Every nation’s political and legal systems are rooted in its people’s **history and culture**.

National history and culture are then reflected in values such as individual responsibility, individual vs group rights, law and order, free enterprise, and the role of family.

Ownership of land and means of production, money lending, sharing

Other factors that help form political and legal systems include population, age and race composition, and per capita income.
In this chapter, you will explore political and legal systems around the world. You will also:
• Learn how companies monitor and manage political risks.
• Understand how cultural and social responsibility issues manifest themselves in a global context.
• Explore how these factors affects international business.
Why should we try to avoid viewing a culture through the narrow confines of our home culture and being judgemental

1. It can cause us to overlook beneficial aspects of other cultures.
2. It can undermine our business projects if we are insensitive to cultural nuances.

Why should we work to develop cultural literacy?

1. Detailed knowledge about another culture can enable us to function effectively within it.
2. It can help bring us and our companies closer to customers’ needs and can increase business competitiveness.
Culture’s components include: aesthetics, values and attitudes, manners and customs, social structure, religion, personal communication, education, and physical and material environments.

As future managers, developing a global mindset is a key ingredient to success:

- **Cultural adaptability** means that a manager must be knowledgeable of an unfamiliar culture, then alter his or her behavior accordingly to lead multicultural teams.

- **Bridging the gap** means employing creativity when Western management ideas are applied in Eastern cultures, and vice versa. For example, Western managers may implement “collective leadership” practices in Asia to better suit Asian values of group consensus.

- **Building global mentality** involves developing our openness and flexibility toward all things unfamiliar, understanding global business principles, and improving our abilities to implement strategies.

- **Flexibility cannot be underestimated** because the more behavioral the issue, the greater will be local culture’s influence on that issue.

- In business, this means choosing appropriate colors for advertising, product packaging, and even work uniforms to improve the odds for success.

- Blunders can result from selecting inappropriate colors and symbols for advertising, product packaging, and architecture.
In the context of international business, values affect people’s work ethic and desire for material possessions.

- **Attitudes** are learned from role models, formed within a cultural context, and are more flexible than values.
  - For example, Latin American, Arabic and Mediterranean cultures are casual about time, whereas people in Japan and the United States arrive promptly for meetings and keep tight schedules.
  - Likewise, some cultures have a strong work ethic while others stress a balanced pace in work and leisure. In other words, a “live to work” versus a “work to live” mentality.

- **Cultural diffusion** is the process whereby cultural traits spread from one culture to another, thereby causing cultural change.
  - Differences between the home and local culture can cause a firm to adjust business policies and practices, for example to introduce situational management techniques.
  - Around the world, cultural convergence is happening in some market segments for certain products.

In-depth knowledge of manners and customs improve a manager’s abilities and help avoid mistakes abroad.

- **Manners** are generally acceptable ways of behaving, speaking, and dressing. For example, conducting business before, during, and after meals is commonly practiced in the United States, but may be unacceptable in another culture which prefers to wait until afterward.
- **Customs** are habits and behaviors in specific circumstances and situations, such as the specific rules governing eating habits during the holy month of Ramadan.
### Examples of Language Blunders

- Japanese knife manufacturer labeled its exports to the United States with “Caution: Blade extremely sharp! Keep out of children.”
- English sign in a Moscow hotel read, “You are welcome to visit the cemetery where famous Russians are buried daily, except Thursday.”
- Sign for non-Japanese-speaking guests in a Tokyo hotel read, “You are respectfully requested to take advantage of the chambermaids.”
- Sign in English at Copenhagen ticket office read, “We take your bags and send them in all directions.”
- Braniff Airlines’ English-language slogan “Fly in Leather” was translated into “Fly Naked” in Spanish.

- These are just a few of the many language blunders companies have made in their international business dealings.
- Advertising slogans and company documents should be carefully translated so messages are received precisely as intended.
Body Language is communicated through unspoken cues, including hand gestures, facial expressions, physical greetings, eye contact, and the manipulation of personal space.

People use it to communicate information and feelings and it differs significantly among cultures.
Answer:
Knowledge of a culture’s spoken and written language gives international managers insight into why people think and act the way they do.
• An excellent basic education attracts high-wage industries that invest in training and increase productivity. For example, a skilled, well-educated workforce attracts high-paying jobs; a poorly educated one attracts low-paying jobs. Universal basic Literacy is a major goal of most countries.

• *Brain drain* refers to the departure of highly educated people from one profession, geographic region, or nation to another.

• *Reverse brain drain* is when these highly educated individuals return to their homelands.
This framework compares cultures by answering the following *six questions*:

1. Do people believe that their environment controls them, that they control the environment, or that they are part of nature?
2. Do people focus on past events, on the present, or on the future implications of their actions?
3. Are people easily controlled and not to be trusted, or can they be trusted to act freely and responsibly?
4. Do people desire accomplishments in life, carefree lives, or spiritual and contemplative lives?
5. Do people believe that individuals or groups are responsible for each person’s welfare?
6. Do people prefer to conduct most activities in private or in public?
This framework compares cultures along *five dimensions*:

**Individualism versus Collectivism.** *Individualist cultures* value hard work, entrepreneurial risk-taking, and freedom to focus on personal goals. *Collectivist cultures* emphasize a strong association with family and work groups to maintain harmony and to work toward collective goals.

**Power Distance.** Large power distance means greater inequality between superiors and subordinates, more hierarchical organizations, and power derived from prestige, force, and inheritance. Small power distance implies greater equality, more equally shared prestige and rewards, and power derived from hard work and is often considered more legitimate.

**Uncertainty Avoidance.** Cultures having large uncertainty avoidance tend to value security, systems of rules/procedures, low employee turnover, and relatively slower change. Those with low uncertainty avoidance are more open to change and new ideas.

**Achievement versus Nurturing.** Cultures with high achievement versus nurturing scores emphasize assertiveness, the accumulation of wealth, and an entrepreneurial drive. Cultures rating low on achievement versus nurturing value relaxed lifestyles and are more concerned for others than they are with material gain.

**Long-term Orientation.** Cultures scoring high (strong) on long-term orientation
place value on respect for tradition, thrift, perseverance, and a sense of personal shame. Cultures scoring low (weak) on long-term orientation tend to value individual stability and reputation, fulfilling social obligations, and reciprocation of greetings and gifts.
As shown here, it can be argued that the world’s has three political ideologies as shown on the horizontal scale.

• At one extreme is totalitarianism—the belief that every aspect of people’s lives must be controlled to preserve order.

• At the other extreme is anarchism—the belief that only individuals and private groups can preserve political liberties.

• In-between lies pluralism—the belief that both private and public groups belong in politics.
In totalitarian governments, individuals govern without the support of the people, tightly control people's lives, and do not tolerate opposing viewpoints.

Totalitarian governments tend to share three features:

- Authority imposed on people
- A lack of constitutional guarantees
- Restricted political participation
The two major types of totalitarianism are:

- **Theocratic totalitarianism**—which is controlled by totalitarian religious leaders, think of Iran.

- **Secular totalitarianism**—in which leaders rely on military and bureaucratic power for control think of Singapore, Venezuela, Argentina in the past

- There are three sub-types of secular totalitarianism:
  - **Communist totalitarianism** (or simply communism) argues that social and economic equality can only be obtained by establishing an all-powerful Communist party and by granting the government ownership and control over all types of economic activity. (North Korea, Cuba)
  
  - **Tribal totalitarianism** is a system whereby one ethnic group imposes its will on other ethnic groups within a nation. (some Arab and African states)
  
  - **Right-wing totalitarianism** is a system whereby government endorses private ownership of property and a market-based economy, but grants few (if any) political freedoms. (formerly Egypt, Indonesia for decades under General Suharto)
Doing business in totalitarian countries can be a risky venture because laws can be vague or nonexistent and powerful officials can interpret laws at will.

**Little business law practice and custom is codified**
**Democracy**

- Freedom of expression
- Periodic elections
- Full civil, property rights
- Minority rights
- Nonpolitical bureaucracies

- A democracy is a political system in which government leaders are elected directly by the wide participation of the people or their representatives in Australia’s case compulsory participation. Political parties are allowed.

- In representative democracies, citizens elect individuals from their groups or political parties to represent their political views.

- Representative democracies strive to provide certain freedoms: freedom of expression; freedom of assembly, periodic and open elections; full civil and property rights; minority rights; and nonpolitical bureaucracies, the rule of law with independent law courts.

- Democracies tend to maintain stable business environments through laws protecting individual property rights.
Recap - Comparison of Regimes

• *Totalitarian governments* tend to share: imposed authority, a lack of clear laws and open law courts, restricted political participation.

• *Democracies* strive to provide: freedom of expression, periodic elections, full civil and property rights, minority rights, and nonpolitical bureaucracies.

Answer:

• *Totalitarian governments* tend to share: imposed authority, a lack of constitutional guarantees, and restricted political participation.

• *Democracies* strive to provide: freedom of expression, periodic elections, full civil and property rights, minority rights, and nonpolitical bureaucracies.
In the broadest sense, we speak of political risk as manifesting itself as either.

• *Macro risk* threatens all companies regardless of industry and affects both domestic and non-domestic businesses.

• *Micro risk* threatens companies within a particular industry or even a segment of an industry.

Five events that cause political risk are: conflict and violence; terrorism and kidnapping; property seizure; policy changes; and local content requirements. Let’s now examine each of these events.
Local conflict and violence can arise from: resentment toward the government; territorial, ethnic, religious or tribal disputes.

They hinder the procurement of materials and equipment, impair communication, manufacturing and distribution activities, and threaten the safety of personnel.
Government seizures of property can take three forms:

• **Confiscation** is the forced transfer of assets to the government without compensation.

• **Expropriation** is the transfer of assets to the government with compensation. No framework for legal appeal exists and compensation is often far below market value.

• **Nationalization** involves government takeover of an *entire* industry and is more common than either confiscation or expropriation for example banking, steel making, mass transit.
**Frequent or unheralded Policy changes** arise from newly empowered political parties, pressure from special interests, and civil or social unrest.

- One such policy tool restricts ownership to domestic companies or limits ownership by non-domestic firms to a minority stake.
- Other policies restrict certain cross-border investments.

**Local content requirements** specify an amount of a product to be supplied locally.

- These are intended to foster local business activity and create jobs by forcing companies to use local raw materials, procure parts from local suppliers, or employ local workers.
- But they may force a firm to take on poorly trained or excess workers, increase costs due to more expensive local materials, and reduce quality if local materials are inferior.
One way companies try to manage political risk is through adaptation—which incorporates risk into business strategies.

Four adaptation strategies are:

- Forming informal or formal **partnerships** to leverage expansion plans.
- **Localizing** (or modifying) operations, the product mix, or some other element to suit local tastes and culture and sensibilities.
- Offering **development assistance** and working with NGO’s to help the host country improve its distribution and communications networks and improve the quality of life for locals.
- Obtaining **insurance** to protect the company against losses and to obtain project financing.
A second way companies try to manage political risk is by gathering information to improve forecasts.

Sources of information include:

- **Current employees** who worked in the country and have valuable contacts and knowledge.
- **Agencies specializing in political-risk services**, including banks, political consultants, and risk-assessment services.
- Undertaking **RISK analysis** – Likelihood of an event occurring (High, Med., Low)
- and the impact/significance if it were to occur – High, Medium, Low
A third way companies try to manage political risk is through political influence—which involves dealing with local lawmakers and politicians directly or through lobbyists.

- U.S. companies must be careful not to violate the Foreign Corrupt Practices Act—which forbids the bribing of government officials or political candidates in other countries (unless a person’s life is in danger). A bribe constitutes “anything of value” and cannot be given to any “foreign government official” empowered to make a “discretionary decision” that may be to the payer’s benefit.
Incorporating political risk into business strategies by modifying operations, the product mix, or some other business element is called Localization.
The **common law** system originated in England ten centuries ago and is based on:

- **Tradition**, or a nation’s legal history.
- **Precedent**, or past cases that have come before the courts.
- **Usage**, or how laws are applied in specific situations.

Common law is flexible because it takes into account particular situations and circumstances and changes/adapts over time.
Civil law can be traced to Rome in the fifth century B.C. and is the most common legal tradition.

- It is based on a detailed set of written rules and statutes that constitute a legal code.
- It can be less adversarial than common law because the legal code defines all obligations, responsibilities, and privileges of the parties to a contract.
Firms operating in countries with **theocratic legal systems** must be sensitive to local values and beliefs.

They must evaluate their activities, including hiring practices and investment policies, to ensure compliance with the law, local values, and beliefs.

Islamic law is the most widely practiced theocratic legal system today.
Intellectual property is an enormously important topic for global business today.

- **Intellectual property** results from intellectual talent and abilities to produce things such as graphic designs, novels, computer software, machine-tool designs, and secret formulas.

- **A patent** is a right granted to the inventor of a product or process that excludes others from making, using, or selling the invention.

- **Trademarks** are words or symbols that distinguish a product and its manufacturer. Trademark protection lasts indefinitely, provided the word or symbol continues to be distinctive.

- **Copyrights** give creators of original works the freedom to publish or dispose of them as they choose.
  
  - A copyright holder can reproduce the work, derive new works from it, sell or distribute it, perform it, and display it publicly.

- The effectiveness of intellectual property rights laws varies from nation to nation – e.g., Each year, business software piracy costs software makers around $51 billion globally.
• **Standardization** refers to uniformity in interpreting and applying laws across countries, not to the standardizing of entire legal systems.

• Developed nations have the toughest *product liability laws*, whereas emerging markets tend to have weaker laws.

• *Consumption taxes* help pay for the consequences of using particular products and can be used to make imports more expensive.

• A *value-added tax*, which is common across Europe, is levied on each party that adds value to a product throughout its production and distribution.

• *Antitrust (antimonopoly) laws* help ensure availability of a wide variety of products at fair prices.
Answer:

*Intellectual property rights* are legal rights to resources that result from intellectual abilities and any income these resources generate. Like other types of property, intellectual property can be traded, sold, and licensed in return for fees and/or royalty payments. Intellectual property laws are designed to compensate people whose property rights are violated.
Here are several issues that global managers must deal with on a daily basis.

• Socially responsible businesses fight *bribery and corruption* because it misallocates resources, hurts economic development, and damages the integrity of free markets.

• Responsible businesses monitor their own behavior and that of their employees and business partners to uphold *good labor conditions and human rights*.

• They may also promote *fair trade practices*—which involve companies working with suppliers in more equitable, meaningful, and sustainable ways.

• Finally, companies today pursue “green” initiatives to reduce their toll on the *environment* and to reduce operating costs and boost profit margins.
Favorable international political relations foster stable business environments, improved business communications, efficient distribution systems, expanded business opportunities, and lower risk levels.

These benefits, however, rest on a strong legal system that can resolve disputes promptly and equitably.

The United Nations and its many agencies are part of that legal system.

The UN’s Conference on Trade and Development has a very broad mandate in facilitating worldwide trade and economic development.
The correct answer is b. Cultural relativist
Next Week

Session 3
Economics and Emerging Markets