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Chapter 1

A Theoretical Framework (Modelling) for International Business Management

Schapour Zafarpour

Additional information is available at the end of the chapter

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Abstract

The international business management is one of the most relevant parts for the development of the countries and at the same time the most complicated matter in this complex. There are many economic players on different levels with different tasks to achieve the final goal of the economy in a country, depending on the level of development [1]. The need for managing international business arises in the flowing areas or levels: 1. The international framework with all the institutions and organisations that determine country's economic and support policy in emergent situations. 2. Impact of globalisation on international and national policy and activities. 3. The national framework, which fairly complicated because there are many active players: a) National economic policy: understanding it and the environment for trade activities. b) National economic structure and competiveness of the domestic companies. c) International management capacities. d) Local or regional environment and conditions for the companies. e) Focus on the world market conditions and their development

1. Real trade activities in general and special types of countries. 2. Financing possibilities of trade activities according to the financing infrastructure (financial market) in countries. 3. Benefit of trade balance to national development and economic welfare of the people in countries concerned particularly: a) Increasing of the purchasing power of the people, i.e., per capita income, b) Creating more employment opportunities

Keywords: International institutions, international organisations, globalisation process, national support for international trade, international management, trade activities, benefit of international trade activities on national development

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1. Introduction

The aim of this paper is to show and to interpret the real motivation of international trade business with all the benefits, barriers, and problems. The model we propose illustrates our approach to International Business Management. Our proposed theoretical framework could be easily applied and would probably hold good in practically 80%–90% of countries.

The international trade management is the backbone of every economy. This implies that the trade balance of a country heavily influences the economic development of the country.

The process of managing international business is not an easy one because there are many problems and barriers that need to be overcome to reach the ultimate goals of national economic policy, i.e., the economic welfare of the people, which implies a low unemployment level and a higher purchasing power of the income earners to meet their basic needs (for greater details, see discussion by [2, 3].

Our model demonstrates the complexity and independency of different levels in international business management. Each level has different goals and directions.

Level 1: International framework
→ Financial institutions
→ Organisational institutions
Level 2: Globalisation
Level 3: National objectives
→ Political stability
→ Infrastructure
→ Trade policy
Level 4: Location
Level 5: Company
→ Company structure
→ Decision-making process (management)
→ World market conditions
Level 6: Foreign trade activities
→ Basic
→ Special
Level 7: Foreign trade financing
→ Short term
→ Medium term

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→ Long term
Level 8: International business
→ Reduction of unemployment rate
→ Increasing purchasing power
→ Welfare in the countries

2. Level 1: International framework

At this level, we have two kinds of organisations with the objective to develop the world trade activities and to improve the world market sales.

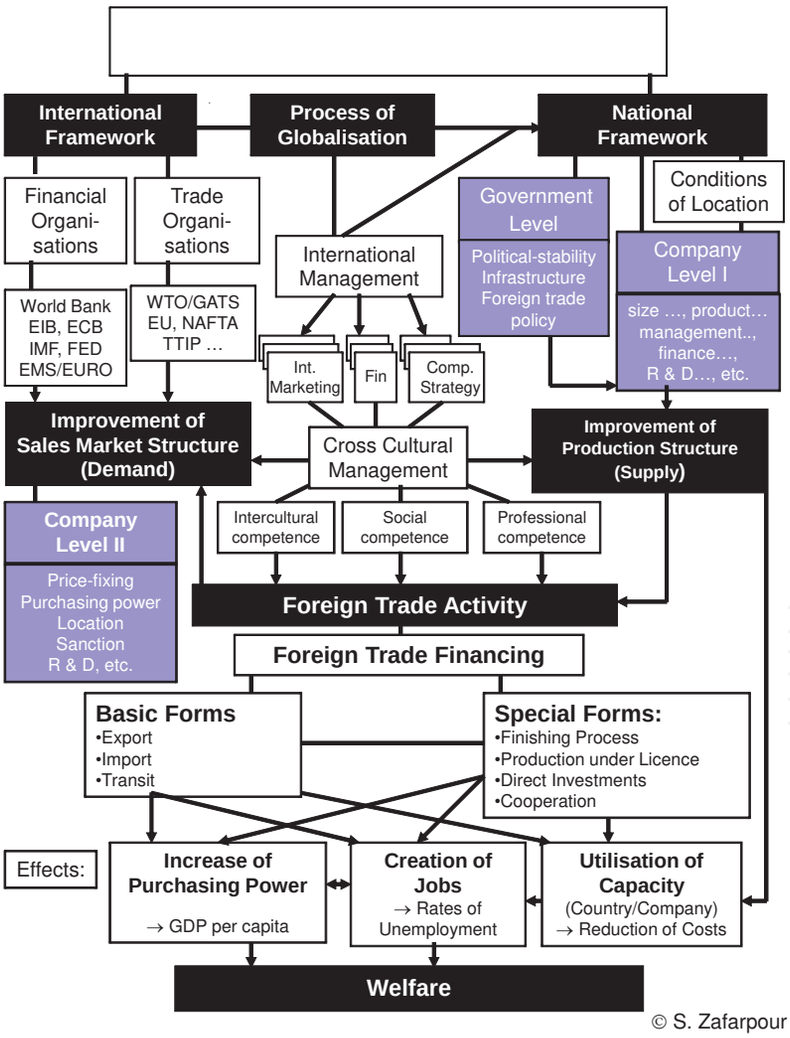


Figure 1. International business management

2.1. International financial institutions

The World Bank, International Monetary Fund, National Reserve Banks, European Central Bank, and other National Financial Institutions

These organisations can and do support only the countries (infrastructure, etc.) and not the individual companies. The country has to apply for their financial support. The support always depends on accepting the laid down conditions (e.g., restructuring the country) of these organisations. The importance of there is now visible in the current economic and financial crisis. We must note that these financial institutions work on the benefit for the financial market.

2.2. Organisational institutions

2.2.1. WTO, EU, NAFTA, MERCOSUR, ASEAN, etc. (TTIP)

The task of these mentioned trade organisations is to create standards and free competition on the world market. However, countries with more political or economic power do and can influence the rules and get more favourable treatment.

3. Level 2: Globalisation

The phenomenon of globalisation has practically started some thirty years ago, coming down from international institutions. It was a copy of the U.S. success model of neo-liberalisation policies. Many EU countries did follow the model. The globalisation is a process and has following preconditions:

3.1. Change of economic policy

- Deregulation of employment markets
- Privatisation of nationalised companies
- Reduction of taxes for earnings and property incomes
- Low inflation to avoid the inflation of monetary capital
- Simplification of the international capital flows
- Improvement of the chance to success for companies to create an attractive climate for investments

3.2. Liberalisation of international trade and capital

- Simplification of trade in goods and services as well as the transfer of capital
- General Agreement on Trade and Tariffs (GATT) of 1948 was basis for the worldwide free movement of goods

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- WTO (reform of GATT agreement): from 1993 to 1999.
- Facilitation of to the movements of good and regional free trade zones (e.g., EWR, NAFTA, MERCOSUR, and ASEAN)
- Further liberalisation of the capital flow

3.3. International standards and norms

- Efforts in harmonising the technical production standards to be able to push the transnational processing trade (car industry, amperage of white goods, configuration of copy machines, and printers)

Following these conditions, we do have some advantages and some disadvantages:

Liberalisation of domestic markets: The national property does not belong to any current government but to the people of a country. The governments are elected to follow the needs of the people and not to follow personal whims and interests of the people or the interests of financial markets. Privatisation could support corruption and nepotism.

The globalisation has altogether different impact on politics, people and national economies.

3.4. Process of globalisation on companies

The process means liberalisation of four markets

- Capital market
- Labour market
- Information market
- Technology market

Size of company	Strategy	Problems	Task of government
Multinational companies	Internationalisation	Shifting the jobs to abroad (low-cost countries)	Support of passive foreign direct investment
Middle-sized companies	Regionalisation	Lack of competitiveness to compared with multinationals	Tax relief and support of active foreign direct investment
Small-sized companies	Specialisation	Lack of cheap capital	Improvement of domestic capital market and cheap loan

Table 1. Globalisation process has different impacts depending on the size and strategy of a company

4. Level 3: National objectives

This level is perhaps the most complex level because of complications that result due to the multiplicity of factors, players, goals, and strategies. It is expected that all of them that they create the best congenial conditions for international trade and business.

4.1. Political stability

Political stability is absolutely necessary for foreign trade activities of a country. It depends on and must thus be is based on ownership laws

- that must be written down in the constitutional laws
- that are totally independent of the three national institutions
  - Justice
  - Executive
  - Legislative

The following picture shows us how important political stability is.

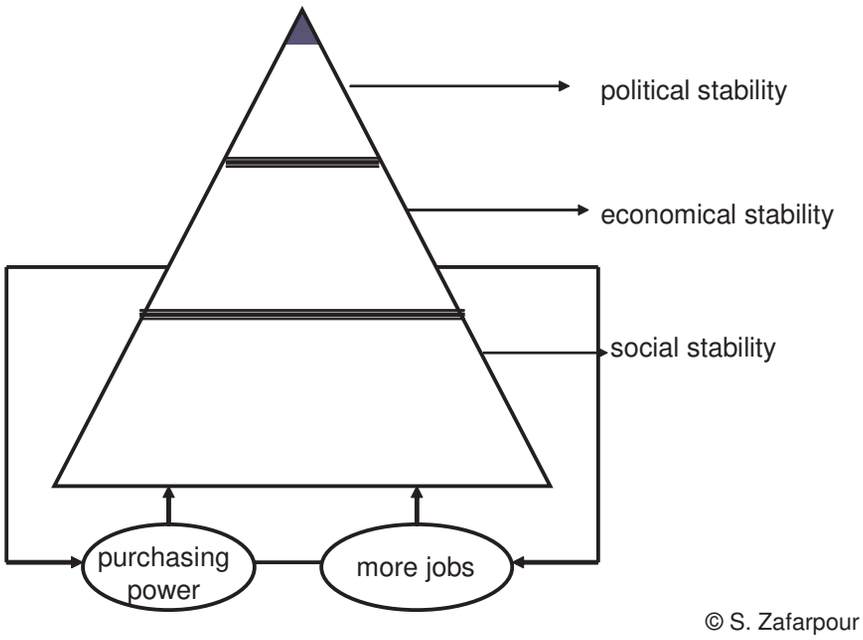


Figure 2. Importance of political stability for the countries

Political stability is necessarily based on economic stability. Economic stability is based on social stability. Social stability in turn depends on low unemployment rate and purchasing power of the per capita income of the people (currently many countries in crisis days are faced with frequent strikes and labour unrest due to the lack of two).

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4.2. Infrastructure

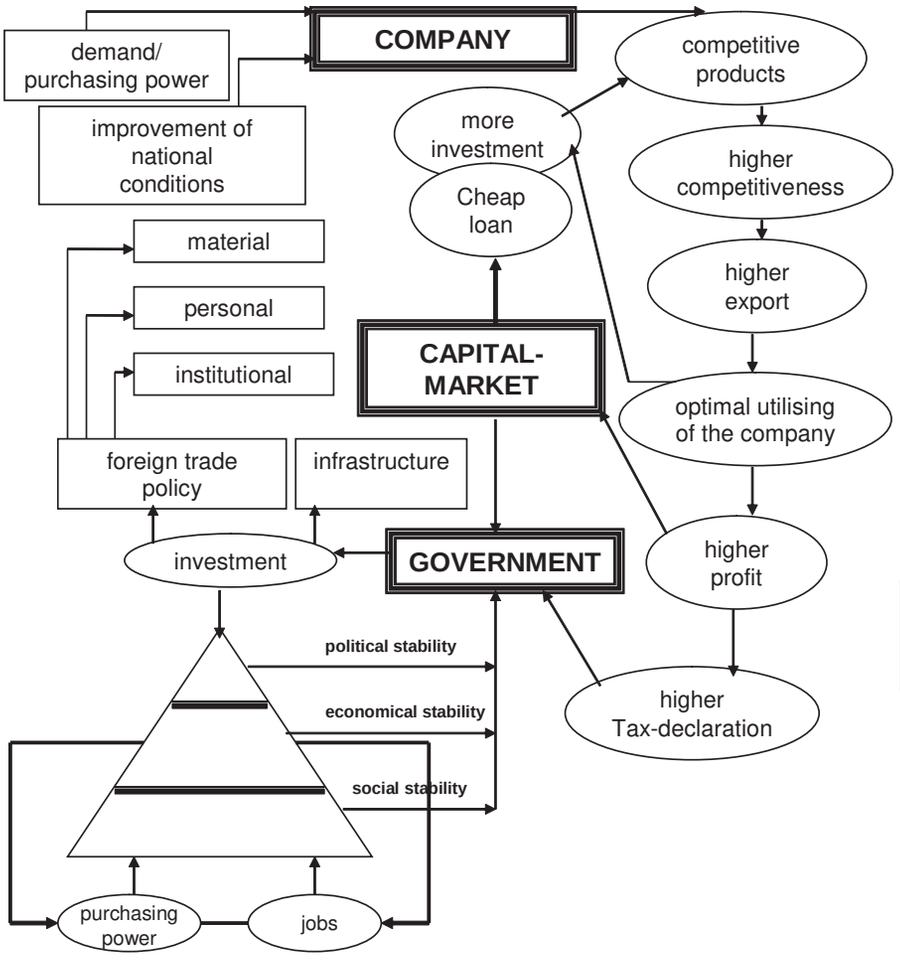
4.2.1. Material infrastructure

This must essentially need to be improved, built, and maintained in the country (e.g., roads, harbours, railways, airports, bridges, etc.). It covers the needs of the people and the companies (reducing the transport costs to become more competitive).

4.2.2. Institutional infrastructure

These are financial institutions on microlevel within countries (banks, insurance companies, and financial markets) that respond to the domestic market needs (of the people and companies). On the other hand, they pay taxes to the government. With these taxes, the government can cover the needs of the macroeconomy.

The building of a capital market in a country depends on the policy decisions (centripetal or centrifugal) of the government.



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Figure 3. Significance of the domestic capital market for the development of a country

- Companies need demand and purchasing power as well as improvement of national conditions to get competitive products, higher competiveness against other companies (economy of scales), higher export, optimal use of the companies' capacities, and higher profit.
- Higher profit could be invested in capital market, which means cheap loan and more investment for the companies.
- Companies with higher profit pay more taxes to the government.
- The government can get higher taxes for investment in political stability, economic stability, and social stability.
- On the other hand, the government can invest in institutional, material, and personnel infrastructure.

4.2.3. Personnel infrastructure

Personnel infrastructure is the quality and quantity of professional educated people—in private and government sector—in a country. The government has a relevant role in allocating the resources and to support the sectors in quality and quantity term.

The best hardware does not work without software and the best software does not work without hardware. The country should thus educate the future decision makers in professional, social, and international competences. This is the key of success in international business management.

4.3. Trade policy

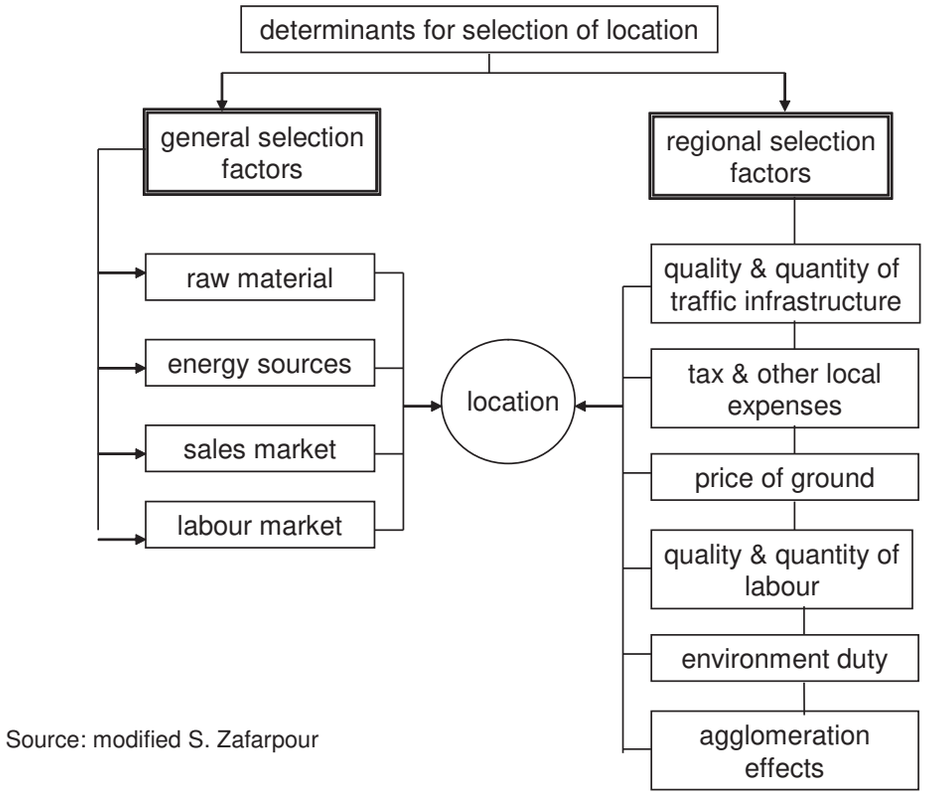
Trade policy depends only on elected government. It could be progressive or digressive. The government may (or may not) support the companies (financially) in active and passive trade activities. The national frameworks for companies in international business may differ from country to country (e.g., state guarantee for international trade of the companies).

5. Level 4: Location

The location is essential for the success of a company. Companies are located in different areas with different conditions for different products. The selection of the right location has a direct impact on the transportation costs, which means being more or less competitive to other companies.

Conditions and factors of location are different on the mezzo level between macro and micro. That is a tandem between government tasks (responsible for infrastructure) and company needs. Many companies of any size get problems because they are not at the best matching location. The following picture demonstrates the importance of the location in general and regional determinants.

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Source: modified S. Zafarpour based on Wirtschaftsgeographie 1 (Schätzl L. /Wagner H.G.)

Figure 4. General selection factors for location of businesses

6. Level 5: Company

The company is the fundamental and essential unit in international business and trade management. There are too many intricacies at company level too. No companies, no business —no trade at all. Success of the companies depends on the competitiveness on the market (domestic or world market):

- Qualification of the staff (quality and quantity)
- Creation of company potential
- Innovation (products, services)

On this level, there are three different factors that act on its success in the world market.

6.1. Company organisation and its production structure

Size, product, management, finance, research and development

6.2. Decision-making process (international management)

It is much easier to act in the domestic market, whereas it is important to have more international competences in the world market because each business aspect becomes "international" (financing, organisation, marketing and advertising are all measured by international parameters).

This would mean that we have more competences as well as more costs, which are to be covered through the international trade. The most important person in a company is the decision maker. He or she should have special skills:

- Professional competence (technical education and experience)—it is more or less the same in Europe and probably everywhere
- Social competence is to receive and understand the social signals and to react adequately (which could be a problem in globalised activities)
- Cross-cultural competence is to understand and evaluate your own cultural values to receive other cultural signals, to understand, and to react in the right way according to the following picture

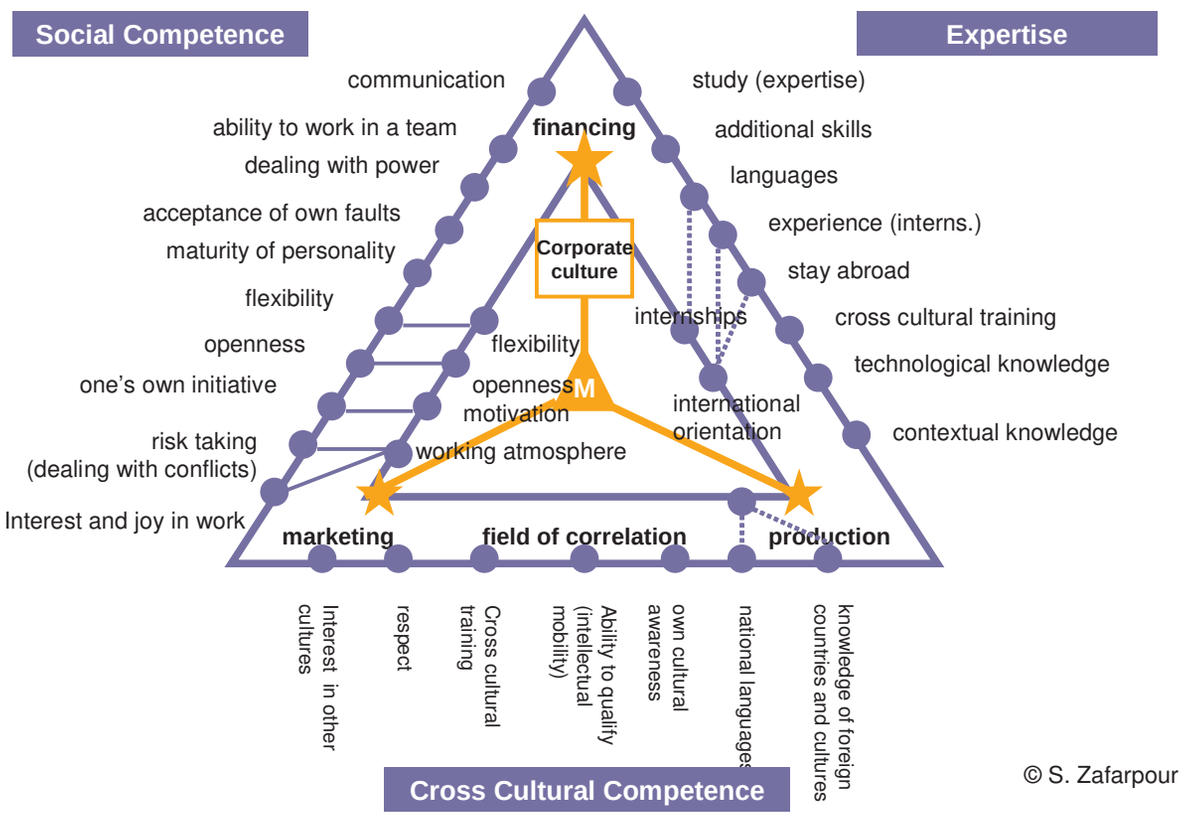


Figure 5. Cross cultural management factors

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The picture explains the different views of companies with expectations inside the companies and external expectations on employees/labour markets.

The inside triangle shows all the tasks, capacities, and responsibilities of the company:

- Corporate culture and the atmosphere
- Different departments with fixed goals
- Financing capacities
- Production structure and capacities
- Marketing strategy and capacities

The outside triangle shows the labour market with different skills and expectations.

The problems come from the different sides of views. There are some correlations between the expectations, but not always. For example, on social competence, flexibility, openness, and so on depend on both sides understanding. The companies will profit more and the employees will have more income to cover their own needs in general.

6.3. World market

International trade management is the link between total demand on the world market and the available supply in countries. The decision maker is the key person in this process. He or she can make—with or without support—the final decision. The key person can keep direct influence on all the factors inside the company. He or she has an indirect influence on regional factors but not any significant influence on factors on the world economy. Only rare multinational companies could have some influence.

Once we have demand on the world market through international framework for all the countries and companies, we require adequate national framework at all levels to create favourable conditions for the companies to create the required level of supply. However, the task of international management or decision makers (with all their competence and skills) is to bring supply and demand together cross border.

The world market demand for the products is basically:

- Demand for labour-intensive products (under 29%)
- Demand for capital-intensive products (about 44%)
- Demand for know-how intensive products (over 50%)

7. Level 6: Foreign trade activities

The measurement of success of all steps we have mentioned before are the following trade activities.

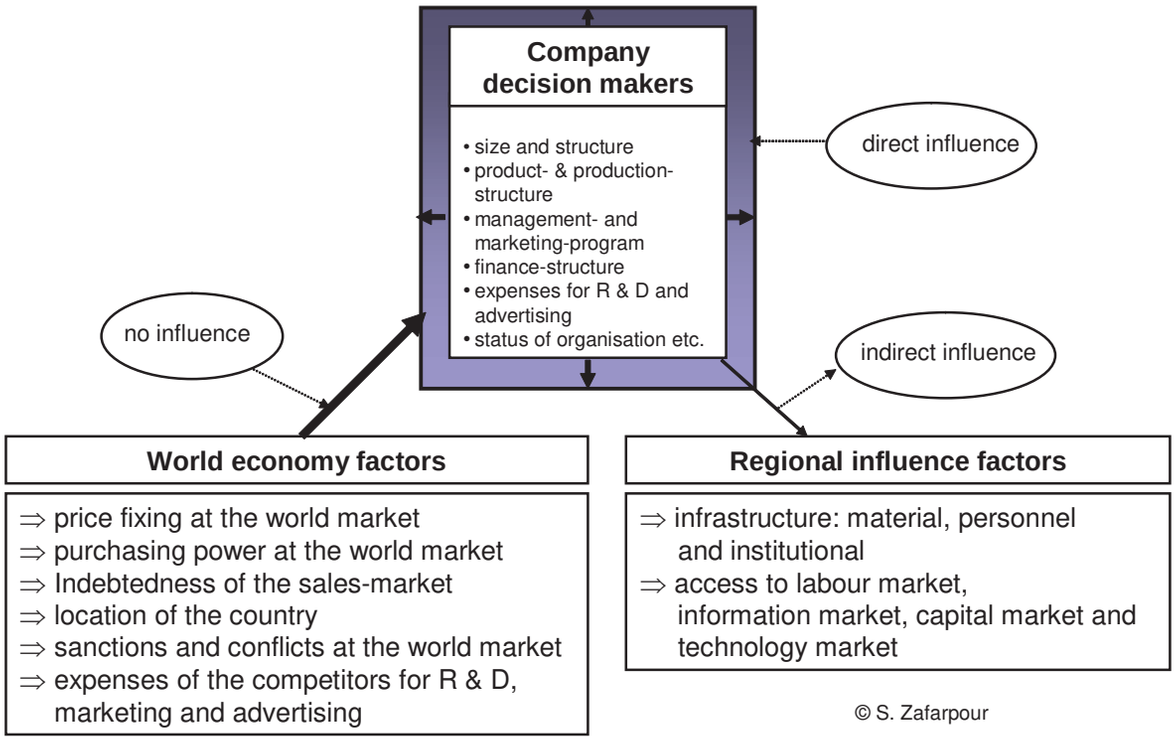


Figure 6. Influence of decision-makers on three different business level

7.1. Basic types of international trade

7.1.1. Exports (direct/indirect)

7.1.2. Imports (direct/indirect)

7.1.3. Transit trade (through third country)

7.2. Special types of international trade

7.2.1. Across the border processing

7.2.2. Licensing, franchising

7.2.3. Foreign direct investment (FDI) and joint ventures

7.2.4. Cooperation

Reason: creation of better framework conditions and reduction of production costs.

→ Increase in competitiveness by

- reducing production costs abroad (cost and location advantage),
- accessing core resources (safeguard supplies of raw materials),
- making easier market entry in case of trade barriers,

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- lowering taxation on earnings in the host country,
- reducing exchange risk (risk avoidance).

7.2.1. Across the border processing

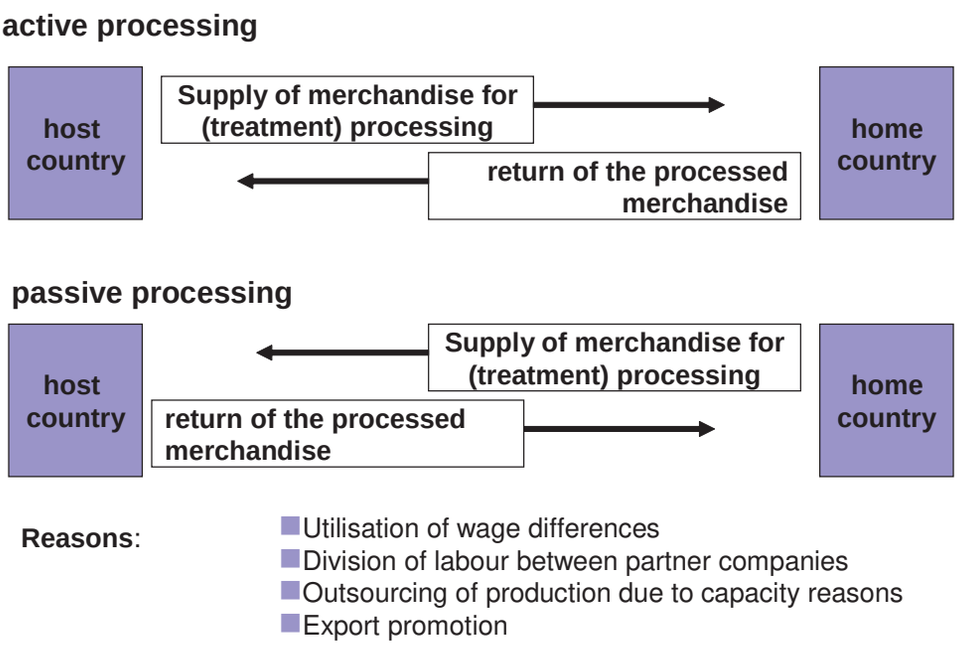


Figure 7. Across the border processing

7.2.2. Licensing, franchising

Export of know-how and patents

- Unwanted direct investment
- Low investment for licensors

7.2.3. Direct Investment (DI)

Advantages:

- Utilisation of low labour costs/wages
- Presence on the sales market
- Desired from the viewpoint of development policy

Disadvantages

- Fewer jobs in the home country
- Transfer of profits might be regulated or limited

- Political risks

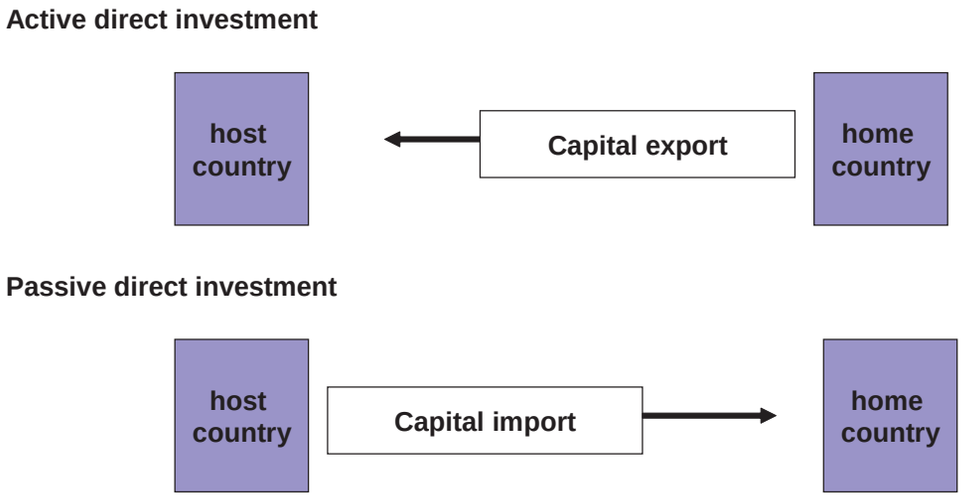


Figure 8. Direct Investment (DI)

7.3. Cooperation

Joining of economically and legally independent companies in order to execute offers together

Economic boom

Cheap capital (low interest rate) → self-automation tendencies

Result: Establishment of many small enterprises

Recession

Expensive capital (high interest rate) → saving tendencies

Result: Bad orders position (cutback in employment)

Enforcement for cooperation

Advantages:

- Economies of scope (joint marketing, acquisition, R&D, etc.)
- Abolishment of intercompany competition (price war)
- Reduction of foreign trade risks
- Opportunity to create direct contacts with foreign partners

Disadvantages:

- In case of flat hierarchy (on leadership level)

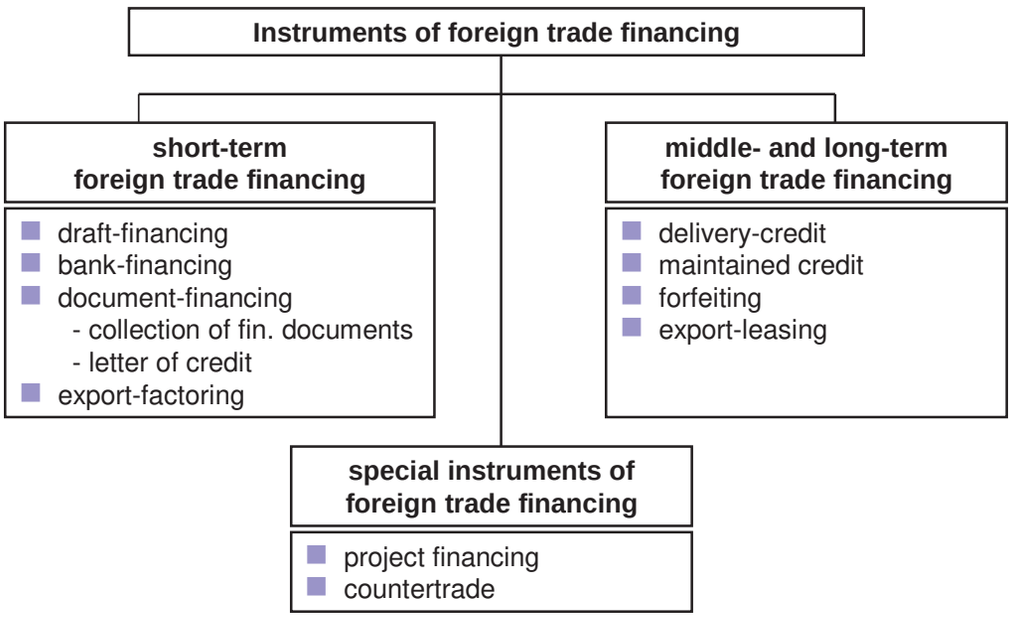
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8. Level 7: Foreign trade financing

The financing of trade and any other businesses are of the most challenging barriers.

- The multinational companies have no big problems with it because of their own reserve capital from one hand, and they are successful enough to get money from the banks.
- The middle-sized companies do not have problems until the balance is positive over many years.
- The small-sized companies have more problems in this field if the percentage of own capital is less than 30% of the investment volume and if the company cannot offer any guarantees or property.



Source: modified S. Zafarpour based on Das Exportgeschäft (Moser R., Topritzhofer E.)

Figure 9. Financing on different levels

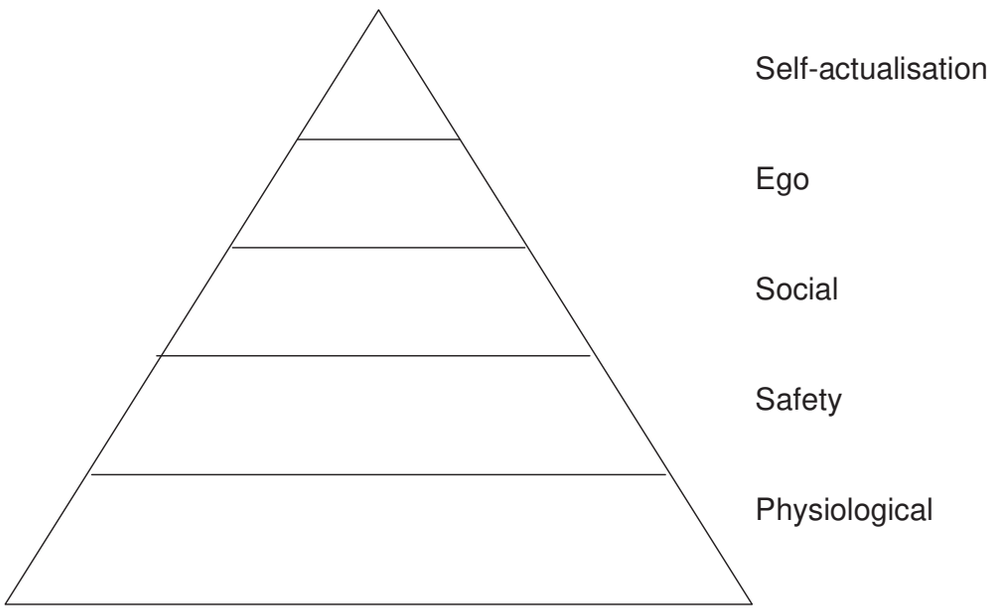
9. Level 8: International business

Every society basically aspires to have low unemployment, to have high rates of increase in per capita national income, and to maximise economic and social welfare. This fundamental idea has been imbibed in conventional Keynesian economics [4] and well implemented in the New Deal policies of the United States in the 1930s. Keynesian policies have been largely responsible for achieving the said goals at national and international level during the 1950s and 1960s. The spell was broken in 1973 with stagflation and recession in the United States and Europe. However, with the process of globalisation that started in the 1990s, the liberali-

sation policies of WTO have once again focused on the mentioned goals. This has made the role of international business management more or less indispensible.

10. Summary

This multiple theoretical analysis of international business management is a modest contribution to the understanding of the complexities and independency of different protagonists and players to bring the economy of a country to higher levels of equilibrium. It means the reduction in unemployment and increased per capita incomes of the people, especially of the low and middle class, who will consume, save, and invest more that would lead to higher employment levels. This would ultimately lead to the maximisation of total economic welfare; in other words, it would meet Maslow's conditions of needs.



Source: Maslow's hierarchy of needs (Maslow 1970)

Figure 10. Basic needs of the people everywhere

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