

# ABORDAREA TEORETICĂ A MEDIULUI INTERNAȚIONAL DE AFACERI

## THEORETICAL APPROACH OF THE INTERNATIONAL BUSINESS ENVIRONMENT

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### SUMMARY

*The definition of international business is related to commercial transactions that occur across country borders. The exchange of goods and services among peoples and businesses is organized between multiple countries. The term is composed of two words; International has many meanings, among them external and global. The word Business has also various senses such as trade, transaction and commercial relations. This huge number of words and concepts describes the large field of affairs. International business means the exchange of goods, services, resources, knowledge and skills among other things between two or more firms and/ or countries. It can also denote the trade conducted across national boundaries for the profit of all parties connected on an industry. It refers to negotiated commerce and investment performed by firms across borders functioning together at several levels.*

**Keywords:** *international business, international business environment, corporation function, globalization, global interdependence, technological progress, international relations, competitiveness, investment, innovative performance, international competitors.*

### REZUMAT

*Definiția de afaceri internaționale se referă la tranzacțiile comerciale care au loc peste granițele țării. Schimbul de bunuri și servicii între popoare și întreprinderi este organizat între mai multe țări. Termenul este compus din două cuvinte: (Internațional) are multe semnificații, printre ele - externe și globale. Cuvântul (afaceri) are, de asemenea, diverse sensuri, cum ar fi comerțul, tranzacțiile și relațiile comerciale. Acest număr imens de cuvinte și concepte descrie domeniul larg de afaceri. Afaceri internaționale înseamnă schimbul de bunuri, servicii, resurse, cunoștințe și abilități, printre altele, între două sau mai multe firme și/sau țări. De asemenea, poate indica comerțul desfășurat dincolo de granițele naționale pentru profitul tuturor părților conectate la o industrie. Se referă la comerțul negociat și investițiile efectuate de firme de peste hotare care funcționează împreună la mai multe niveluri.*

**Cuvinte-cheie:** *afaceri internaționale, mediu de afaceri internațional, funcția corporațiilor, globalizare, interdependență globală, progres tehnologic, relații internaționale, competitivitate, investiții, performanță inovatoare, concurenți internaționali.*

**Introduction.** International business includes any type of business activity that crosses national borders. However, a number of definitions in the business literature, which can be found but are no simple or universally accepted, exist for the term international business [19, p. 276].

The previously mentioned definitions describe some aspects of the international business' concept; that international business refers to trade and investment activities which are conducted after negotiations and that the activity is led between nations more precisely across national borders. It also reflects that firms owned by people and/or governments at large perform the given activities. These firms are operative for the benefit of some people, organizations and counties. The nature of the work of these firms includes but is not limited to the exportation and importation of products such as different types of commodities like wheat. It also comprises execution of projects such as road and airport construction projects.

International business refers to the exchange not only of physical goods but also of services, capital, technology and other resources. It encompasses the political, economic, social, technological, environmental and other perspectives in which corporations function [22, p.4]. The field is concerned with the trade and investment issues facing firms and governments in dealing with all types of cross borders transactions. This description reflects the fact that international business covers a wide spectrum of activities. Recently, the development attained in transport and information technologies made the movement of goods and services relatively cheaper, easier and faster than before. Therefore, firms sought to move their capitals, technology and human resources to different parts of the world to increase their production and profits.

The progress in production and transport made goods and services more available than before.

International business is very important as the field provides individuals with information and knowledge crucial for their purchase decisions [11, p. 51]. William Schweke, author of "Smart Money", believes that the world's states should invest primarily in human capital. Investments in education, health and training not only increase productivity, but also lessen stringency of social problems such as poverty, alcoholism, drug addiction and criminality, which are a burden on the economy [21, p.4.]. These relationships are intensified in the information era, states Chloe J. Haynes in the research "Education and Economic Development". The paper is based on the analysis of firms active in the field of information technology. The more advanced the education of the employees and managers, the higher the productivity, the complexity of the problems solved and the level of business organization [8, p. 2].

The abundance of commodities and services increased the competition between suppliers. This rivalry influences some aspects of peoples' life. Peoples tend to make rational choices based on availability of alternatives. In general, they look for good qualities and reasonable prices to match their purchases with the disposable income. The field of international business is also important for individuals considering career opportunities [10, p.56]. The widespread of firms in many countries contributed to the increase of employment opportunities. Societies also need to acquire knowledge on international business to make the best choices on issues related to consumption and production.

Firms must always acquire knowledge about new trends in the field of international business for the launch and continuation of their activities. Such knowledge

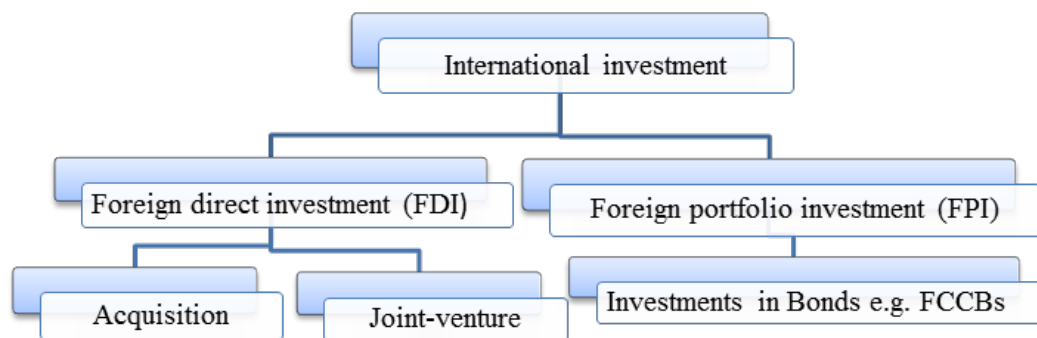
is also important for firms, so as to be aware of agreements made in the international market and their implications. As above-mentioned, advancement made in production and transportation created a rivalry between producers. They have to consider better options to maximize production and minimize costs as much as they can. The competition between suppliers is another important aspect. Suppliers must take into account new methods to offer their goods and services. Firms have to seek best possible collaborations with partners abroad. They can outsource activities to low-wage countries to reduce their labor costs. Firms must also consider other dimensions such as providing different types of sales promotions and after sale services.

Countries are conscious of the vital role that international business plays on national economic development and growth. Countries were required to conduct studies to be familiar with their potential resources and their value in the international market. They need to consider the best options to extract these properties and make best use of them. Generally, governments conduct research to identify top alternatives to stimulate the business environment through compromises and agreements. Through research, some countries like BRICS made considerable economic growth rates. Research can help in allocating main resources, identifying potential markets and assessing the political environment in a country [16, p.5]. Research led to a remarkable development in most aspects of life in recent times, international business activities developed to include new operations that will be demonstrated on the following pages.

**The international business environment.** International businesses provide international trade and investment. In-

ternational trade consists of exporting activities. Exporting is a business process whereby a product, goods or services are exported to another country for the purpose of being sold. International business is governed by quality standards and requires special storage conditions depending on the type of commodity. It depends also on the transport method because each product is exported to foreign markets in a specific way. The activity is conducted by exporters that are divided into direct and indirect exporters. The indirect exporters such as farmers, for reasons such as lack of expertise, supply their products to direct exporters, who in turn export the product to international markets. In spite of the risks, that exporting may entail, it is a significant revenue source for businesses partners. Research proved that exporting assists in increasing firms' production [6, p.855].

International investment includes foreign portfolio investment (FPI) and foreign direct investment (FDI). FPI is a type of international investment in which the investor obtains passive ownership of foreign financial instruments such as stocks, bonds or other financial assets. This ownership is considered passive because it does not entail active control or management of these securities. FPI allows investors to gain profit of firms operating abroad. FPI suits investors who are afraid of getting liquidity shock that obliges them to sell their projects too early [8, p.34]. FDI refers to international investment in which the investor obtains a durable interest in a corporate operating in another country. FDI gives investors the right to have a major degree of influence and control over the firm into which the investment is made. FDI provides investors with useful information about the quality of the investment. It measures the accurate production of firms [15, p. 23].

**Figure 1. Types of International Investment.**

**Source:** Elaborated by the author on the basis of [8] and [15].

Under the conditions of modern market economy, the economic gain is a locomotive that stimulates different companies and organizations in the process of developing their business. Any product will generate income as a result of the creation and discharge of a variety of goods, provision of services, etc. Namely this is the role of investment - in the stimulation of production to growth. The role of investments becomes obvious. Thus, as long as the volume of investments is reduced to a small amount, or rises significantly, the company can also evaluate their value in the process of production.

International business types include likewise licensing and franchising. Licensing is a business contract in which the Licensor gives the Licensee permission to use its brand name, trademark, copyright, know-how and marketing, as well as to sell its products in exchange for a license fee for a defined period. In this contract, the licensor does not take part in the operation process. The licensor has minimum involvement in the production. Franchising is a form of licensing in which the franchisor exercises more control over the franchisee. In this type of business, the franchisor grants to the franchisee the right to use the franchisor's brand name and business model. The franchisee pays to the franchisor in

return of a franchise fee and a share of the franchising profit. The franchisee must abide by franchisor instructions on how to run the business. The franchisee has to perform the job in a specific agreed upon method [9, p.182].

Contract Manufacturing is a type of international business through which a firm selects a local partner to manufacture its product under certain contract. In this type of contract, the manufacturer must meet the required quantity and quality standards. Firms may consider this option to produce components or final products at a competitive price. Even though contract manufacturing has some drawbacks, it has several cost-saving benefits. Contract marketing is another type of international business, whereby a firm assigns a marketing task to another local business corporate and concentrates more on production. It entails some conditions and implications on both parties. Firms, which have no marketing strength, resort to this option for some motives, such as to promote their products and at the same time to reduce costs. Farmers prefer contract marketing because it decreases threats related to future production.

The table below shows some of the differences between licensing and franchising deals.

**Table 1. Differences between licensing and franchising contracts.**

	Licensing	Franchising
Governed by	Contract law	Securities law
Control	Licensor has no control over licensee	Franchiser exercise control over franchisee
Territorial rights	Not offered to licensee. Licensee can sell similar products in the same area	Offered to franchisee
Trademark/logo	Trademark/logo can be licensed	Trademark/logo reserved by franchisor and used by franchisee
Examples	McDonalds	Microsoft Office

**Source:** Elaborated by the author on the basis of [15].

Management Contracts refers to an agreement between the owner of a business and a third-party management firm whereby the management firm provides managerial or know-how assistance for a specific price. Businesses with a low level of managerial expertise may consider this type of contracts. Management Contracts allows both partners to gain considerable profits. Parties can start the business with least risks and achieve it in an effective way [3, p. 192]. Joint Ventures is a contract in which two business parties approve to work together for common benefits. The two parties set up a project with specified ownership percentages to do a precise task. Joint ventures allow business to grow, to make better profits and also to gain more experience from the business partner. Both parties in the joint venture share responsibility of costs and losses. Joint venture provides the benefit of shared risk spread among the parties [20, p. 257].

Outsourcing is an agreement, whereby

one firm transfers portions of its work to another firm to accomplish it. This type of business became common in fields such as information technology and human resources. Among the aims of this strategy are to reduce costs and to decrease the workload of employees. Outsourcing can also provide firms with benefits like flexibility and specialization [14, p. 22]. Offshoring is a type of international business that involves the relocation of a firm's production plants and operations to another country. Firms can move offshore for many reasons, for instance to take advantage of encouraging investment regulations. Firms may also move their operations to a foreign country where labor wages are low, so as to reduce costs. Offshoring is destined to face high market uncertainty and to reduce costs through assigning simple tasks to a third party [2, p. 31].

The table below shows some of the characteristics of outsourcing and offshoring for clarification purposes.

**Table 2. Characteristics of outsourcing and offshoring.**

Outsourcing	Offshoring
Transfer part of the tasks to another firm	Relocate part of the operations to another country

Reduce operational cost through decreasing the volume of work	Reduce operational cost through moving facilities of production to low-cost countries
Save firms' personnel, facilities and time resources	Save firms' time, data and quality standards
Help improving efficiency and productivity	Assist in acquiring specialized skills or equipment

**Source:** Elaborated by the author on the basis of [14] and [2].

Turnkey Projects is a business contract whereby a firm gets involved in a project for a foreign client. The contractor handles all details related to the project operation. When the project is ready for production, it is transmitted to the foreign client. This type of business is common in projects such as building airports and petroleum refineries. It is beneficial for both parties. It reduces the investors need to use private resources and enables contractor to reduce expenses [12, p. 13]. Mergers and Acquisitions (M&A) is a sort of international business activities. While merger refers to a combination of two firms to turn into a new single one, an acquisition denotes the purchase of one firm by another, thus no new firm is launched. M&A aims to combine resources for providing clients with their preferred goods and services. Through adopting M&A strategy, firms can enter new markets and acquire valued resources [4, p. 3].

Strategic Alliances denotes cooperative agreements amid potential or actual competitors from different countries to share resources for achieving a common goal. Each party brings a single resource to attain a short-term goal and once the goal is attained both parties take the output they have gained and use it in their operations. A strategic alliance serves a firm to develop a more effective process among other benefits. It assists firms to gain access to new technology [23, p. 128]. Strategic Partnerships are business agreements between two firms to help both parties achieve certain

strategic objectives. It also supports firms to join resources together to produce new marketable products. It also serves in strengthening the firm's own capacities through using the business counterpart's expertise and in distributing, such as, firm's products worldwide. Strategic partnerships enable partners to match objectives with time and investment required [13, p. 24].

The table below shows some of the differences between the strategic alliances and the strategic partnerships agreements. During the last two centuries and by virtue of the industrial revolution and the fast advances in knowledge, technology, transport and communication means, international business activities and operations increased significantly.

Commercial transactions developed from a mere international trade between countries into a wider field comprising international portfolio and foreign direct investments as well as the other activities demonstrated above. Nevertheless, the tremendous expansion of international business activities is affected by factors known as business environment. Business environment has positive and negative impacts on all business activities and operations. On the following pages, we will shed light on the concept of business environment definition, importance, types and characteristics. We will also show some methods used to analyze this environment and how they affect the business.

Business Environment stands for the factors that influence the firms' activities. It de-



**Table 3. Differences between partnerships and strategic alliances.**

Strategic Partnerships	Strategic Alliances
Long-term goal	Short-term goal
Amid two firms that are not competitors	Amid potential or actual competitors
Output is new marketable products	Output used in firms' operations
Strengthening firm's own capacities	Develop a more effective process
Partners may join to form a new firm	Each firm maintains its autonomy
Example: Uber and Google	Example: Renault and Nissan

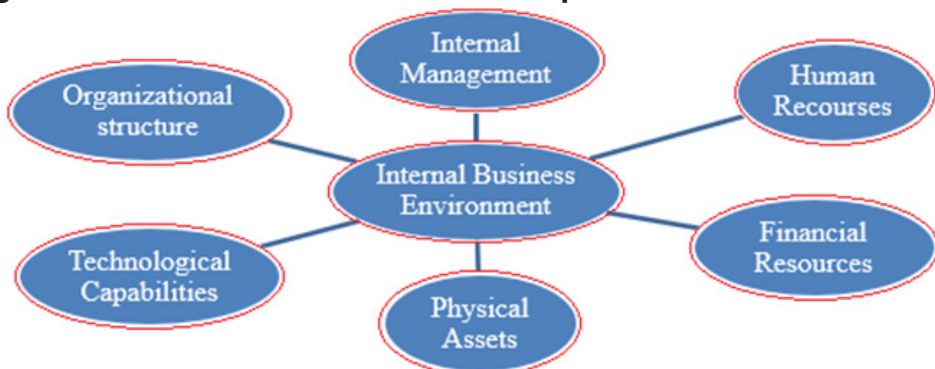
**Source:** Elaborated by the author on the basis of [23] and [13].

notes the characteristics of the atmosphere surrounding the business enterprise, which affects its operation [1, p.4]. Business environment is a very important aspect as it determines the opportunities and threats that face corporates. It has a great impact on the business; it can lead to the increase or decrease of productivity, thus business success or failure. Business environment is characterized by its changing and unpredictable nature meaning that it is very difficult to predict the exact nature and time of future changes. These features impose a significant challenge that firms have to take into account. Business environment has internal and external components, which can affect the business positively or negatively. Consequently, businesses have to conduct a careful scan to analyze the components

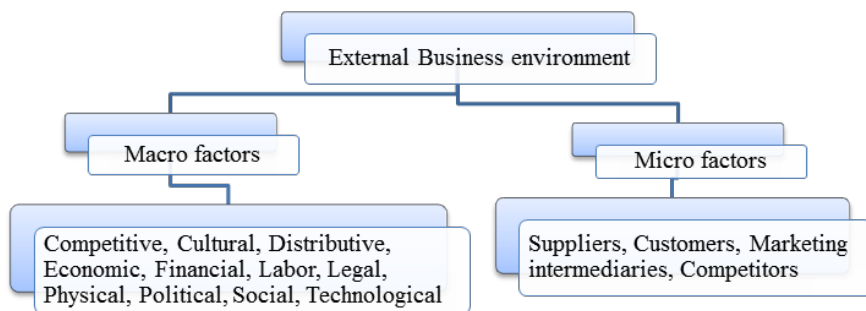
of the business environment before planning any activity.

An increasing interest is shown in the social, environmental and ethical aspects of the enterprise along with the economic ones. The criteria are the basis for building the system of indicators for assessing effectiveness of investment projects at the stage of developing a business plan, taking into account a responsible approach. The inclusion, along with determining the level of social and environmental safety and the possibility of minimizing harmful effects, assessing the positive effect on the state and sustainable development of the environment and society, will improve the methodology for assessing effectiveness of investment projects and improve the quality of business plans being developed [28].

**Figure 2. Internal Business Environment Components.**



**Source:** Elaborated by the author on the basis of [3].

**Figure 3. Components of External Business Environment.**

**Source:** Elaborated by the author on the basis of [5].

Business environment consist of internal and external factors that influence a business. Internal business environment denotes the organization's internal management and organizational structure. Components of internal business environment are physical assets, human and financial recourses in addition to technological capabilities. The internal environment of a business is a combination of factors and conditions, among other things, that have effect on the corporation's decisions. Obviously, business has control on those factors meaning that business can strengthen or undermine their effects to the extent it desires. The corporate must have objective strategies, yet it has similarly to adopt flexible policies, so as to adjust itself to changes occurring in business domestic, foreign and international environments. Corporate managers have to consider changes occurring in the external environment and formulate proper policies on time [25, p. 7].

However, success depends crucially on the external forces in relation to the organization and those acting in the global external environment. In today's complex world, for effective implementation of managerial functions, it is necessary to understand the effect of these external variables. This chapter discusses the environmental characteristics; it also describes the factors critical to the organization's leadership.

External forces of business environment refer to all factors outside the organization's control. They consist of micro and macro factors. Micro factors include, for instance, suppliers, customers, marketing intermediaries and competitors. Macro factors involve the competitive, cultural, distributive, economic, financial, labor, legal, physical, political, social and technological environments. Although these elements may be denoted as components of external environment, yet we consider them as forces of business environment. Since denoting them as external environment may signify that these factors exist only outside the firm's homeland, whilst they are the same elements of domestic, foreign and international business environment. In the following paragraphs, we will examine the concepts of domestic, foreign and international business environments, their characteristics, implications and importance.

Domestic environment consists of the competitive, cultural, distributive, economic, financial, labor, legal, physical, political, social and technological environments. These factors are characterized by their dynamic and correlated nature. Any transformation in competitive environment for instance, may lead to a variation in demand and supply. Although the forces of domestic, foreign and international business environment are the same, yet their impacts differ



**Figure 4. Components of Domestic and Foreign Business Environments.**



**Source:** Elaborated by the author.

from one country to another. These forces provide firms with meaningful opportunities but at the same time they may represent a significant threat if not properly considered. Firms aiming to start business activities outside their homes need to put more efforts to consider domestic environment forces carefully. Research reveals that domestic environment ambiguity stimulates businesses to strengthen their operations in the international marketplace [5, p. 35].

Foreign environment refers to the same forces that exist in the domestic environment, however they emerge outside the firm's homeland, namely in other countries. Foreign environment is also characterized by its dynamic and interrelated nature. A change occurring on the international political arena often impact economic relations between countries. Foreign environment factors affect considerably the corporate's benefits and operation costs. Local firms need to be aware of the foreign environ-

ment and its implications on business such as competition from foreign imports and foreign competitors starting activities in their local markets.

The interactions between the forces of the domestic and foreign environments generate an international environment. The interactions between domestic and foreign forces originating from different environments, in which business operates, produce the international environment [7, p. 51].

In managerial thought, the idea of the importance of the external environment and the need to take into account forces external to the organization appeared in the late 1950s. This has become one of the most important contributions of a systematic approach to the science of management, since it emphasized the need for the leader to consider his/her organization as an integrity consisting of interconnected parts, which in turn are entangled in relations with the outside world.

**Figure 5. Components of International Business Environments.**



**Source:** Elaborated by the author on the basis of [61].

The situational approach made it possible to expand the theory of systems by developing a concept according to which the method most suitable in a given situation is determined by specific internal and external factors that characterize the organization and influence it accordingly [28].

As demonstrated above, business environment consists of internal and external factors. Internal factors exist within the corporate and they are under the firm's management control. External factors are not under the management's control. They are divided into micro and macro factors. These factors are characterized by their dynamic, unpredictable and interrelated natures all of which impose a considerable risk on corporates, especially when an interaction occurs between these factors. To reduce the amount of risks imposed on the corporate by the internal and external factors and to avoid losses that may lead to a bankruptcy, corporates' management must conduct a careful scan using SWOT or PESTLE or any other method of analysis to examine the business environment, so as to decide on whether to conduct a business or not and if a decision was made to do business what the plans and strategies for that business will be.

SWOT (strengths, weaknesses, opportunities and threats) and PESTLE (political, economic, social, technological, legal and environmental) are methods of analysis commonly used to assess the business environment in addition to making decisions on either conducting a business or not. They are also used to prepare plans for bu-

usiness, to start the operations and control any deviation from the plans already set. SWOT analysis reflects two internal factors, strengths and weaknesses of the corporate, and two external factors, opportunities and threats, imposed on the corporate by the international environment. PESTLE analysis reveals how different factors affect international business activities and operations. Each of these methods of analysis has its own pros and cons, so firms have to be aware of all the details and consider each of them carefully before choosing a method and making decisions based on what reveals from the method used.

SWOT analysis is a technique for understanding the corporate's strengths and weaknesses, and for identifying both the opportunities and threats the firms face. It is important for businesses to analyze all situations carefully before taking any decision so as to reduce the chances of making mistakes and designing strategies that won't work. The SWOT method was originally developed for business, but it is in the same way useful in the works of education and for personal growth. It also offers a simple way of communicating about the corporate's program and it is an excellent way to organize information gathered from researches and surveys for the business success. A SWOT analysis guides business to develop a fuller awareness of the situation and helps with both strategic planning and decision-making. SWOT analysis assists in placing the business in a profitable track and in achieving enterprise resource planning implementation [26, p. 36].

**Table 4. SWOT Analysis Model.**

	Positive	Negative
Internal	Strength	Weakness
External	Opportunities	Threats

**Source:** Elaborated by the author on the basis of [17].

**Figure 6. PESTLE Analysis Model.**



**Source:** [18].

PESTLE analysis is an analytical tool for strategic business planning. It is a tool used by businesses to analyze and monitor the factors that have an impact on an organization. The model is used as a tool by firms to track the environment they are operating in or are planning to launch a new business.

Establishments need to understand the environments in which they operate to assist make correct decisions and to plan for future activities. Understanding these environments, allows the corporate to maximize the opportunities and minimize the threats it may face. PESTLE analysis proved to be a useful tool in examining and investigating critical issues related to different types of important industries. PESTLE analysis supports addressing the challenges affecting the renewable energy sustainability technologies [27, p.346]. SWOT and PESTLE tools assist in analyzing the factors affecting trade and investment as we will see below.

**Conclusion.** International business refers to the commercial transactions that are carried out across national borders to satisfy the objectives of individuals, firms and organizations. It also means the exchange of goods, services, resources, knowledge and skills, among other things, between two or more firms and/ or countries. It provides individuals with information and knowledge crucial for making decisions and for considering career opportunities and societies to make the best choices on

consumption and production issues. Countries know international business's vital role on national economic development and growth, hence enact laws to promote it. International Business is based on trade and investment activities. While trade consists of export and import activities, investment entails activities on which partners have different degree of control over the business activity.

The development of knowledge plus the invention of the computers and internet made a significant contribution to the expansion of international business activities. International business embraces many activities differing on the nature of the tasks to be done, the share of control on the business, resources and profits' sharing, and location of production. The international business activities are influenced by International Business Environment, which contains forces that are characterized by their changing and unpredictable nature. Though these forces may provide firms with opportunities, yet they can represent a threat if not properly considered. Thus, some analysis method such as SWOT and PESTLE were introduced to examine these forces which include political, economic, social, cultural, technological, legal and environmental factors. The influence of these factors differs according to their strength and the position and reaction of the firm.

The political factors influence national economic policies and plans as they affect

trade and investment practices. Economic factors are also influential forces in international business. Countries generally seek through economic factors to promote international business to develop the national economy. The social environment also influences trade and investment activities. It affects the decisions related to peoples' purchase preferences and the product's quality. Closely related to social factors are cultural factors, as they reflect the culture of the society. The cultural environment consists of many values that have to be considered when offering a product to a specific society. Certain factors such as attitudes, languages, beliefs, color codes and meanings are to be respected. In addition

to culture, technological factors played a crucial role in the development of international business. The introduction of machines facilitated production and transport significantly.

The legal environment plays a decisive role in determining the success of any businesses. Regimes seek to enact regulations to support international business through providing investors with incentives so as to strengthen the national economy. Regulations are enacted to protect the environment from the misuse of its resources. Efficient judicial system and mechanisms of law enforcement encourage businesses to start business activities without hesitation and fear.

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