

1.5: What Forms Do International Businesses Take?

Learning Objectives

1. Know the possible forms that international businesses can take.
2. Understand the differences between exporting, importing, and foreign direct investment.
3. See how governments and nongovernmental organizations can be international businesses.

The Forms of International Business

It probably doesn't surprise you that international businesses can take on a variety of forms. Recognizing that international business, based on our broad definition, spans business, government, and nongovernmental organizations (NGOs), let's start by looking at business.

A **business** can be a person or organization engaged in commerce with the aim of achieving a profit. Business profit is typically gauged in financial and economic terms. However, some level of sustained financial and economic profits are needed for a business to achieve other sustainable outcomes measured as social or environmental performance. For example, many companies that are for-profit businesses also have a social and environmental mission. Table 1.1 provides an example of a company with this kind of mission.

Table 1.1 Sample Three-Part Mission Statement

| Social and Environmental Mission | Product Mission | Economic Mission |
|---|---|---|
| Part of being a responsible company is working hard to help solve the world's environmental problems and, importantly, also helping those who buy our products to make more responsible choices. "Investing in People, Investing for the Planet," SC Johnson, accessed November 21, 2010, http://www.scjohnson.com/en/commitment/report/CEO-Letter.aspx . | To make, distribute, and sell the finest quality products with a continued commitment to promoting business practices that respect the Earth and the environment. "Ben & Jerry's," Unilever, accessed November 21, 2010, www.unileverusa.com/brands/foodbrands/benandjerrys . | To create long-term value and capture the greatest opportunity for our stakeholders by delivering sustainable, profitable growth in sales, earnings, and cash flow in a global company built on pride, integrity, and respect. "Our Business Purpose," Amtrak, accessed November 21, 2010, www.aramark.com/AboutARAMARK/BusinessPurpose . |

On the one hand, while companies such as Ben & Jerry's (part of Unilever) and SC Johnson are very large, it's hard to imagine any business—small or large—that doesn't have international operating concerns. On the other hand, the *international* part of a firm's business can vary considerably, from importing to exporting to having significant operations outside its home country. An **importer** sells products and services that are sourced from other countries; an **exporter**, in contrast, sells products and services in foreign countries that are sourced from its home country. Beyond importing and exporting, some organizations maintain offices in other countries; this forms the basis for their level of **foreign direct investment**. Foreign direct investment means that a firm is investing assets directly into a foreign country's buildings, equipment, or organizations. In some cases, these foreign offices are carbon copies of the parent firm; that is, they have all the value creation and support activities, just in a different country. In other cases, the foreign operations are focused on a small subset of activities tailored to the local market, or those that the entity supplies for operations every place in which the firm operates.

When a firm makes choices about foreign operations that increase national and local responsiveness, the organization is more able to adapt to national and local market conditions. In contrast, the greater the level of standardization—both within and across markets—the greater the possible level of global efficiency. In many cases, the choice of foreign location generates unique advantages, referred to as **location advantages**. Location advantages include better access to raw materials, less costly labor, key suppliers, key customers, energy, and natural resources. For instance, Google locates its computer-server farms—the technological backbone of its massive Internet services—close to dams that produce hydroelectric power because it's one of the cheapest sources of electricity. Stephanie N. Mehta, "Behold the Server Farm! Glorious Temple of the Information Age!," *Fortune*, August 1, 2006, accessed April 27, 2010, http://money.cnn.com/magazines/fortune/fortune_archive/2006/08/07/8382587/index.htm. Ultimately, managerial choices regarding the trade-off between *global efficiency* and *local responsiveness* are a function of the firm's strategy and are likely to be a significant determinant of firm performance.

International Forms of Government

Governmental bodies also take on different international forms. Among political scientists, **government** is generally considered to be the body of people that sets and administers public policy and exercises executive, political, and sovereign power through customs, institutions, and laws within a state, country, or other political unit. Or more simply, government is the organization, or agency, through which a political unit exercises its authority, controls and administers public policy, and directs and controls the actions of its members or subjects.

Most national governments, for instance, maintain embassies and consulates in foreign countries. National governments also participate in international treaties related to such issues as trade, the environment, or child labor. For example, the North American Free Trade Agreement (NAFTA) is an agreement signed by the governments of the United States, Canada, and Mexico to create a trade bloc in North America to reduce or eliminate tariffs among the member countries and thus facilitate trade. The Kyoto Protocol is an agreement aimed at combating global warming among participating countries. In some cases, such as with the European Community (EC), agreements span trade, the environment, labor, and many other subjects related to business, social, and environmental issues. The Atlanta Agreement, in turn, is an agreement between participating governments and companies to eliminate child labor in the production of soccer balls in Pakistan. “Atlanta Agreement,” Independent Monitoring Association for Child Labor, accessed November 12, 2010, <http://www.imacpak.org/atlanta.htm>. Finally, supraorganizations such as the United Nations (UN) or the World Trade Organization (WTO) are practically separate governments themselves, with certain powers over all member countries. United Nations website, accessed January 20, 2010, www.un.org; World Trade Organization website, accessed January 20, 2010, <http://www.wto.org>.

Nongovernmental Organizations

National **nongovernmental organizations (NGOs)** include any nonprofit, voluntary citizens’ groups that are organized on a local, national, or international level. International NGOs (NGOs whose operations cross borders) date back to at least 1839. Steve Charnovitz, “Two Centuries of Participation: NGOs and International Governance,” *Michigan Journal of International Law* 18, no. 183 (Winter 1997): 183–286. For example, Rotary International was founded in 1905. It has been estimated that, by 1914, there were 1,083 NGOs. Oliver P. Richmond and Henry F. Carey, eds., *Subcontracting Peace: The Challenges of NGO Peacebuilding* (Burlington, VT: Ashgate, 2005), 21; United Nations, “Chapter X: The Economic and Social Council,” *Charter of the United Nations*, accessed April 28, 2010, www.un.org/en/documents/charter/chapter10.shtml. International NGOs were important in the antislavery movement and the movement for women’s suffrage, but the phrase “nongovernmental organization” didn’t enter the common lexicon until 1945, when the UN was established along with the provisions in Article 71 of Chapter 10 of the UN charter. United Nations, “Chapter X: The Economic and Social Council,” *Charter of the United Nations*, accessed April 28, 2010, www.un.org/en/documents/charter/chapter10.shtml, which granted a consultative role to organizations that are neither governments nor member states.

During the twentieth century, globalization actually fostered the development of NGOs because many problems couldn’t be solved within a single nation. In addition, international treaties and organizations, such as the WTO, were perceived by human rights activists as being too centered on the interests of business. Some argued that in an attempt to counterbalance this trend, NGOs were formed to emphasize humanitarian issues, developmental aid, and sustainable development. A prominent example of this is the World Social Forum—a rival convention to the World Economic Forum held every January in Davos, Switzerland.

KEY TAKEAWAYS

- International businesses take on a variety of forms. Importers sell goods and services obtained from other countries, while exporters sell goods and services from their home country abroad.
- Firms can also make choices about the extent and structure of their foreign direct investments, from simply an array of satellite sales offices to integrated production, sales, and distribution centers in foreign countries.
- Government and nongovernmental organizations also comprise international business.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What is the difference between an exporter and an importer?
2. What is a location advantage?
3. How is government considered an international business?

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