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INTERNATIONAL BUSINESS ENVIRONMENT: ANTECEDENT AND PROSPECTS

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Abstract
International business environment appears to be more multifaceted, risky, and dynamic because of numerous factors affecting the business operations. Managements have to streamline their strategies and leadership styles in accordance to the laws of host counties and regions of the world. Business environment risk has increased responsibilities of managements to improve their ability on production, skills acquisition, and marketing of global products. The typical challenges affecting foreign firms or multinational companies are the external uncontrollable factors such as economic, technological, political, sociocultural, and legal factors that hinder company's operations across the national frontiers. International business environment is also associated with relative high risks and the projected return on investments in the global market. Organizations should train employees to have knowledge on how to manage dynamic environment necessary in maintaining competitive advantage. This paper explores prospects and nature of international business environment, highlighting how environmental factors could affect the operations of companies abroad.

Keywords: Economic, political, legal, technological, sociocultural factors.

Introduction

The prospects of business at the international level does not only depend on its resources but also on the environment. It is indisputably assumed that analysis of the strengths, weaknesses, opportunities, and threats (SWOT) is very much essential for the business policy formulation. The same way a firm cannot operate without relying on financial resources, physical resources, employee skills, goals of the organization, and adaptability to the environment (Ricks, 1992). Although, domestic and foreign organizations are confronted with several internal and external environmental factors affecting business. The internal factors are controllable factors such as the suppliers, customers, marketing intermediaries, and competitors that the company or managers could manipulate or controlled. The external factors include political factors, technology factors, legal factors, and economic factors that are uncontrollable factors by the organizations. These factors are beyond the control of the companies and their managers but the organizations could succeed when they adapt to the environment. Thus, international business environment could be defined as the type of environment that exists in different sovereign nations where certain factors influence the decision making of the companies in that country. Deresky (2006) noted that international business environment (IBE) involves different aspects namely legal, economics, political risks, cultural differences, and technological factors. International business environment creates an avenue for the integration of the world into one huge market. The co-operation may lead to the removal of all trade barriers among several countries. International business environment comprises micro environment and macro environment (Scherer & Sarah, 2002). These forces influence the operations of international business.

Micro Environment

These are environmental forces that have direct effect on the operations of the companies. These are internal factors which are controllable by the companies. It is also the actors in the companies' immediate environment that affects the performance of the company. The micro environment is otherwise known as the task or operating environment which affects only one firm and not all the firms in a particular industry at the same time. For example, a firm that depends on a supplier may have a supplier environment that is entirely different from other firms supply source. Micro environment includes suppliers, competitor, customers,' publics, and marketing intermediaries (Buckley, 2004).

Suppliers: Suppliers are individuals who supply inputs like raw materials, manpower, and others components to a company determine the success of a company for example, if a company receives inferior raw material from the supplier, it may affect the quality of product produced by the company (Nwinye, 2016). When the cost of raw materials is high, it leads to high cost of production of goods. Companies are advised to maintaining good relationship with the vendors or suppliers. During scarcity of raw materials, the supplier could inform the company earlier so as to supply large quantity in advance. This gesture may as well help the company to prevent stoppage of production plant. Thus, companies should not rely on one supplier in the event of strike by the workers. When a company is faced with this challenge, it may move to another supplier in order to achieve its objective.

Competitors: Any firm that is not prepared to face competitors is bound to collapse. The existence of competitive environment enables companies to work harder and re-strategize in order to achieve maximum growth and overcome competitors (Thanopoulos & Ivan, 1987). Thus, competitors do not necessarily mean the firms that are in the same line of production. It goes beyond that, rather involves all the companies that are searching for the income of the consumers for example, if a company produces black and white television and the demand for colour television is high the customers will not run away to other competitive companies.

Customers: One of the objectives of every company is to produce towards customers satisfaction. It is the customers that keep or sustain business. The goals of a firm cannot be achieved when the customers are dissatisfied with the products. A company in international business may have various types of consumers such as individuals, household's corporate entities, government, and other institutions. The company needs to monitor what the customers need and offer to them. It is the customers that can make a company to make profit or destroy the company (Kew & Stredwick, 2005). Thus, companies should maintain good relationship with the customers at domestic or international level so that they could market their product by saying good news about the product to the public. For example, the customers of book printing company may include individual lecturers, parents, university, government, transport, companies and financial institutions.

Marketing Intermediaries: Production is complete as soon as the consumers make use of the goods. The immediate environment where business is done consists of a lot of marketing intermediaries. They are the agents, merchants, middlemen and physical distribution companies. The primary function of the marketing intermediaries is to get customers for the company and ensure that the goods that are produced are distributed adequately to the consumers. The marketing service agencies assist in promoting the company’s products to the entire market or society.

Publics: A company cannot work in isolation; it must operate in an environment where there are different groups of people (Mullins, 2007). Some persons may dislike a particular product while others will be worried to buy the goods. This confirms a statement that another man food is another man poison. Public in this regard means a group with potential interest that helps the organization to achieve the set objectives. Public consists of media public, citizens, consumer public, action public, and local public. An entrepreneur or industrialist that wants to locate subsidiaries in a particular country must study the environment and the nature or social behaviour of people who resides in such places ((Thanopoulos & Ivan, 1987). Thus, for the company to make progress it must adapt to the culture of the host country. For example, in some countries, the media public often engage in damaging the image of companies and their activities are harmful to the society. Meanwhile, actions of media public attract the presence of government to make policies that could affect operations of the company. The negative reactions of the public usually affect the companies, more especially when the companies have failed to provide social amenities and implement memorandum of understanding (MOU) for the host communities (Coade, 1997). Apparently, international business is facing great challenges from public within the country and outside the country.

Macro Environment

These are factors that affect the actors in the companies’ micro environment in the larger society. This refers to the external forces that shape the opportunities and bring threats to the company. Thus, macro environment is remote environment which is uncontrollable by the company, where a company is confronted with macro environment forces, the only way out is for the company to adapt to the environment and achieve success (Kew & Stredwick, 2005). These environmental forces are unavoidable but the companies are required to manage it an enforce adaptation. The examples of macro environment are economic environment, technological environment, social/cultural environment, demographic environment, and natural environment.

Economic Environment

The economic environment refers to those factors that facilitate foreign business attractiveness to a country (Sinha & Sinha, 2008). It provides national level economic conditions and circumstance affecting the level of aggregate economic activity in which individual firms derive or seek their own business opportunities. Economic environment exposes the economic system of a country and demonstrates the level of prosperity through growth of income and wealth which determine the strength of the market for a specific product. Deresky (2006) pronounced that viable economic system provide answers to the following questions like what product should be produced and in what quantities, how can the product be produced, and who are to consume the products produced.

The entrepreneur should be able to know the type of goods to produce and those who are to demand for it before going into international business (Mullins, 2007). When a country is faced with high inflation, it affects both domestic business and foreign investment. Where the monetary policies and fiscal policy of a country are favorable it may attract investors and promote foreign earnings (Nwinye, 2016). For example, if the government engages in high public expenditure in terms of social amenities and establishment of more industries, this could boost the revenue of the country and enhance the standard of living of the people which encourage international business. Investors may not like to establish a business where there is shortage of power. Thus, if the central bank increases the circulation of money in a country, the consequences is that there may be more savings, investments, and consumer spending (Sinha & Sinha, 2008).

Countries that are suffering from recession may also have low level of output, unemployment, and decrease in demand. However, boom period promotes businesses and world trade. Ordinarily, some companies may like to go to countries with high income and relatively low levels of government ownership to locate their business. For instance, countries like Germany, Sweden and France are strongly involved in government corporate ownership. The exchange rate policy that relates to movement of capital across national borders is very essential for business activities (Deresky, 2006). The abolition or liberalization of exchange controls across the globe in the late 1980s, has facilitated cross-border movement of capital. Total revenue generated from government expenditure in gross national product, GNP influences the growth of international business.

Legal Environment

Every country has a law that regulates and governs the conduct of business. A country without a law becomes stateless such that no business can flourish. Every nation has its own legal system which varies from one country to another in respect of precedent usage, customs, and religious practice (Buckley, 2004). Legal environment means a set of laws, legislations, regulations, which influence, the operations of both domestic and international business organization (Nwinye, 2016). These laws may include national laws that affect all local business activities, labour Act, factory Act 1948, national laws, that affect cross-border activities, intellectual property laws, trade and investment regulations, taxation, bankruptcy laws, ownership regulations, and financial flows regulations. Dispute resolution which includes negotiation, conciliation, mediation, and arbitration, sale of good Act, international treaties, and conventions that govern cross-border transactions. For example, some countries have laws that regulate hiring and firing of workers. Nigeria practices labour Act, workmen compensation Act, and relevant provisions of Companies and Allied Matters Act (CAMA) but Denmark, USA Sweden, New Zealand, and China have the most flexible labour regulations. It is important for a company that wants to operate in any of the countries to know the specific laws that govern the business (Coade, 1997). National laws are made to regulate the flow of product across national boundaries. For instance, the local content is very important for all the countries and the law must be applied to encourage the foreign companies to produce products that could be sold in local market. Apparently, if a global company or MNC is having a dispute with the government of a country, such company may resort to arbitration to resolve the disputes instead of litigation.

The aggrieved company may also approach international centre for settlement of investment disputes which is a body in World Bank responsible for settlement of disputes. The effect is that where a country fails to honour the invitation, World Bank may deny such country funds. The flexibility of laws and review of laws are very necessary for the survival of international business. Companies are obliged to know the amended laws of the country where they perform their business. Countries that permit free trade could attract more foreign investors than countries that practice trade restrictions such as tariffs, embargo, quotas, and import monopoly. In some countries, there are national laws that affect the price distribution, advertising, and promotion of products and services. For example, the advertisement of cigarette on television is prohibited in many countries China, prohibits the condemnation of other companies' products whereas Germany does not permit comparative advertising. The product liability laws are mostly used in wealthy countries like United State and European Union. These regulations require international companies to make their product available to comply with local standards of the country where they operate. But less individualized nations do not apply this law.

Political Environment

Political environment is one of the factors that influence management and companies in both domestic business and international business. No organization can achieve its desired result or objective without knowing the political environment of a country where the company wants to undertake its business. It is important for the company to know the type of political system that exist in such country. The political system may be classified into democracy, totalitarianism, and communism (Thanopoulos & Ivan, 1987). This may enable the entrepreneurs to make choice among the political ideologies and accept the type that could accommodate their business. Democracy refers to the government of the people and for the people which requires freedoms of speech, freed of association, freedom of belief, and protection of the minorities (Kew & Stredwick, 2005). Countries that practice democracy may see it as free or partly free and not free. Totalitarianism is a system of government where one-party, individual, or group of persons monopolizes or hijack political power and deliberately refused to permit opposition. Thus, only few individuals are allowed to participate in decision making. Totalitarianism is divided into theocratic and secular totalitarianism uses religious leaders as political office holders and political leaders. This is implemented in Iran and other Middle Eastern Islamic countries.

Communism means the type of secular totalitarianism where the political and economic systems are indifferent that is they are not separate, which means those who control the economic system are the same people that control political system. A typical example is illustrated in former Soviet Union (Russia) where the government is in charge of many systems. It is also found in China, Cuba, and Vietnam. The movement towards democracy has stabilized operating market conditions for companies worldwide and supported common rules for international competition. The political systems of different countries across the globe affect international business through treaties and conventions. The multinational companies (MNCs) that operate in home countries must understand the political process and legal system of such country before they can succeed in their business activities.

Technological environment

if members of the public have access to media without restriction on freedom of speech, this kind gesture could enhance the standard of living of the people. It is possible because information is power and life. Technology is a major driver of globalization that creates a room for competitive advantage. For example, the use of internet, banking, computers ATM card, and mobile phones, facilitates between growth of business and offer consumers and corporate entities more innovative products (Ricks, 1992). Similarly, when the electronic devices that are used in some countries do not have security, the idea of developing new technology may fail and the use of outdated technology affects the market share, customer satisfaction, and the profitability of a company. This eventually creates threat to the growth of international business. The use of modern technology is very crucial for the manufacture of goods and services. Thus, if a foreign firm comes unto a country to set up a business and found that the roads with which to produce and distribute the goods are not modernized or motorable, it affects the business and revenue generation of the host country. The technological changes assisted international business to take the shape of transnational business. Any business that failed to adapt to technological advancement may suffer closure or windup.

Social Cultural Environment

Culture means the idea, behavioural pattern of the people, what they like or dislike, style of dressing, language, belief, values, and customs which are acquired by members of the society. Where a company is doing business in unfamiliar environment, it may encounter operational problems unless the company adapts to cultural disparity. It is important for the MNCs and international managers to understand the cultural dimensions at the international level. Sinha and Sinha (2008) described culture as a set of learned, core values beliefs, standards, knowledge, moral laws, and behaviours shared by individuals and societies that determines how an individual acts, feels, see one another. A society’s culture is passed from generation to generation.

Demographic and Natural Environment

Demographic environment changes from time to time, place to place and it varies from country to country. This consists of population size, age composition growth rate, and family size. A poor country with small population does not attract foreign investors. Industrialized countries that have large population usually attract foreign investment. The investors who come to these rich countries make profit since there are lots of persons that have money to feed themselves three times or more daily and they could buy the products of the company. Countries that do not have many male children from age of (1year to 6years) may have poor demand for children wears, shoes, and beds. Furthermore, when there is no demand for such goods, it may discourage the foreign firm from producing such goods that have the market. There is the possibility that a country with large population may have many aged or old people. The desire for old people goods may increase and any company that produces such products may enjoy high profit due to increase in demand. But when a country lacks old people, it may affect international managers in their creative ideas to produce their goods (Buckley, 2004). A country with over population enables the MNCs, to exploit the opportunity to have cheap labour. Natural environment is another impediment which international business face. Countries that are rich in natural resources such as gold oil, minerals and cotton will export more of the goods in which they have absolute advantage over others. Many countries trade with Japan because they import technology from them. Natural environment may occur in the form of natural disaster which happens unexpectedly. For example, erosion, flood, and war. When a heavy floor like tsunami occurs, it destroys the business, human being, and other materials located within the environment.

Conclusion

Most organizations do not know the risks and uncertainties involved in establishing subsidiaries abroad. The experience of international managers and understanding of the peculiarities in international business environment, has actually assisted firms and investors to know the prevailing laws and policies of host country before engaging in international business. Companies that are not familiar with the business environment normally encounter distortions or disorder in operation. Multinational companies’ presence in developing countries have attracted managerial skills, infrastructure development, new technology, creating jobs, and bringing in investment capital from other countries by exporting products and providing better services. Furthermore, organizations should promote adaptability in order to survive in international business.

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