SECTION

4

INTERNATIONAL BUSINESS AND MULTINATIONAL CORPORATIONS

BUSINESS MANAGEMENT

International Business

Introduction

In this section, we will explore international business, its importance on the global economy and the role multinational corporations play across the world of business. Different economies across the world have various resources and can help businesses to expand beyond their domestic markets. Globalisation and advancement in technology means that international business has become increasingly common. Consequently, many companies seek to expand their market presence, access new resources and take advantage of global opportunities. This requires companies to adapt to diverse economic, political and cultural environments as well as make strategic decisions that consider the complexities of the international marketplace.

At the end of this section, you will be able to

- Describe international business and analyse its importance
- Explain multinational corporations, describe their features and importance

Key Ideas

- **Exporting** involves sending goods and service to another country e.g. Ghana sending cocoa to the USA.
- **Foreign Market** include any market outside a company's own country.
- **Foreign Direct Investments (FDI)** is an investment from a party (that is an individual, a business or a government) in one country into a business in another country.
- **Subsidiary** is a business entity either fully or partially owned and controlled by another company known as the parent company.
- **Joint Venture** is a business arrangement in which two or more parties agree to pool their resources to establish a single enterprise or project for profit.
- **Cross Border Mergers** occurs when two or more businesses are combined or acquired by a foreign investor and the control of assets and operations are transferred from the local business to the foreign business.
- **International Business** refers to the exchange of goods and services between two parties of different countries.
- **Multinational** is a company that has facilities and assets in at least one country other than its home base.

INTERNATIONAL BUSINESS, ITS FEATURES AND IMPORTANCE

International Business

International business refers to commercial activities and transactions that take place between companies and individuals located in different countries. It involves the exchange of goods, services, technology, capital and information across national borders, with the primary aim of expanding business operations beyond the company or individual's domestic market.

Application of Concept and Examples

Examples of international business activities include exporting goods to foreign markets, establishing subsidiaries or joint ventures in other countries, engaging in foreign direct investment and engaging in cross-border mergers and acquisitions.

Globalisation and advances in technology means that international business has become increasingly common for companies seeking to expand their market presence, access new resources and take advantage of global opportunities. It requires companies to adapt to diverse economic, political and cultural environments, making strategic decisions that consider the complexities of the international marketplace.

Key Features of International Business

1. **Cross-border Transactions**: International business involves buying, selling, or exchanging goods and services between parties in different countries.
2. **Global Market Expansion:** Companies engaged in international business seek to enter and operate in foreign markets to tap into new customer bases and increase their revenue streams.
3. **Currency Exchange**: International business transactions often require dealing with different currencies and managing exchange rate fluctuations.
4. **Cross-Cultural Understanding:** Companies operating internationally must go through cultural differences in language, customs and business practices to facilitate effective communication and business relationships.
5. **Adherence to International Laws and Regulations:** Businesses must comply with laws and regulations in both their home country and the foreign markets they operate in.
6. **Risk Management:** International business operations come with various risks, including political instability, economic fluctuations and trade barriers, which companies need to reduce.

Importance of International Business

1. **Profitability and Growth**: International expansion opens opportunities for revenue growth and increased profitability. Businesses that successfully steer through international markets can achieve higher returns on investment and expand their business operations over time.
2. **Competitive Advantage**: Engaging in international business can provide businesses with a competitive advantage by offering unique products or services, take advantage of economies of scale, or accessing new technologies or distribution channels not available domestically.
3. **Market Expansion**: International business allows companies to tap into new markets beyond their domestic borders. By selling products or services in other countries, businesses can reach a larger customer base and increase their sales potential.
4. **Diversification and Risk Reduction**: Operating in multiple countries varies a company's revenue sources and reduces its dependence on any single market. This can help to reduce risks associated with economic downturns, political instability, or changes in consumer preferences in specific regions.
5. **Access to Resources and Talent**: International business enables companies to access valuable resources such as raw materials, labour, technology, and expertise that may be scarce or more cost-effective in other countries. This can enhance production efficiency and innovation capabilities.
6. **Cultural Exchange and Understanding**: International business fosters cultural exchange and understanding by bringing people from different backgrounds and cultures together. This promotes cross-cultural communication, cooperation, and mutual respect, which are essential in today's interconnected world.

Activity 4.1

1. Using the internet, or multimedia resources, work in a group of not more than 5 to research the features and importance of International Business.
   a. Make notes and share your findings with your colleagues.
   b. Present your findings to the class.

Activity 4.2

1. Read the case below

   SAGOTU ARTIFACTS

   Sagotu is a renowned Ghanaian owned company based in the Central Region that specialises in the production and distribution of traditional Ghanaian artifacts. The company offers a wide range of products including kente cloth, wooden sculptures, beaded jewelery, pottery, and brassware, all handcrafted by local artisans. The mission of Sagotu is to preserve and promote Ghanaian culture while providing sustainable employment opportunities for artisans.

Upon recognising the potential to share Ghanaian culture globally and increase revenue, Sagotu began exploring international markets in 2010. Based on extensive market research, Sagotu decided to focus on countries with a high appreciation for African culture and art, such as the United States, United Kingdom, Germany and France. The company formed strategic partnerships with international galleries, museums, and cultural institutions. These partnerships helped Sagotu establish credibility and reach a wider audience. They also collaborated with online marketplaces like Etsy and Amazon to sell their products directly to consumers worldwide. They invested in a robust online presence through a user-friendly website and active social media channels, showcasing the artisans' stories and the cultural heritage behind each product.

Sagotu encountered several challenges during their international expansion. For instance, understanding and adapting to different cultural preferences and consumer behaviours was quite difficult. Furthermore, managing international shipping and customs regulations proved complex and required careful planning. Protecting their designs and products from being copied in international markets was a concern.

Despite the challenges, Sagotu successfully expanded its business internationally. By 2020, international sales accounted for 60% of their total revenue. The company's success had a positive impact on the local community. For instance, the increased revenue allowed Sagotu to employ more artisans, providing stable incomes for many families. This helped to improve the livelihoods of artisans and their families through fair wages and community development initiatives. Also, their business also preserved and promoted Ghanaian culture on a global scale.

By focusing on quality, authenticity, and strategic market expansion, the company has managed to navigate the complexities of international business and achieve global recognition.

2. Use the case above to answer the following questions
    a. What, in your opinion, makes Sagotu an international business?
    b. Analyse the benefits of Sagotu to operating as an international business.
    c. Evaluate the challenges that ware faced by Sagotu
3. Summarise your answers and use PowerPoint to create visually engaging slides and make a presentation to your colleagues for feedback.

MULTINATIONAL CORPORATION, ITS FEATURES AND IMPORTANCE

Multinational Corporation

A multinational corporation (MNC), also known as a multinational enterprise (MNE) or transnational corporation (TNC), is a large company that operates and conducts business in multiple countries. These corporations have a significant presence in more than one country and they engage in various business activities, such as production, sales, marketing and research on a global scale.

Below are pictures of the offices of some Multinational Corporations operating in Ghana:

Fig. 4.1: MTN PLC Office in Accra

Fig. 4.2: Ecobank, Ghana PLC Office in Accra

Fig. 4.3: Unilever, Ghana PLC Office in Accra

Fig. 4.4: Total Energies, Ghana Office in Accra

Multinational corporations (MNCs) have several distinct features that set them apart from domestic companies. These features contribute to their global reach and influence in the international business landscape. Here are the key features of multinational corporations:

1. **Global Presence:** MNCs operate in multiple countries, with subsidiaries, affiliates, or branches in various regions around the world. They have a significant physical presence and business operations in these countries.
2. **Diverse Markets:** MNCs serve diverse markets, reaching customers in different countries with their products or services. They tailor their offerings to suit local preferences and adapt to the unique characteristics of each market.
3. **Cross-Border Trade and Investment:** MNCs engage in cross-border trade, importing and exporting goods and services between their home country and other countries. Additionally, they make substantial foreign direct investments (FDI) to establish and expand their operations in foreign markets.
4. **Transfer of Resources and Technology:** MNCs transfer capital, technology, managerial expertise and other resources between their headquarters and foreign subsidiaries. This facilitates knowledge sharing and the integration of best practices across different locations.
5. **Complex Organisational Structure:** MNCs often have complex organisational structures. They may have a parent company at the top, overseeing various subsidiaries or divisions operating in different countries or regions.
6. **Global Workforce:** MNCs employ a diverse and multinational workforce. Their employees come from different countries, bringing a broad range of skills, knowledge and cultural perspectives to the organisation.
7. **Economies of Scale:** MNCs leverage their global operations to achieve economies of scale in production and distribution. This allows them to reduce costs and offer competitive prices in different markets.
8. **Brand Recognition:** Many multinational corporations have strong global brand recognition. Their products and services are well-known and trusted by consumers in various countries, providing a competitive advantage.
9. **Ability to Influence Policies:** Due to their size and economic significance, MNCs have the potential to influence government policies and regulations in the countries where they operate.
10. **Risk Diversification:** MNCs diversify their operations across multiple countries, reducing their exposure to risks in any single market. This risk diversification strategy helps them mitigate potential economic and political uncertainties.
11. **Innovation and Research:** MNCs often invest in research and development (R&D) activities in various countries to drive innovation and stay competitive in the global market.
12. **Global Supply Chains:** MNCs often establish intricate global supply chains, sourcing components and raw materials from different countries to optimise production efficiency and cost-effectiveness.

Overall, these features enable multinational corporations to extend their operations worldwide, leverage resources, capitalise on market opportunities and contribute significantly to the global economy.

Importance of Multinational Corporation to Ghana

The relevance of multinational corporations (MNCs) to Ghana cannot be overstated, as they play a crucial role in shaping the country's economy and development. Here are some key aspects that highlight the relevance of MNCs to Ghana:

1. **Foreign Direct Investment (FDI):** MNCs bring substantial foreign direct investment into Ghana, contributing to capital formation and economic growth. This investment helps finance new businesses, infrastructure projects and technological advancements, fostering development in various sectors.
2. **Job Creation and Employment Opportunities:** MNCs establish subsidiaries and operations in Ghana, leading to job creation for the local workforce. These companies hire skilled and unskilled workers, reducing unemployment rates and providing employment opportunities for Ghanaian citizens.
3. **Technology Transfer and Knowledge Sharing:** MNCs introduce advanced technologies, management practices and specialised skills to Ghana. This knowledge transfer enhances the capabilities of local businesses, promotes innovation and strengthens the country's overall industrial competitiveness.
4. **Market Access and Export Opportunities:** Through their global networks and distribution channels, MNCs facilitate the export of Ghanaian products to international markets. This expanded market access opens new trade opportunities, leading to increased export revenues and foreign exchange earnings.
5. **Infrastructure Development:** Some MNCs invest in infrastructure projects to support their operations in Ghana. These investments not only benefit the companies but also contribute to the development of vital infrastructure that improves the overall business environment in the country.
6. **Economic Diversification:** MNCs often invest in various sectors, leading to economic diversification. This diversification helps reduce dependence on a few industries and creates a more balanced and resilient economy.
7. **Increased Competitiveness:** The presence of MNCs fosters competition within Ghana's industries, driving local companies to improve efficiency, product quality and innovation. This competitiveness ultimately benefits consumers and boosts the overall productivity of the economy.
8. **Access to Global Markets and Networks:** Local businesses that collaborate with MNCs as suppliers or partners gain access to global markets and networks. This exposure opens new business opportunities and increases the international visibility of Ghanaian products and services.
9. **Corporate Social Responsibility (CSR):** Many MNCs engage in corporate social responsibility initiatives in Ghana. These efforts include funding social

projects, educational programmes, healthcare facilities and environmental sustainability initiatives, contributing to the country's social development.

10. **Government Revenue Generation:** MNCs contribute significantly to government revenue through taxes, corporate income tax, import duties and other levies. These revenues can be reinvested in public services, infrastructure development and social welfare programs.

Overall, the presence of multinational corporations in Ghana is instrumental in driving economic growth, fostering technological advancement, creating employment opportunities and supporting social development. However, it is essential for the government to implement policies that ensure the fair distribution of benefits and promote sustainable development while encouraging responsible business practices among MNCs.

Activity 4.3

Your teacher will share pictures, resources or a short video to illustrate the role of multinational companies. Make notes to share in group discussions.

1. In your groups, discuss the benefits and challenges of multinational companies.

Activity 4.4

a. Read the case below

Wunams Company Limited

Wunams, is a Ghanaian-based cocoa processing company. After a study of the American market in 2020 using careful market research and strategic partnerships, it successfully expanded its business operations in America in order to take advantage of global trends. At the beginning of its business operations in America, the company faced challenges adapting to local tastes and differences in Ghanaian and American culture.

After in the business had operated in America for some years, it was able to establish over 20 shops offering a range of products tailored to local preferences, where the popular ones included the "Red label" Ghanaian chocolate and chocolate biscuits.

b. In pairs, discuss the following questions

i. What makes Wunams a multinational business?

ii. What motivated Wunams to expand its business operations to America?

iii. What potential challenges will Wunams face in maintaining its operations in America?

c. Type out your answers in a word document format and discuss it with your colleagues for feedback

Activity 4.5

1. In pairs research about one multinational corporation (MNC) in Ghana.
2. Prepare and make a poster presentation of the profile of the MNC you researched on for a discussion with your colleagues.

Review Questions

1. Which of the following is a reason for companies to engage in international business?
   A) To reduce competition
   B) To increase political influence
   C) To access new markets
   D) To avoid technological advancements
2. Which strategy involves a company producing goods in its home country and selling them in another country?
   A) Licensing
   B) Exporting
   C) Franchising
   D) Joint venture
3. What does FDI stand for in international business?
   A) Foreign Direct Investment
   B) Foreign and Domestic Investment
   C) Foreign Development Investment
   D) Foreign Derived Investment
4. Which of the following is a benefit of international business?
   A) Control over operations
   B) Reduced waste
   C) Market expansion
   D) Quick supply
5. Which of the following is **not** a reason for a business going global?
   A) Declining domestic market
   B) Increased domestic competition
   C) Diversification and risk reduction
   D) Economic expansion
6. Which of the following is a characteristic of a multinational corporation?
   A) Operates only in its home country
   B) Has a limited product line
   C) Has operations in multiple countries
   D) Is a small business

7. What is globalisation?
   A) The expansion of business into new markets
   B) The reduction of international trade
   C) The increase in protectionism
   D) The integration of economies worldwide
8. What is a joint venture?
   A) A partnership between two companies
   B) A subsidiary of a multinational corporation
   C) A licensing agreement
   D) A merger

EXTENDED READING

- CFI Team (2024) *Multinational Corporation (MNC)*, https://corporatefinanceinstitute.com/resources/management/multinational-corporation/

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GLOSSARY

Home country	is the nation where a multinational corporation originates.
Host country	is the nation where a multinational corporation operates a branch outside its home country.
Exporting	involves sending goods and service to another country e.g. Ghana sending cocoa to the USA.
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Subsidiary	is a business entity either fully or partially owned and controlled by another company known as the parent company.
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Cross Border Mergers	occurs when two or more businesses are combined or acquired by a foreign investor and the control of assets and operations are transferred from the local business to the foreign business.
International Business	refers to the exchange of goods and services between two parties of different countries.
Multinational	is a company that has facilities and assets in at least one country other than its home base.

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