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GLOBAL BUSINESS

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Abstract:

Global business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations. These transactions take on various forms, which are often interrelated. Primary types of international business are importexport trade and foreign direct investment (FDI). The latter is carried out in varied forms, including wholly owned subsidiaries and joint ventures. Additional types of international business are licensing, franchising, and management contracts.

As the definition indicates, and as for any kind of domestic business, "satisfaction" remains a key tenet of global business. Beyond this, because transaction environmental factors, to different constraints, and to quite frequent conflicts resulting from different laws, cultures, and societies.

The basic principles of business still apply, but their application, complexity, and intensity vary substantially. To operate outside national borders, firms must be ready to incorporate international considerations into their thinking and planning, making decisions related to questions such as these:

- How will our idea, good, or service fit into the international market?
- Should we enter the market through trade or through investment?
- Should I obtain my supplies domestically or from abroad?
- What product adjustments are necessary to be responsive to local conditions?
- What threats from global competition should be expected and how can these threats be counteracted?

When management integrates these issues into each decision, international markets can provide growth, profit, and needs satisfaction not available to those that limit their activities to the domestic marketplace. The aim of this book is to prepare you, as a student of international business, to participate in this often complex decision process.

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Global business refers to international trade whereas a global business is a company doing business across the world. The exchange of goods over great distances goes back a very long time. Anthropologists have already established long-distance trading in Europe in the Stone Age. Sea-borne trading was commonplace in many regions of the world in times predating Greek civilization. Such trade, of course, was not by definition "global" but had the same characteristics. In the 16th century all of the continents came to be routinely linked by ocean-based communications. Trading activity in the modern sense rapidly followed at the beginning of the 17th century; it might be more accurate to say that it "returned" again because trading of such character had taken place in Roman times as well.

It is not intended here to discuss another and related subject covered separately in this volume: globalization. Globalization is a long-standing program advocated by the economically advanced nations to free up international trade across the globe through treaties. It has also come to mean the relocation of production or service activities to places that have much lower labor costs. Global business in the past—or currently—does not require what advocates of globalization seek, namely a so-called level playing field. International trade has always had a mixed character in which national organizations and private enterprises have both participated, in which monopolies have been imposed, frequently defended by armed forces, in which all manner of restraints and tariffs have been common and participants have made all sorts of efforts to counter such interference or to profit from it.

GLOBAL ENTERPRISES

Fernand Braudel, a prominent historian of commerce, describes early trading with distant points around the globe—from Europe to the Americas and from Europe toIndia and Asia—in what then was still called Christendom, as speculative ventures funded by high-interest loans from patrons: traders had to pay back double the money they borrowed; failure to pay the money back—unless they had been shipwrecked—meant a period of slavery until the debt was satisfied. Very high profits could be achieved trading in spices and silk with the "Indies"; such profits justified the risks. In parallel with such private trading, government-sponsored ventures also took to the oceans; they became the dominant form of international trade shortly before and all through the period of colonialism. Thus Spain exploited its discoveries in South America by

shipping gold and silver from America to Europe—thus setting off a great inflationary period. Global enterprise, thus, in the modern sense, began to develop during the Age of Discovery. It was instrumental in stimulating colonialism. Single merchants or groups of explorers went forth and came back with treasures. Government-sponsored consortia, the early global businesses, followed in the adventurers' wake.

The two earliest global companies, both government chartered, were the British East India Company begun in 1600 and the Dutch East India Company, established in 1602. Both have now passed into history. The British company dissolved in 1874, but in its nearly 300-year history it had launched and for a long period had practically run the British Empire. The Dutch company was dissolved in 1798 after nearly 200 years of operations in Asia, India, Sri Lanka, and Africa. But the Hudson Bay Company, another British-founded monopoly to exploit the North American fur trade, was established in 1670 and is still going—so much so that Canadians explain that the company's initials stand for "Here Before Christ." HBC has long since ceased to be a global monopoly and is known today in Canada as a department store.

Early global companies were usually state-chartered trading companies. The Danes, the French, and the Swedes all had East India companies. Japan established companies known as the sogo shosha (for "general trading company") in the 19th century. Japan had tried and failed to preserve its isolation. When it opened itself to the world, it channeled trade through these ventures. Great trading companies were and continue to be important in transportation as well; operating shipping supports their activities. A contemporary American example is the privately held Cargill Corporationwhich trades internationally in agricultural, food, pharmaceutical, and financial products.

Commodity-based international corporations emerged in the 19th century with oil. The first global oil company was Standard Oil, founded by John D. Rockefeller. That honor was held by others since, including Exxon Corporation and Royal Dutch/Shell Group until, in the mid-2000s, Saudi Arabia's Aramco became Number 1. Major companies in turn emerged in chemicals and in artificial fibers, in automobiles, in aircraft manufacturing, and then in virtually every industry in the second part of the 20th century.

Multinationals:

The term "multinationals" came into currency during the same time to designate corporations that operated in at least two different countries—but the actual use of the label applies to corporations that have a global presence. The term is used in a neutral sense simply to indicate very large size and participation in global markets. A more negative connotation of the term is that such corporations are effectively beyond the full reach of national laws because they have a presence in many locations, can move money and resources around at will, can sometimes escape taxation, and thus represent a power beyond public control.

Business Week has compiled what it labeled the "Top 100Global Brands Scoreboard." It gives some indication of the characteristics and distribution of multinationals. The "scoreboard" is based on unique products (thus the "brand" label applied here) and by definition excludes some very important multinationals that operate in unbranded commodities like crude oil, grains, food products, minerals and similar categories; Phillips, British Petroleum, and Shell, for instance, make the top 100 but Aramco does not. Based on this scorecard, the U.S. dominates the category with 53 of the 100 top brands; the U.S. also holds 8 of the first 10 spots. Others in rank order are Germany (9), France (8), Japan (7), Switzerland (5),Britain and Italy both with 4, the Netherlands and South Korea with 3 each, and Finland, Spain, and Sweden with 1 each. Additionally, one company. Royal Dutch Petroleum, is listed as both British and Dutch. The top 10, in order of brand value, are Coca-Cola, Microsoft, IBM,General Electric, Intel, Nokia (Finland), Disney,McDonald's, Toyota (Japan), and Marlboro's producer, Altria Group. The two largest industrial categories are electronics and software with 17 brands and autos and related with 11. As Coca-Cola with its sweet soda leads the list so Heineken with its beer closes the list in the 100th spot.

GLOBAL MARKETS:

From the point of view of a seller, a global market is an export market; from the buyer's vantage point, the global market represents imports from abroad. World statistics on international trade are collected by the World Trade Organization (WTO) located in Geneva. The most current data available in early 2006 were for the year 2004; all economic data lag the current time, but

international data more so than national. In 2004, the global market for exports was $11.28 trillion, with merchandise exports representing 81.2 and commercial services 18.8 percent of that total. Merchandise exports, using WTO's definition, include commodities as well as manufactured and semi-manufactured goods. Services are divided into transportation, travel, and the "other services" categories.

Merchandise Trade:

The largest category of foreign trade is in machinery and transportation equipment, representing 16.8 percent of the total—but the category pointedly excludes both automobiles and related equipment as well as office and telecommunications equipment. Fuels and Mining Products is second with 14.4 percent of share. The other major categories are Office and Telecom Equipment (12.7 percent), Chemicals (11.0), Automobiles and Related (9.5), Agricultural Products (8.8), Other Manufactured Products not already mentioned (8.6), Semi-Manufactures (like parts and components, 7.1 percent), Iron and Steel (3.0), Clothing (2.9), and Textiles other than clothing (2.2 percent).

Just ten countries around the world represent 54.8 percent of all merchandise exports. Germany led the world in 2004 with a 10 percent share of all exports, followed by the U.S. with an 8.9 percent share. Other leading exporters in order of share were China(6.5), Japan (6.2), France (4.9), the Netherlands (3.9), Italy (3.8), United Kingdom (3.8), Canada (3.5), and Belgium (10 percent of total).

At the top of world trading, anyway, the same countries were also the top importers, but not in the same order. The U.S. was top importer: 16.1 percent of all world imports were bought by U.S. consumers; Germany was second with 7.6 percent of imports. The others were China (5.9 percent), France and the United Kingdom (both 4.9), Japan (4.8), Italy (3.7), the Netherlands (3.4), Belgium (3.0), and Canada (2.9).

More interestingly, six of 10 countries achieved a trade surplus and the others had a trade deficit. The U.S. had the largest negative, a deficit of $706.7 billion, followed by the United Kingdom ($116.6 billion), France ($16.7 billion), and Italy ($1.9 billion).

Commercial Services:

In the export and import of commercial services, the U.S. ranked first on both sides of this ledger, representing 15 percent of exports and 12 percent of services imports—and achieved a $58.3 billion trade surplus—not enough, however, to erase its very large merchandise trade deficit. The other leading exporters of services were United Kingdom (8.1 percent of services exports resulting in a $35.7 billion services trade surplus), Germany (6.3 percent, a $59.1 billion deficit—which reduced its healthy merchandise surplus), France (5.1 percent of exports, achieving $13.1 billion in surplus, which almost wiped out its merchandise trade deficit), and Japan (4.5 percent, experiencing a $39.1 billion deficit in this category of trade).

BALANCING THE TRADE:

In the grand scheme of international trading, a balance in trade has always been the rational goal of sovereign states. Balanced trade means that exports will be the same as imports, one balancing the other. Exports generate the currency with which imports must be bought. A country that persistently experiences trade deficits slides into debt or dependency on foreign investment—the current situation of the U.S. The United States has experienced trade deficits continuously since 1971; it has been able to sustain its way of life only because of foreign investment here.

Current trends point to continued and ever-growing trade deficits. The only bright spot in the picture is a trade surplus in the commercial services export category. Such surpluses, however, would have to increase 12-fold (based on 2004 data) before they erased the merchandise trade deficit. The other alternatives open are as yet invisible innovations that lead to the creation of new, proprietary exports no one else can match—or a drastic diet of consumption so that imports take a dive and exports can catch up. The future will tell which way the problem will be resolved.

GLOBAL BUSINESS STRATEGY:

Global Business Strategy can be defined as the business strategies engaged by the businesses, companies or firms operating in a global business environment and serving consumers

throughout the world. Global business strategies are closely related to the business developing strategies adopted by businesses to meet their short and long term objectives. The short term goals of the business would be related to improving the day-to-day operations of the company while the long term objectives are generally targeted towards increment of the profits, sales and earnings of the company in the long run ensuring growth and stability of the business and dominance over the national or regional market.

This is essentially the point where a global business strategy differs from a national business development strategy as different other factors such as product standardization and adaptation come in. The factors of product differentiation and diversification are relevant in the case of both national and global business strategy in the wake of rising competition in both the national and international market. Global business strategies have emerged as a result of globalization and internationalization of established domestic companies which is purported to increase the value of the company in question. Increasing pressure of globalization and the rising global competition have prompted managers and academicians to rethink the formulation of global business strategy. As previously mentioned, global business strategies rests on two pillars of standardization and adaptation which have been in severe conflict in the recent years. This debate have been backed by claims of theorists from both sides who have exchanged salvos regarding which of the two is more profitable for the global businesses functioning in a unique set of circumstances.

which have experienced higher levels of product and process innovations which in turn have acted as source of comparative advantage for these companies in the international market. The arguments in favor of the global business strategy of standardization are as follows: -

- It benefits in the economies of scale accruing to the company with it being able to produce in large quantities using more or less the same techniques of production

- It preserves the image of the home country which houses the global corporation since it helps in minimizing the costs of alteration, design or modification, handling and stocking the product, speeding up delivery systems. It also helps in saving the managerial time and effort to take decisions regarding the manufacture of different products.

- It helps in faster accumulation of the learning experience as fallout of the learning-by-doing approach.

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