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Global Business Plan Project

2. Analyzing International Competitors

Learning Goals

1. To identify potential competitors related to a proposed global business enterprise
2. To determine the influences of competitors in global business

Purpose

As proposed enterprises or established companies enter foreign markets, lessons can be learned from the successes and challenges of other organizations. In addition, awareness of competitors makes it possible to better plan and implement your global business activities. In this module, your goal is to identify and analyze the international business operations of organizations related to the global opportunity you are exploring.

Resources

Web links:

- Global Edge CyberSite: http://globaledge.msu.edu/
- Business Around the World Atlas: https://highered.mcgraw-hill.com/sites/0078137217/student_view0/business_around_the_world.html

Conduct Research

Based on the global business opportunity identified in Module 1 (or a different international business enterprise or idea), research information related to the following:

1. POTENTIAL COMPETITORS
   Identify companies that:
   - **A.** have business activities similar (or related) to the business opportunity you are proposing; and
   - **B.** operate in the country (or countries) that you are considering for your international business enterprise.
2. COMPETITIVE ADVANTAGES
   Discuss the competitive advantages of these companies. (For example, some companies may gain a competitive advantage as a result of access to raw materials, others may gain an advantage through the use of technology for production and distribution or as a result of a well-known brand name.)
3. INTERNATIONAL STRATEGIES
   Compare the international business strategies of these companies. Do these companies make use of standardized products and operating policies? Or, do they use a strategy that is adapted

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to various foreign markets? (Film is sold in standardized formats around the world while laundry detergents are adapted to clothes washing habits and water hardness.)

Supplementary Activity

Interview people who work in similar companies, related industries, or potential suppliers for your business idea. Obtain information about the product or service that might enhance your knowledge of this type of business.

E-Commerce Application

As online operations increase, companies seek new expanded markets and additional business activities. Describe situations in which the competitive environment has changed as a result of e-commerce activities.

Prepare Summary

In a separate Word document, prepare a summary report consisting of the following components:

1. A discussion of potential competitors and their global business activities.
2. A synopsis of global business strategies that could create competitive advantages.

View Sample Report

The following project segments are EXAMPLES and SAMPLE MATERIALS. Please note:

1. These samples were selected from several student team projects at one school and are not intended to represent a particular level of quality, and DO NOT represent a complete project.
2. The accuracy of content, data, and clarity of writing are NOT guaranteed; and
3. These samples may NOT BE DUPLICATED.

The Happy Harbor Company has competition in the form of other harbors, including the ports in Callao, Illo, Paita, Salaveryy, Iquitos, and Yurimaguas. However, our harbor differs from our competitors because we not only offer competitive service at a lower price, but we offer an entertainment sector as well, which will improve the surrounding economy.

The fast-food market is very young in Brazil. The Brazilian people have the luxury of eating at McDonalds. We believe that the market will be very competitive between McDonalds and us. This market, however, will not be half as competitive as it would be in the United States. We believe that we can gain a solid portion of McDonalds' market share by the use of product differentiation.

Coche Libro will have a competitive advantage in Bolivia. One reason is that this service will be unique for the country and surrounding countries. Its biggest competitor will be the public library system. However, we are confident that people will be attracted to the services we have to offer. Due to the advancement of e-commerce, we will be assured that many will be able to access our company via the Internet. Also, due to technological developments of highways, more areas of Bolivia will be accessible.

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We will also have an advantage because we will be using the most up-to-date resources thanks to our alliance with Ford and Apple.

In response to demonstrated needs of the Bolivian market, new services are being developed to include minor checkups, blood pressure testing, mammograms, and infant and child immunizations. These new services would be especially useful to rural Bolivians who can now easily obtain them during one of the many convenient Healing Wheels routine stops. These needs are not only local to Bolivia, and as previously stated, perhaps Healing Wheels can answer some of the needs of other Latin American countries in equal need.

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National Differences in Political, Economic, and Legal Systems

2

Learning objectives

- Understand how the political systems of countries differ.
- Understand how the economic systems of countries differ.
- Understand how the legal systems of countries differ.
- Explain the implications for management practice of national differences in political economy.

This chapter discusses differences in national political, economic, and legal systems, highlighting the ways in which managers in global settings need to be sensitive to these differences.

Political differences are described along two dimensions: collectivist vs. individualist and democratic vs. totalitarian. Economic systems are explored in terms of market characteristics: market economies, command economies, and mixed economies. Legal systems are discussed in terms of the protections they offer for business: intellectual property, product safety, liability, and contracts.

The opening case describes the effect of widespread political and economic corruption in Zimbabwe. After gaining its independence from Britain in 1980, Zimbabwe has been under the rule of Robert Mugabe. Once considered the jewel of Africa, the country is now one of the most corrupt in the world, has an unemployment rate of 80 percent, and skyrocketing inflation. The closing case explores the political and economic policy in Vietnam since the reunification of the country and how this policy has affected economic growth in the country.

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OUTLINE OF CHAPTER 2: NATIONAL DIFFERENCES IN POLITICAL, ECONOMIC, AND LEGAL SYSTEMS

Opening Case: The Decline of Zimbabwe

Introduction

Political Systems
- Collectivism and Individualism
  - Country Focus: Putin's Russia
- Democracy and Totalitarianism

Economic Systems
- Market Economy
- Command Economy
- Mixed Economy

Legal Systems
- Different Legal Systems
- Differences in Contract Law
- Property Rights and Corruption
  - Country Focus: Corruption in Brazil
  - Management Focus: Did Walmart Violate the Foreign Corrupt Practices Act?
- The Protection of Intellectual Property
  - Management Focus: Starbucks Wins Key Trademark Case in China
- Product Safety and Product Liability

Focus on Managerial Implications

Chapter Summary

Critical Thinking and Discussion Questions

Closing Case: Economic Transformation in Vietnam

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CLASSROOM DISCUSSION POINT

Ask students to think about the two dimensions used to describe political systems: Collectivist-Individualist and Democratic-Totalitarian. Begin by drawing the following scale on the board:

_____

Individualist Collectivist

_____

Democratic Totalitarian

Then ask students to provide some examples of what might describe a collectivist system — where does Canada's national healthcare system put it, which countries might be considered democratic, where should China be placed, and so on.

Finally, move to a discussion of how differences in political economy present both opportunities and threats for business. Managers must analyze each national market that they participate in and identify specific ways in which the political economy of that nation could support or threaten the company's business model.

If there are foreign students in the class or students with foreign experience, you might draw on their observations of differences these dimensions impose on the practice of business.

OPENING CASE: The Decline of Zimbabwe

Summary

Once described as the jewel of Africa, Zimbabwe, blessed with rich natural resources and a strong agricultural sector, boasted a thriving economy in 1980. Today, though, Zimbabwe is a country in desperate straits. With inflation spiraling out of control, unemployment at some 80 percent, and rampant corruption, Zimbabwe appears to have little promise. The former British colonial state has been under the rule of Robert Mugabe for nearly four decades. Over the years, Mugabe has consolidated power in the presidency and ensured his position through rigged elections. Under Mugabe, Zimbabwe has seen its once robust economy rapidly deteriorate, culminating with the lowest growth rate ever recorded between 1999 and 2009, when the country's economy declined more than 6 percent annually. Today, prospects for economic recovery seem unlikely. The country's platinum and diamond deposits are still lucrative, but corruption has meant that the country sees little revenue from those industries. Poaching and deforestation have decimated the country's tourism industry, and private enterprise is limited thanks to a host of taxes and tariffs. The World Bank believes there is still potential for economic growth in Zimbabwe; however, it maintains that achieving an economic turnaround would require a change in leadership. For now, that seems unlikely as

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Mugabe appears to be firmly in control. Discussion of the case can begin with the following questions:

QUESTION 1: Discuss the economic crisis in Zimbabwe. What factors have contributed to the country's economic collapse?

ANSWER 1: Once a country with a thriving economy built on its strong agricultural sector and lucrative platinum and diamond deposits, today Zimbabwe is a shadow of its former self. Under the nearly four-decade rule of Robert Mugabe, Zimbabwe's economy has collapsed, positing negative annual economic growth from 1999 to 2009. Much of the economy's collapse can be attributed directly to Mugabe's economic mismanagement, which apparently includes policies designed to discourage private enterprise, few if any property rights protections, and rampant corruption. Now, with spiraling inflation and an unemployment rate of some 80 percent, Zimbabwe, described in 1980 as the jewel of Africa, is a net importer of food, has a life expectancy of just 54 years, and has a president who shows no signs of stepping down.

QUESTION 2: How would you characterize the political system in Zimbabwe?

ANSWER 2: When Zimbabwe gained its independence in 1980, several democratic institutions were in place. However, these were quickly dismantled as the country's elected prime minister, Robert Mugabe, initially a figurehead, rapidly gained power. Nearly four decades later, Mugabe remains in power, albeit now as president, and Zimbabwe has effectively become a one-party state in which political freedom is limited and corruption is rampant.

QUESTION 3: What needs to happen for Zimbabwe to get back on track economically? How can investor confidence in Zimbabwe be restored?

ANSWER 3: In a country considered by Transparency International to be one of the most corrupt in the world, where some 80 percent of the population is currently unemployed, and inflation is running wild, the prospect of implementing economic recovery plans is daunting. Students will probably suggest that policies designed to encourage private enterprise will be important to any meaningful economic growth. However, students will probably also recognize that attracting private enterprise will not be easy unless the country's political landscape changes. A key element in doing this will be holding corrupt politicians and executives accountable for their crimes. Doing so could help to restore investor confidence and contribute to an economic turnaround. This prospect, however, will require a long reform process that entails not only establishing institutions capable of upholding the law but also establishing the political will among voters to elect representatives who place free markets and the rule of law before their own self-interest.

Another Perspective: To learn more about Zimbabwe, go to {http://www.bbc.com/news/world-africa-14113249}.

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LECTURE OUTLINE

This lecture outline follows the Power Point Presentation (PPT) provided along with this instructor's manual. The PPT slides include additional notes that can be viewed by clicking on "view," then on "notes." The following provides a brief overview of each Power Point slide along with teaching tips and additional perspectives.

Slide 2-3 Political Economy
The political, economic, and legal systems of a nation have a major influence on the way managers make decisions.

Slides 2-4 – 2-9 Political Systems
Political systems have two dimensions: the degree of collectivism versus individualism, and the degree of democracy versus totalitarianism. These dimensions are interrelated; systems that emphasize collectivism tend toward totalitarianism, while systems that place a high value on individualism tend to be democratic.

However, a large gray area exists in the middle. It is possible to have democratic societies that emphasize a mix of collectivism and individualism. Similarly, it is possible to have totalitarian societies that are not collectivist.

Collectivism and Individualism
Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. Advocacy of collectivism can be traced to the ancient Greek philosopher Plato. In modern times, the collectivist system is largely the domain of nations that have embraced socialism.

Socialists believe in public ownership of the means of production for the common good. Those who embrace socialism can be split into two camps:

1. **Communists**, who believe that socialism can only be achieved through violent revolution and totalitarian dictatorship, and
2. **Social democrats**, who are committed to achieving socialism through democratic means.

Individualism is the direct opposite of collectivism. Its central tenet is that individual economic and political freedoms are the ground rules on which society is based.

Democracy and Totalitarianism
Democracy, as originally practiced by several city-states in ancient Greece, is based on a belief that citizens should be directly involved in decision making. Most modern democratic states practice **representative democracy** in which citizens periodically elect individuals to represent them.

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Totalitarianism is a form of government in which one person or political party exercises absolute control over all spheres of human life and opposing political parties are prohibited (**communist, theocratic, tribal, right wing**). Totalitarianism denies its citizens all of the constitutional guarantees asserted by representative democracies.

Many nations fall somewhere between a pure democracy and a pure totalitarian state. These countries are known as imperfect or pseudo-democracies.

Slides 2-10 – 2-15 Economic Systems
There is a connection between political ideology and economic systems. In countries where individual goals are given primacy over collective goals, we are more likely to find free market economic systems. In contrast, in countries where collective goals are given preeminence, the state may have taken control over many enterprises, while markets in such countries are likely to be restricted rather than free.

There are three broad types of economic systems: the market economy, the command economy, and the mixed economy.

A **market economy** is an economy in which all productive activities are privately owned, as opposed to being owned by the state. Production is determined by the interaction of supply and demand, and signaled to producers through the price system.

A **command economy** is an economy in which the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all planned by the government.

A **mixed economy** is an economy in which certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning. India has a mixed economy.

Mixed economies were once very common throughout much of the world, although they are becoming much less so. There was a time not too long ago when Great Britain, France, and Sweden were mixed economies, but extensive privatization has reduced state ownership of businesses in all three.

Slides 2-19 – 2-22 Legal Systems
Legal systems are the systems of rules or laws that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained.

There are three main types of legal systems—or legal traditions—in use around the world: common law, civil law, and theocratic law.

1. **Common law** is based on tradition, precedent, and custom.
2. **Civil law** is based on a very detailed set of laws organized into codes.
3. **Theocratic law** is based on religious teachings.

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Contract Law

A **contract** is a document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved. **Contract law** is the body of law that governs contract enforcement.

Since common law tends to be relatively ill specified, contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In civil law systems, contracts tend to be much shorter and less specific because many of the issues typically covered in a common law contract are already covered in a civil code.

When contract disputes arise in international trade, there is always the question of which country's laws apply. Many countries including the United States have ratified the **United Nations Convention on Contracts for the International Sale of Goods** (**CIGS**). CIGS establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations.

Another Perspective: The United Nations Commission on International Trade Law provides a detailed overview of the United Nations Convention on Contracts for the International Sale of Goods at {http://www.uncitral.org/uncitral/en/uncitral_texts/sale_goods/1980CISG.html}.

Property rights refer to a resource over which an individual or business holds a legal title, that is, a resource that they own.

These rights can be violated through private or public action. **Private action** refers to theft, piracy, blackmail, and the like by private individuals or groups. **Public action** violations occur when public officials, such as politicians and government bureaucrats, extort income or resources from property holders.

Another Perspective: The U.S government's web page on intellectual property rights, {http://www.uspto.gov}, contains a wealth of information on intellectual property rights including information on international intellectual property rights treaties and protecting trademarks.

In the United States, the **Foreign Corrupt Practices Act** makes bribing a foreign government official in order to obtain or maintain business over which that foreign official has authority a violation of United States law, and requires all publicly traded companies to keep audit records.

Intellectual Property Rights

Intellectual property is property that is the product of intellectual activity, such as computer software, a screenplay, a music score, or the chemical formula for a new drug.
Ownership rights over intellectual property are established through **patents**, **copyrights**, and **trademarks**.

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Enforcement of intellectual property regulations is lax in many countries, even in many of those that have committed to the **World Intellectual Property Organization** and the **Paris Convention for the Protection of Industrial Property.**

Another Perspective: The World Intellectual Property Organization's website contains extensive information on various treaties and agreements between countries regarding the protection of intellectual property. The site is: {http://www.wipo.int/portal/index.html.en}.

Another Perspective: The World Intellectual Property Organization offers suggestion on how exporters can avoid common pitfalls when exporting intellectual property. More details can be found at: {http://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_exports.pdf}.

Product safety laws set safety standards for products and manufacturing processes. **Product liability** involves holding a firm and its officers responsible for product safety standards.

Slide 2-23 Focus on Managerial Implications
All else being equal, countries with democratic political institutions, market-based economies, and legal systems that protect property rights and limit corruption will be more attractive than nations that lack these characteristics.

CRITICAL THINKING AND DISCUSSION QUESTIONS

QUESTION 1: Free market economies stimulate greater economic growth, whereas state-directed economies stifle growth. Discuss.

ANSWER 1: In a market economy, private individuals and corporations are allowed to own property and other assets. This right of ownership provides a powerful incentive for people to work hard, introduce new products, develop better advertising campaigns, invent new products, etc., all in the hopes of accumulating additional personal capital and wealth. In turn, the constant search on the part of individuals and corporation to accumulate wealth enriches the entire economy and creates economic growth. In contrast, in a command economy, private individuals and corporations are not allowed to own substantial quantities of property and other assets. The objective of a command economy is for everyone to work for "the good of the society." Although this sounds like a noble ideal, a system that asks individuals to work for the good of society rather than allowing individuals to build personal wealth does not provide a great incentive for people to invent new products, develop better advertising campaigns, find ways to be more efficient, etc. As a result, command economies typically generate less innovation and are less efficient than market economies.

QUESTION 2: A democratic political system is an essential condition for sustained economic progress. Discuss.

ANSWER 2: Although you can always find examples of totalitarian regimes that have achieved rapid economic growth, it seems fair to say that sustained, decades-long periods of

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economic growth are quite rare under totalitarianism. There is a widespread belief in the West that democratic principles are more conducive to long-term economic growth than are totalitarian ones. One of the contributing factors is that democratic systems allow for the stable transfer of power through elections, and thus provide political stability, which is an essential prerequisite for rapid economic growth.

QUESTION 3: What is the relationship between corruption in a country (i.e., bribe-taking by government officials) and economic growth? Is corruption always bad?

ANSWER 3: In the United States, we show public contempt for the practice of bribery although evidence suggests that bribery is not uncommon in the United States. When government officials engage in corruption, they subordinate the interest of their country to their personal gain. They also reduce the level of transparency in business interactions. Many nations with rampant bribery appear to be among the most economically underdeveloped, yet the inflexible generalization that corruption is always bad oversimplifies the role of culture and its influence on meaning-giving. There are many cultures that accept the role of bribes far more openly than we do in the United States. Managers are aware that some countries—France, Germany, and Japan, for example—recognize that bribes play an important role in some parts of the world and allow their corporations to expense bribes (deduct bribes as a legal corporate expense) is important.

QUESTION 4: You are the CEO of a company that has to choose between making a $100 million investment in Russia or Poland. Both investments promise the same long-run return, so your choice is driven by risk considerations. Assess the various risks of doing business in each of these nations. Which investment would you favor and why?

ANSWER 4: When assessing the risks of investment, one should consider the political, economic, and legal risks of doing business in both Russia and Poland. The political risk in Russia is still high but it is undergoing continual governmental changes under Putin's leadership, and courting foreign investment. Relatively, Poland is more stable, but it may have less potential. On the economic front, both countries have inflation and economic turmoil as unproductive factories are still struggling in Russia, and migrant workers returning from Western Europe are swelling Poland's ranks of the unemployed. From the legal perspective, Poland is making steady progress, while the situation in Russia is unclear. Thus at this time, the risk in Russia would clearly be higher. (For discussion or to modify this question, you might want to substitute other countries into this question depending on current events and the countries with which your students will be most familiar.)

QUESTION 5: Read the Management Focus feature titled Did Walmart Violate the Foreign Corrupt Practices Act? What is your opinion? If you think it did, what do you think the consequences will be for Walmart?

ANSWER 5: Responses to this question will vary by student, but many will probably agree that Walmart did indeed violate the Foreign Corrupt Practices Act when its executives bribed local officials to redraw zoning maps so that the company could gain approval to build a new

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store in Mexico. Many students will suggest that the attempts by Walmart's corporate headquarters to hide the situation indicates that Walmart was also concerned that its executives in Mexico had broken the law. While some students may contend that at times facilitating payments may be necessary to speed up zoning approvals, they will probably suggest that this transaction appears to be a very different situation.

Another Perspective: Further information on investigations into Walmart's actions in Mexico are available at {https://www.bloomberg.com/news/articles/2017-05-09/wal-mart-said-close-to-resolving-bribery-probe-for-300-million}.

CLOSING CASE: Economic Transformation in Vietnam

Summary

The closing case describes Vietnam's economic transformation since the end of the Vietnam War when the north and south were reunited under Communist rule. After a decade of watching the country slide into economic crisis, in 1986 the Communist Party made the decision to introduce a series of reforms designed to move the economy away from the then centrally planned socialist economy toward a market economy. Reforms were introduced to privatize agricultural land and dismantle farm collectives. Then, policies that restricted free enterprise were relaxed and price controls were dropped. In addition, Vietnam reached out to other countries for investment and entered into trade agreements with neighboring countries and with the United States. The country even joined the World Trade Organization in 2007.

Vietnam's efforts at economic reform proved to be hugely successful. In 1986, the country was one of the poorest in the world with a per capita income of just $100, inflation was at 700 percent, and economic and political life was tightly controlled by the government. By 2016, GDP per capita on a purchasing parity basis was $6,400, economic growth rates were 6-7 percent annually, and the country was a major exporter of textiles and agricultural goods. Despite these gains though, the country's significant problems remain. Corruption is widespread, the country is dependent on the export of a few commodities, and high levels of debt plague remaining state-owned enterprises. In addition, the country's political system continues to suppress independent political parties, human rights organizations, and labor unions. A discussion of the case can begin with the following questions:

QUESTION 1: Why did Vietnam experience a low economic growth rate in the decade after the end of the Vietnam War in 1976?

ANSWER 1: At the end of the Vietnam War that served to reunite the north and south, Communist rule was imposed across Vietnam. With that rule came tight control over economic and political life, a trade embargo imposed by the United States, and the general inefficiencies associated with a command economy. Together, these factors contributed to the country's economic downslide that culminated in 1986 with Vietnam being one of the poorest

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countries in the world with per capita income of just $100 per person and inflation of 700 percent.

QUESTION 2: Vietnam now has an economy that is growing strongly with low unemployment and rising living standards. What changes in economic policy have been responsible for this economic transformation?

ANSWER 2: After sinking to its economic low in 1986, Vietnam made the somewhat surprising decision to abandon many tenants of a centrally planned socialist economy and introduce a series of reforms designed to move the country toward a market economy. The reforms included policies to privatize agricultural land, dismantle farm collectives, and facilitate the growth of private enterprise. The reforms proved to be hugely successful. For the first two decades of its reform program, Vietnam achieved economic growth rates of about 7 percent annually and today, the country is a major exporter of textiles, agricultural products, and electronics. Per capita GDP is now $6,400 on a purchasing parity basis, and the country is becoming a legitimate market for consumer goods.

QUESTION 3: The level of public corruption in Vietnam is high. Why is this the case? How do you think this affects Vietnam's economic performance? What should the government do about this?

ANSWER 3: While Vietnam has moved toward a more market-based economy, its political system is still firmly under the leadership of the Communist Party. Labor unions, human rights organizations, and independent political parties are all banned. Courts have no independence and instead are used by the Communist Party to punish critics. Students will probably recognize that this then opens the door for corruption with public officials selling their influence and favoring family members. As one of the more corrupt countries in the world, Vietnam is then less attractive to foreign investors—investors that would bring capital, jobs, and training to the country and contribute to its economic growth. Students will probably agree that until the Communist Party loosens its grip on the country and introduces checks and balances designed to limit opportunities for corruption and punish violators, little will change, and the country's economic growth will be hampered.

QUESTION 4: How do you think a shift toward more democratic institutions will affect economic progress in Vietnam?

ANSWER 4: Most students will probably agree that if Vietnam can introduce policies designed to complement the move toward a market economy, economic progress will likely improve. However, students will probably caution that such policies must be properly implemented and properly enforced. Without good initiatives designed to attract new business, little is likely to change. Students may point out for example, that the Communist Party's recently introduced anticorruption initiatives have had little impact on economic growth because they are largely symbolic rather than legitimate polices.

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Another Perspective: For more information on Vietnam and its economic potential go to {https://www.forbes.com/sites/ralphjennings/2017/01/05/beer-to-xx-5-reasons-vietnams-economy-will-grow-quickly-this-year/#21c7218d1e85}. To explore the risks of doing business in Vietnam, go to {https://www.gov.uk/government/publications/overseas-business-risk-vietnam/overseas-business-risk-vietnam}.

Teaching Tip: To learn more about Vietnam, consider *Would You Ever Eat a Rat? Vietnamese Food from the Bizarre to the Upscale* in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

MHE INTERNATIONAL BUSINESS VIDEO LIBRARY

Please click here to visit our International Business Video Library which provides an ongoing stream of updated video suggestions correlated by key concept and major topic. Every new clip posted is supported by teaching notes and discussion questions. Please feel free to leave comments in the library that you feel might be helpful to your colleagues.

INCORPORATING globalEDGE™ EXERCISES

Use the globalEDGE™ site {http://globalEDGE.msu.edu/} to complete the following exercises:

Exercise 1

The definition of words and political ideas can have different meanings in different contexts worldwide. In fact, the *Freedom in the World* survey published by Freedom House evaluates the state of political rights and civil liberties around the world. Provide a description of this survey and a ranking (in terms of "freedom") of the world's leaders and laggards. What factors are taken into consideration in this survey?

Exercise 2

As the chapter discusses, differences in political, economic, and legal systems have considerable impact on the benefits, costs, and risks of doing business in countries around the world. It also has a considerable impact on how easy it is to do business in these countries. The World Bank Doing Business Indicators measure the extent of business regulations in countries around the world. Compare the Brazil, Ghana, India, New Zealand, the United States, and Turkey in terms of how easily contracts are enforced, how property can be registered, and how investors can be protected. Identify in which area you see the greatest variation from one country to the next.

Answers to Exercises

Exercise 1 Answer

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Search phrase: *Freedom in the World* or *Freedom House*
Resource Name: Freedom House Surveys
Website: http://www.freedomhouse.org/reports
globalEDGE™ Category: Publications

Additional Info:
Published annually since 1972, the survey ratings and narrative reports on 195 countries provide insight into an assessment of global political rights and civil liberties in each country. Political rights ratings are based on an evaluation of three subcategories: electoral process, political pluralism and participation, and functioning of government. Civil liberties ratings are based on an evaluation of four subcategories: freedom of expression and belief, associational and organizational rights, rule of law, and personal autonomy and individual rights.

Exercise 2 Answer

Search phrase: *World Bank Doing Business Indicators*
Resource Name: World Bank: Doing Business Indicators
Website: http://www.doingbusiness.org/
globalEDGE™ Category: Statistical Data Sources

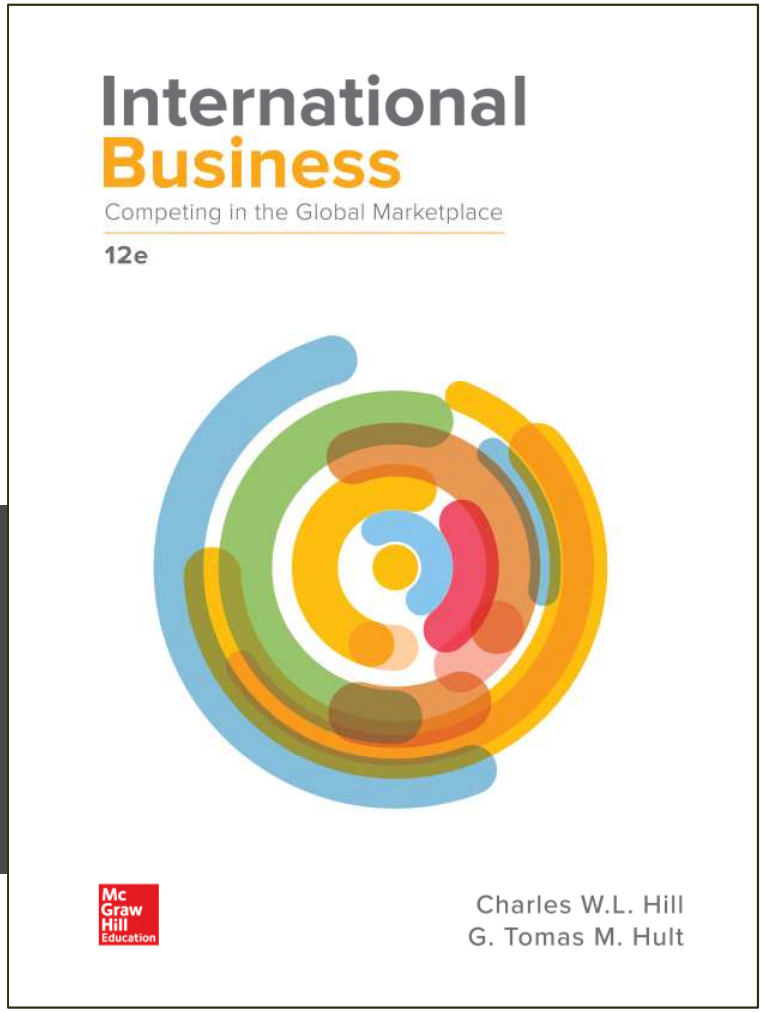
Additional Info:
The World Bank's Doing Business Project provides objective measures of business regulations and their enforcement across 189 economies and selected cities at the subnational and regional level. To construct the indicators, two types of data are utilized: First, the relevant laws and regulations in each country are reviewed in detail. Second, official fee schedules and expert respondents' estimated the amount of time each procedure takes and that is taken into account.

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Chapter 2

National Differences in Political, Economic, and Legal Systems



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Learning Objectives

LO 2-1 Understand how the political systems of countries differ.

LO 2-2 Understand how the economic systems of countries differ.

LO 2-3 Understand how the legal systems of countries differ.

LO 2-4 Explain the implications for management practice of national differences in political economy.

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Introduction

Political Economy

- Political, economic, and legal systems of a country are interdependent
- They influence each other



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Political Systems 1 of 6

Learning Objective 2-1 Understand how the political systems of countries differ.

Political systems:

1. Collectivism vs. individualism
2. Democratic vs. totalitarian

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Political Systems 2 of 6

Collectivism and Individualism

- **Collectivism**
  - The needs of society as a whole are generally viewed as being more important than individual freedoms
- **Socialism**
  - Karl Marx: The few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted
  - Communists vs. social democrats
    - **Privatization**

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Political Systems 3 of 6

Collectivism and Individualism continued

- **Individualism**
  - An individual should have freedom in his or her economic and political pursuits
  - The interests of the individual should take precedence over the interests of the state
  - Two tenets
    - Guarantee of individual freedom and self-expression
    - Welfare of society best served by letting people pursue their own economic self-interest

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Political Systems 4 of 6

Democracy and **Totalitarianism**

- At different ends of a political dimension
- Democracy and individualism go hand in hand, as do the communist version of collectivism and totalitarianism, with exceptions

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Political Systems 5 of 6

Democracy and **Totalitarianism** continued

- Democracy
  - **Representative democracy**
- Totalitarianism
  - **Communist totalitarianism**
  - **Theocratic totalitarianism**
  - **Tribal totalitarianism**
  - **Right-wing totalitarianism**

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Political Systems 6 of 6

Democracy and **Totalitarianism** continued

- Pseudo-democracies
  - Lie between pure democracies and complete totalitarianism systems
  - Authoritarian elements have captured some or much of the machinery of state and use this in an attempt to deny basic political and civil liberties

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Economic Systems 1 of 3

Learning Objective 2-2 Understand how the economic systems of countries differ.

Market Economy

- All productive activities are privately owned
- Production is determined by supply and demand
- Government encourages vigorous free and fair competition

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Economic Systems 2 of 3

Command Economy

- Government plans the good and services, quantity and price, then allocates them for “the good of society”
- All businesses are state owned
- Historically found in communist economies
- No incentive for individuals to look for better ways to serve needs

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Economic Systems 3 of 3

Mixed Economy

- Some sectors are privately owned, some are government owned
- Once common in developed world, less so now
- Government may aid troubled firms
  - U.S. helped Citigroup, General Motors

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Legal Systems 1 of 9

Learning Objective 2-3 Understand how the legal systems of countries differ.

Legal Systems

- Rules or laws that regulate behavior
- Process through which laws are enforced
- Redress for grievances
- Influenced by the prevailing political system

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Legal Systems 2 of 9

Legal Systems continued

- Different Legal Systems
  - **Common Law**
    - Tradition, precedent, custom
    - More flexible than other systems
  - **Civil Law**
    - Laws organized into codes
    - Less adversarial
  - **Theocratic Law**
    - Based on religious teachings
    - Most common is Islamic law

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Legal Systems 3 of 9

Differences in **Contract Law**

- Governs the enforcement of **contracts**
- Common law
  - Contracts are very detailed with all contingencies spelled out
  - More expensive and can be adversarial.
- Civil law
  - Contracts tend to be much shorter and less specific

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Legal Systems 4 of 9

Differences in Contract Law continued

- **United Nations Convention on Contracts for the International Sale of Goods (CISG)**
  - Establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations
  - Applies automatically to all contracts for the sale of goods between different firms based in countries that have ratified the convention, unless the parties opt out

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Legal Systems 5 of 9

Property Rights and Corruption

- Property is a resource that an individual or business owns
  - Land, buildings, equipment, capital, mineral rights, businesses, intellectual property
  - Most countries protect **property rights**

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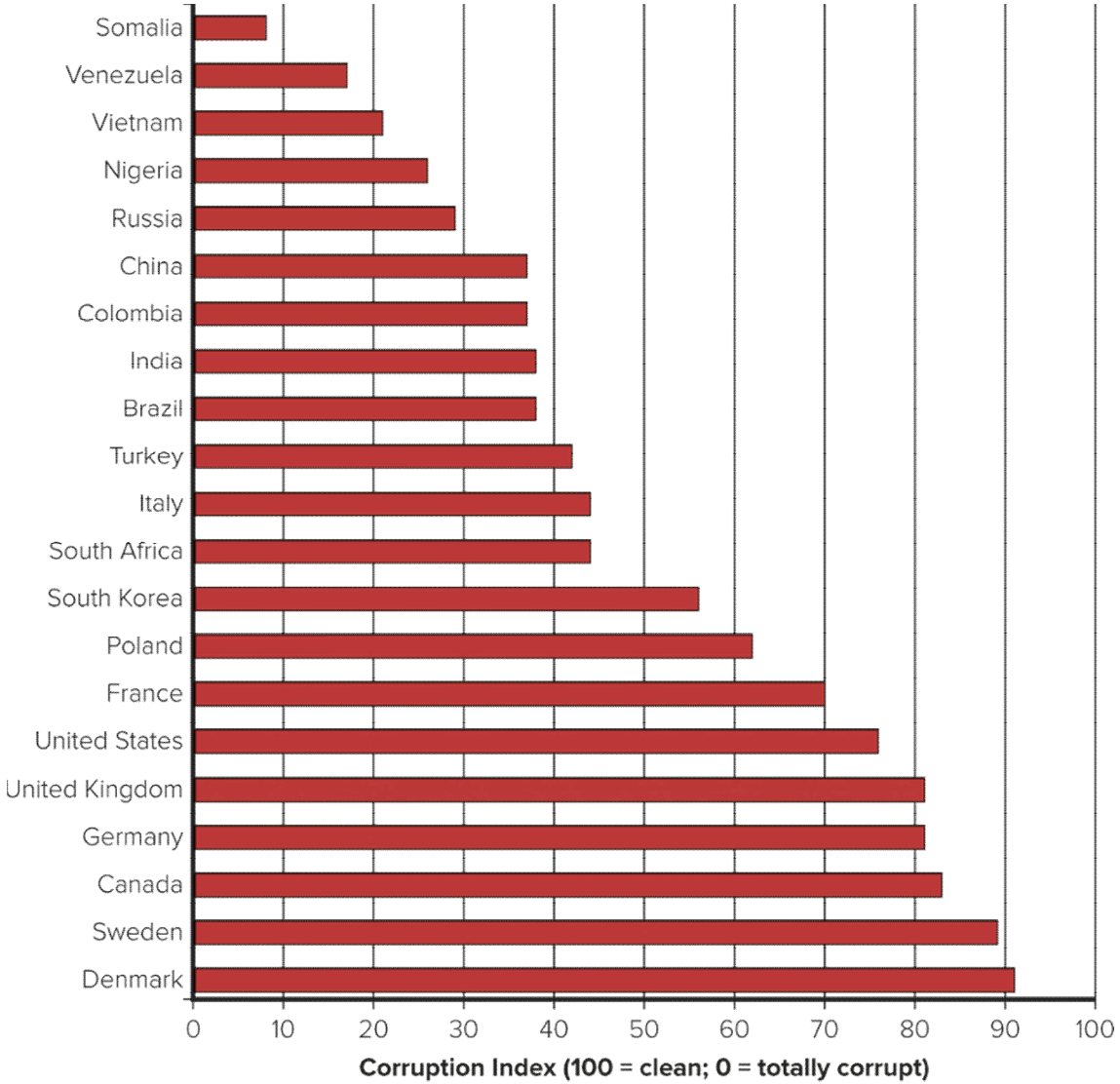
Legal Systems 6 of 9

Property Rights and Corruption continued

- **Private action**
  - Theft, piracy, blackmail
- **Public action** and corruption
  - Public officials extort income, resources, or property
    - Levying excessive taxation, requiring expensive licenses or permits from property holders, taking assets into state ownership without compensating the owners, redistributing assets without compensating the prior owners
    - Corruption, demanding bribes

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Figure 2.1 Rankings of corruption by country, 2016



Jump to long description in appendix

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Constructed by the author from raw data from Transparency International, Corruption Perceptions Index 2016.

Legal Systems 7 of 9

Property Rights and Corruption continued

- **Foreign Corrupt Practices Act (FCPA)**
  - Illegal to bribe a foreign government official to obtain or maintain business over which that foreign official has authority
  - Requires all publicly traded companies to keep detailed records that would reveal whether a violation of the act has occurred
- Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997)
  - Allows for facilitating or expediting payments

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Legal Systems 8 of 9

The Protection of **Intellectual Property**

- **Patent**
- **Copyrights**
- **Trademarks**
- **World Intellectual Property Organization**
- **Paris Convention for the Protection of Industrial Property**

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Legal Systems 9 of 9

Product Safety and Product Liability

- **Product safety**
- **Product liability**
  - Greater if a product does not conform to safety standards
- Criminal and civil laws apply

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Focus on Managerial Implications

Learning Objective 2-4 Explain the implications for management practice of national differences in political economy.

Two broad implications

- Political, economic, and legal systems of a country raise important ethical issues that have implications for international business.
- Political, economic, and legal environments of a country clearly influence the attractiveness of that country as a market or investment site.
- A country with democratic political institutions, market-based economic system, and strong legal system clearly more attractive to do business in.

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Appendix of Image Long Descriptions

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Appendix 1 Figure 2.1 Rankings of corruption by country, 2016

Corruption Index 100=clean; 0 = totally corrupt
Somalia 8
Venezuela 18
Vietnam 21
Nigeria 26
Russia 29
China 37
Columbia 37
India 48
Brazil 48
Turkey 42
Italy 44
South Africa 44
South Korea 56
Poland 62
France 70
United States 75
United Kingdom 81
Germany 81
Canada 83
Sweden 89
Denmark 91

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