

1.2: What Is International Business?

Learning Objectives

1. Know the definition of international business.
2. Comprehend how strategic management is related to international business.
3. Understand how entrepreneurship is related to international business.

The Definition of International Business

As the opening case study on Google suggests, international business relates to any situation where the production or distribution of goods or services crosses country borders. **Globalization**—the shift toward a more interdependent and integrated global economy—creates greater opportunities for international business. Such globalization can take place in terms of markets, where trade barriers are falling and buyer preferences are changing. It can also be seen in terms of production, where a company can source goods and services easily from other countries. Some managers consider the definition of international business to relate purely to “business,” as suggested in the Google case. However, a broader definition of international business may serve you better both personally and professionally in a world that has moved beyond simple industrial production. **International business** encompasses a full range of cross-border exchanges of goods, services, or resources between two or more nations. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument). The entities involved in international business range from large multinational firms with thousands of employees doing business in many countries around the world to a small one-person company acting as an importer or exporter. This broader definition of international business also encompasses for-profit border-crossing transactions as well as transactions motivated by nonfinancial gains (e.g., triple bottom line, corporate social responsibility, and political favor) that affect a business’s future.

Strategic Management and Entrepreneurship

A knowledge of both strategic management and entrepreneurship will enhance your understanding of international business. **Strategic management** is the body of knowledge that answers questions about the development and implementation of good strategies and is mainly concerned with the determinants of firm performance. A **strategy**, in turn, is the central, integrated, and externally oriented concept of how an organization will achieve its performance objectives. Mason Carpenter and William G. Sanders, *Strategic Management: A Dynamic Perspective, Concepts and Cases* (Upper Saddle River, NJ: Pearson Education, 2007). One of the basic tools of strategy is a **SWOT (strengths, weaknesses, opportunities, threats)** assessment. The SWOT tool helps you take stock of an organization’s internal characteristics—its strengths and weaknesses—to formulate an action plan that builds on what it does well while overcoming or working around weaknesses. Similarly, the external part of SWOT—the opportunities and threats—helps you assess those environmental conditions that favor or threaten the organization’s strategy. Because strategic management is concerned with organizational performance—be that social, environmental, or economic—your understanding of a company’s SWOT will help you better assess how international business factors should be accounted for in the firm’s strategy.

Entrepreneurship, in contrast, is defined as the recognition of opportunities (i.e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures. An **entrepreneur** is a person who engages in entrepreneurship. Entrepreneurship, like strategic management, will help you to think about the opportunities available when you connect new ideas with new markets. For instance, given Google’s current global presence, it’s difficult to imagine that the company started out slightly more than a decade ago as the entrepreneurial venture of two college students. Google was founded by Larry Page and Sergey Brin, students at Stanford University. It was first incorporated as a privately held company on September 4, 1998. Increasingly, as the Google case study demonstrates, international businesses have an opportunity to create positive social, environmental, and economic values across borders. An entrepreneurial perspective will serve you well in this regard.

Spotlight on International Strategy and Entrepreneurship

Hemali Thakkar and three of her fellow classmates at Harvard found a way to mesh the power of play with electrical power. The foursome invented “a soccer ball with the ability to generate electricity,” Thakkar said. “Harnessing the Power of Soccer,” interview with Thakkar Hemali by Ike Sriskandarajah, October 20, 2010, accessed November 12, 2010, www.loe.org/shows/segments.htm?segmentID=108756

[programID=10-P13-00044&segmentID=5](#). Every kick of the ball creates a current that's captured for future use. Fifteen minutes of play lights a lamp for three hours.

Called the sOcket, the soccer ball can bring off-grid electricity to developing countries. Even better, the soccer ball can replace kerosene lamps. Burning kerosene is not only bad for the environment because of carbon dioxide emissions but it's also a health hazard: according to the World Bank, breathing kerosene fumes indoors has the same effects as smoking two packs of cigarettes per day. Ariel Schwartz, "The SOcket: A Soccer Ball to Replace Kerosene Lamps," *Fast Company*, January 26, 2010, accessed November 12, 2010, www.fastcompany.com/blog/ariel-schwartz/sustainability/soccket-soccer-ball-replace-kerosene-lamps.

How did the idea of sOcket emerge? All four students (Jessica Lin, Jessica Matthews, Julia Silverman, and Hemali Thakkar) had experience with developing countries, so they knew that kids love playing soccer (it's the world's most popular sport). They also knew that most of these kids lived in homes that had no reliable energy. Clark Boyd, "SOcket: Soccer Ball by Day, Light by Night," *Discovery News*, February 18, 2010, accessed November 12, 2010, news.discovery.com/tech/soccket-soccer-ball-by-day-light-by-night.html.

As of November 2010, the sOcket prototype cost \$70 to manufacture, but the team hopes to bring the cost down to \$10 when production is scaled up. Ike Sriskandarajah, "Soccer Ball Brings Off-Grid Electricity Onto the Field," *The Atlantic*, November 3, 2010, accessed November 12, 2010, <http://www.theatlantic.com/technology/archive/2010/11/soccer-ball-brings-off-grid-electricity-onto-the-field/65977>. One ingenious way to bring costs down is to set up facilities where developing-world entrepreneurs assemble and sell the balls themselves.

At this point it's also important to introduce you to the concepts of **intrapreneurship** and the **intrapreneur**. Intrapreneurship is a form of entrepreneurship that takes place inside a business that is already in existence. An intrapreneur, in turn, is a person within the established business who takes direct responsibility for turning an idea into a profitable finished product through assertive risk taking and innovation. An entrepreneur is starting a business, while an intrapreneur is developing a new product or service in an already existing business. Thus, the ideas of entrepreneurship can be applied not only in new ventures but also in the context of existing organizations—even government.

KEY TAKEAWAYS

- International business encompasses a full range of cross-border exchanges of goods, services, or resources between two or more nations. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument).
- Strategic management is the body of knowledge that answers questions about the development and implementation of good strategies and is mainly concerned with the determinants of firm performance. Because strategic management is concerned with organizational performance, your understanding of a company's SWOT (strengths, weaknesses, opportunities, threats) helps you better assess how international business factors should be accounted for in the firm's strategy.
- Entrepreneurship is the recognition of opportunities (i.e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas. Entrepreneurship helps you think about the opportunities available when you connect new ideas with new markets.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What is international business?
2. Why is an understanding of strategy management important in the context of international business?
3. Why is an understanding of entrepreneurship important in the context of international business?

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