Development Goals, have put environmental issues at the forefront of international business development. The Ashridge Centre for Business and Sustainability at Hult researches innovative ways that organizations can develop and implement more environmentally sustainable business models. On a practical level, if you're considering expanding your business overseas, it's important to be aware of the country-specific environmental regulations and issues associated with your industry. Some key considerations include **how your production methods might impact the local environment through waste and pollution**.

Beyond a legal or ethical incentive to be more eco-friendly, establishing environmentally conscious business practices can attract new, forward-thinking consumers to your company. With a number of brands such as Dell, Renault, and MUD Jeans leading a shift towards the circular economy, there is an opportunity and demand for changing production methods and consumer behavior to **establish a more sustainable future** for the environment and society as a whole.

CONCLUSION

The purpose of this paper is to show new emerging trends of the international business and give a close attention to many recent developments that present both challenges and opportunities to the international managers who can compete in this ever-changing business world. In order to introduce, analyze, and explain international business in an important emerging light of globalization, there are three main areas from which conclusions have been drawn. First, overall perspective of international business presents: a) the worldwide developments that reshaped the world's political and economic arena. International economic activities, from North America to Europe to Pacific Rim to Africa, have increased dramatically and have attracted direct investments and trade. As a result, international sales and profits are on the rise; b) foundations for international business in terms of understanding international business, planning for international assignments, develop sustainable strategy, and be clear with a reason why become MNC; c) cultural context for managing in a global environment, which deals with effective adoption of cultural differences. Second, human side of international business takes on special importance in the international business in the changing global environment. Using a) communication, as a tool for developing strategy, allows quick response to the worldwide customer needs; b) motivation techniques to motivate employees may improve productivity, quality, and service. It helps to mobilize people to achieve goals, gain a positive perspective, easily accept the change, and manage their own development and help others to develop; c) leadership skills and abilities are necessary to identify new niches, new markets, and promptly run the business activities needed to exploit new opportunities.

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