Chapter 2
The Political, Legal, and Technological Environment

Learning Objectives and Chapter Summary

1. Introduce the basic political systems that characterize regions and countries around the world and offer brief examples of each and their implications for international management.

   The global political environment can be understood via an appreciation of ideologies and political systems. Ideologies, including individualism and collectivism, reflect underlying tendencies in society. Political systems, including democracy and totalitarianism, incorporate ideologies into political structures. There are fewer and fewer purely collectivist or socialist societies, although totalitarianism still exists in several countries and regions. Many countries are experiencing transitions from more socialist to democratic systems, reflecting related trends discussed in Chapter 1 toward more market-oriented economic systems.

2. Present an overview of the legal and regulatory environment in which MNCs operate worldwide, and highlight differences in approach to legal and regulatory issues in different jurisdictions.

   The current legal and regulatory environment is both complex and confusing. There are many different laws and regulations to which MNCs doing business internationally must conform, and each nation is unique. Also, MNCs must abide by the laws of their own country. For example, U.S. MNCs must obey the rules set down by the Foreign Corrupt Practices Act. Privatization and regulation of trade also affect the legal and regulatory environment in specific countries.

3. Review key technological developments, including the growth of e-commerce, and discuss their impact on MNCs now and in the future.

   The technological environment is changing quickly and is having a major impact on international business. This will continue in the future with, for example, digitization, higher-speed telecommunication, and advancements in biotechnology as they offer developing countries new opportunities to leapfrog into the 21st century. New markets are being created for high-tech MNCs that are eager to provide telecommunications service. Technological developments also impact both the nature and the structure of employment, shifting the industrial structure toward a more high-tech, knowledge-based economy. MNCs that understand and take advantage of this high-tech environment should prosper, but they also must keep up, or go ahead, to survive.

The World of *International Management*: Social Media and the Pace of Change

1. Summary

   This vignette discusses the ability of social media to influence world events. The Arab Spring led to real reforms at a pace never before seen in Northern Africa and the Middle East. Unlike previous revolutions, which lacked any widespread, immediate communication tools, the Arab spring protestors were equipped with smartphones and social media. Twitter and Facebook morphed from informal, friendly networking sites to powerful weapons. Groups used Facebook to announce events, garner online support, and encourage people to participate. Attempts to block social media backfired and increased the number of protestors. In addition, protestors became journalists to the international community, with no lag time in broadcasting the news. As a result, governments such as the United States were pressured to take a stand and to lend assistance.

   From a business standpoint, production and GDP were negatively affected almost overnight. One silver lining from the rapid regime changes is the potential for equally as fast transitions to more open trade and business dealings. Managing the political and legal environment will continue to be an important challenge for international managers, as will the rapid changes in the technological environment of global business.

2. Suggested Class Discussion

   a. Students should be able to discuss how social media influences the political and business environments in countries seeking to transition into democracies—without the blessing of the government.
   b. Students should be encouraged to consider strategies to use social media to the advantage of international markets in unstable political environments.

3. Related Internet Sites

   a. Google Arab Spring, Tunisia, Egypt, Yemen, Libya: http://www.google.cn/
   b. Facebook—Arab Spring: http://www.facebook.com

c. Wikipedia: http://en.wikipedia.org/wiki/Arab_Spring
d. Bloomberg Businessweek: www.businessweek.com

Chapter Outline with Lecture Notes and Teaching Tips

I. Political Environment

- The political system or system of government in a country greatly influences how its people manage and conduct business.
- Underlying the actions of a government is the ideology informing the beliefs, values, behavior, and culture of the nation and its political system.
- A political system can be evaluated along two dimensions.
- The first dimension is the ideology of the system, while the second measures the degree of individualism or collectivism.

A. Ideologies

Individualism

- Adopters of **individualism** adhere to the philosophy that people should be free to pursue economic and political endeavors without constraint. This means that government interest should not solely influence individual behavior.

Collectivism

- **Collectivism** views the needs and goals of society at large as more important than individual desires.

Socialism

- **Socialism** is a moderate form of collectivism in which there is government ownership of institutions, and profit is not the ultimate goal.
    - Communism is an extreme form of socialism which was realized through violent revolution and was committed to the idea of a worldwide communist state.
    - *Social democracy* refers to a socialist movement that achieved its goals through nonviolent revolution.

Teaching Tip: The U.S. State Department produces a series of annual “Country Reports” to acquaint American businesses with other countries. Each report contains nine sections: (1) Key

Economic Indicators, (2) General Policy Framework, (3) Exchange Rate Policies, (4) Structural Policies, (5) Debt Management Policies, (6) Significant Barriers to U.S. Exports and Investments, (7) Export Subsidies Policies, (8) Protection of U.S. Intellectual Property, and (9) Worker Rights. The site is available at http://www.state.gov/www/issues/economic/trade_reports/99_toc.html. Another source of information on other countries is the CIA's "The World Factbook," available at https://www.cia.gov/library/publications/the-world-factbook/.

B. Political Systems

Democracy

- **Democracy** is a political system in which the government is controlled by the citizens either directly or through elections.
- A democratic society cannot exist without at least a two-party system.

Totalitarianism

- **Totalitarianism** is a political system in which there is only one representative party which exhibits control over every facet of political and human life. Power is often maintained by suppression of opposition.

II. Legal and Regulatory Environment

- There are four foundations on which laws are based around the world.
  - **Islamic Law**: This law is derived from interpretation of the *Qur'an* and the teachings of the Prophet Muhammad. It is found in most Islamic countries in the Middle East and Central Asia.
  - **Socialist Law**: This law comes from the Marxist socialist system and continues to influence regulations in former communist countries.
  - **Common Law**: This comes from English law, and it is the foundation of the legal system in the United States, Canada, England, Australia, New Zealand, and other nations.
  - **Civil or code law**: This law is derived from Roman law and is found in the non-Islamic and nonsocialist countries such as France, some countries in Latin America, and even Louisiana in the United States.

A. Basic Principles of International Law

Sovereignty and Sovereign Immunity

- The **principle of sovereignty** holds that governments have the right to rule themselves as they see fit.

International Jurisdiction

- International law provides for three types of jurisdictional principles:
    - The first is the **nationality principle**, which holds that every country has jurisdiction (authority or power) over its citizens no matter where they are located.
    - The second is the **territoriality principle**, which holds that every nation has the right of jurisdiction within its legal territory.
    - The third is the **protective principle**, which holds that every country has jurisdiction over behavior that adversely affects its national security, even if that conduct occurred outside the country.

Doctrine of Comity

- The **doctrine of comity** holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens.

Act of State Doctrine

- Under the **act of state doctrine,** all acts of other governments are considered to be valid by U.S. courts, even if such acts are illegal or inappropriate in the United States.

Treatment and Rights of Aliens

- Countries have the legal right to refuse admission of foreign citizens and to impose special restrictions on their conduct, their right of travel, where they can stay, and what business they may conduct.

Forum for Hearing and Settling Disputes

- This is a principle of U.S. justice as it applies to international law.

B. Examples of Legal and Regulatory Issues

Financial Services Regulation

- The global financial crisis of 2008–2010 underscored the integrated nature of financial markets around the world and the reality that regulatory failure in one jurisdiction can have severe and immediate impacts on others.

Foreign Corrupt Practices Act

- The **Foreign Corrupt Practices Act (FCPA)** is an act that makes it illegal to influence foreign officials through personal payment or political contributions.

Teaching Tip: The U.S. Department of Justice maintains an updated website on the Foreign Corrupt Practices Act, including a "lay person's" simplified interpretation of the Act. The website is available at http://www.usdoj.gov/criminal/fraud/fcpa/.

Bureaucratization

- Very restrictive foreign bureaucracies are one of the biggest problems facing MNCs.

C. Privatization

- Another example of the changing international regulatory environment is the current move toward privatization by an increasing number of countries.

D. Regulation of Trade and Investment

- The regulation of international trade and investment is another area in which individual countries use their legal and regulatory policies to affect the international management environment.
- The rapid increase in trade and investment has raised concerns among countries that others are not engaging in fair trade, based on the fundamental principles of international trade as specified in the WTO and other trade and investment agreements.

III. Technological Environment and Global Shifts in Production

- Technological advancements not only connect the world at incredible speed but also aid in the increased quality of products, information gathering, and R&D.

A. Trends in Technology, Communication, and Innovation

- The innovation of the microprocessor could be considered the foundation of much of the technological and computing advancements seen today.
- One Laptop Per Child (OLPC) is a U.S. nonprofit organization set up to oversee the creation of an affordable educational device for use in the developing world.
    - Its mission is "to create educational opportunities for the world's poorest children by providing each child with a rugged, low-cost, low-power, connected laptop with content and software designed for collaborative, joyful, self-empowered learning."

B. Biotechnology

- **Biotechnology** is the integration of science and technology to create agricultural or medical products through industrial use and manipulation of living organisms.

C. E-Business

- As the Internet becomes increasingly widespread, it is having a dramatic effect on international commerce.
- Table 2-2 shows Internet penetration rates for major world regions.

Teaching Tip: An interesting website to show students is the real-time web monitor, Akamai (https://www.akamai.com/us/en/solutions/intelligent-platform/visualizing-akamai/real-time-web-monitor.jsp). This site monitors the flow of Internet traffic around the world. It then displays a value between 0 and 100 for different regions of the world. Higher values indicate faster and more reliable connections.

D. Telecommunications

- One of the most important dimensions of the technological environment facing international management today is telecommunications.

E. Technological Advancements, Outsourcing, and Offshoring

- As MNCs use advanced technology to help them communicate, produce, and deliver their goods and services internationally, they face a new challenge: how technology will affect the nature and number of their employees.
- In the future technology has the potential to displace employees in all industries, from those doing low-skilled jobs to those holding positions traditionally associated with knowledge work.
- The new technological environment has both positives and negatives for MNCs and

societies as a whole.

The World of International Management—Revisited

Questions and Suggested Answers

1. How will changes in the political and legal environment in the Middle East and North Africa affect U.S. MNCs conducting business there?

   Answer: Political uncertainty and instability is a challenge. MNCs need to assess the political risk and strategies to cope with the situations. The Arab Spring highlighted some of the issues: supply chain disruptions, longer shipping times, and spikes in oil prices. MNCs must collaboratively work with new governments as laws, policies, and regulations are introduced and altered.

2. How might evolving political interests and legal systems affect future investment in the region?

   Answer: With changing political and legal systems, the environment for investment may result in more caution. Regulations can change quickly, protection may disappear, and unfavorable subsidies may come into being. On the other hand, new markets and new offshoring options may open up.

3. How does technology result in greater integration and dependencies among economies, political systems, and financial markets, but also greater fragility?

   Answer: These changes have been manifested in terms of increased e-commerce and telecommunications, as well as their implications in terms of outsourcing, offshoring, transparency, and financial market integration in general. On the positive side, technology allows organizations to capitalize on their core competencies and create sustainable competitive advantage through networking, outsourcing, and other globally flexible arrangements. Moreover, the integration of financial and labor markets and the mobility found in these markets allow for the use of more competitive sources of capital and labor. Increasingly, technology is also facilitating open communication and transparency, eliminating much of the opaqueness that existed in many regions. On the other hand, various challenges are presented by technology. Jobs and investments have been dislocated in many developed countries. Political and economic crises in one region now have further reach and stronger ramifications on the rest of the world.

Key Terms

Act of state doctrine: A jurisdictional principle of international law which holds that all acts of other governments are considered to be valid by U.S. courts, even if such acts are illegal or inappropriate under U.S. law

Civil or code law: Law that is derived from Roman law and is found in the non-Islamic and nonsocialist countries

Collectivism: The political philosophy that views the needs or goals of society as a whole as more important than individual desires

Common law: Law that derives from English law and is the foundation of legislation in the United States, Canada, and England, among other nations

Democracy: A political system in which the government is controlled by the citizens either directly or through elections

Doctrine of comity: A jurisdictional principle of international law which holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens

Foreign Corrupt Practices Act (FCPA): An act that makes it illegal to influence foreign officials through personal payment or political contributions; became U.S. law in 1977 because of concerns over bribes in the international business arena

Individualism: The political philosophy that people should be free to pursue economic and political endeavors without constraint

Islamic law: Law that is derived from interpretation of the Qur'an and the teachings of the Prophet Muhammad and is found in most Islamic countries

Nationality principle: A jurisdictional principle of international law which holds that every country has jurisdiction over its citizens no matter where they are located

Principle of sovereignty: An international principle of law which holds that governments have the right to rule themselves as they see fit

Protective principle: A jurisdictional principle of international law which holds that every country has jurisdiction over behavior that adversely affects its national security, even if the conduct occurred outside that country

Socialism: A moderate form of collectivism in which there is government ownership of institutions, and profit is not the ultimate goal

Socialist law: Law that comes from the Marxist socialist system and continues to influence regulations in countries formerly associated with the Soviet Union as well as China

Territoriality principle: A jurisdictional principle of international law which holds that every nation has the right of jurisdiction within its legal territory

Totalitarianism: A political system in which there is only one representative party which exhibits control over every facet of political and human life

Review and Discussion Questions

1. In what ways do different ideologies and political systems influence the environment in which MNCs operate? Would these challenges be less for those operating in the EU than for those in Russia or China? Why, or why not?

   Answer: The international political climate on the whole is improving. Former communist nations are seeing the benefits of free market systems. While this presents obvious opportunities in new markets for MNCs, the risks of doing business in many of these countries are still high. Also, in countries like Russia and China, the government still has some control over many industries. Hence, the political risk is much higher for MNCs wishing to do business in these countries than, say, Europe. While China is still communist, free market principles are encouraged. Another consideration for MNCs is the stability of the currency. Wide fluctuations in the value of money are still occurring in emerging nations such as in Eastern Europe or Southeast Asia, as well as in Northern Africa and the Middle East.

2. How do the following legal principles impact MNC operations: the principle of sovereignty, the nationality principle, the territoriality principle, the protective principle, and principle of comity?

   Answer: The legal environment in the international marketplace can be quite complex. This is due to laws that have developed from individual countries, treaties, and such items as the Geneva Convention. The situation is further complicated by the fact that many principles of law are unwritten understandings between nations. Fortunately, most of what MNCs need to know can be found in several broad principles that govern the conduct of international law.

The principle of sovereignty holds that governments have the right to rule themselves as they see fit. Therefore, MNCs must understand the laws of other countries when operating there and abide by them. In the United States, for example, there are many safety rules and regulations governing the workplace. A Japanese-owned company opening a production operation in the United States must follow U.S. laws. Should violations occur, the territoriality principle allows the dispute to be handled in the U.S. court system, regardless of where the MNC's headquarters is located.

However, the nationality principle holds that every country has jurisdiction over its own citizens, regardless of where they are located. Therefore, a Japanese citizen doing business in the United States is not exempt from the laws of his or her own country just because he or she is outside the borders.

The protective principle holds that every country has jurisdiction over behavior that adversely affects its national security, regardless of where the conduct took place. Therefore, if an MNC is engaging in conduct that threatens another country, international law allows the violator to be subject to the host country's legal system, regardless of where the violations are taking place.

The doctrine of comity holds that there must be mutual respect for the laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens. This common sense principle will foster better relations between MNCs doing business in foreign countries.

3. How will advances in technology and telecommunications affect developing countries? Give some specific examples.

   Answer: Technological advancements are connecting the world at lightning speed while increasing quality of products, information gathering, and R&D. The world can be seen as becoming increasingly more flat, which will allow developing countries to more easily enter the international market. Developing countries are eager to attract telecommunication firms and offer liberal terms. For example, General Electric has opened a trade office in Vietnam. Increased competition and expansion is expected to continue across the world, even in developing countries.

4. Why are developing countries interested in privatizing their state-owned industries? What opportunities does privatization have for MNCs?

   Answer: Many developing countries are recognizing the benefits of advanced communication technology. For example, using cellular phones in many developing countries is cheaper than landline phones, as phone lines do not have to be installed. To facilitate this quickly and efficiently, many countries are turning to the private sector. In addition to the obvious benefits for international firms that provide these products, this will allow the developing countries to get up to speed with the rest of the world.

Internet Exercise: Hitachi Goes Worldwide

Suggestions for Using the Exercise

1. This exercise provides an excellent opportunity to conduct an "in-depth" analysis of the business activities of an international firm―Hitachi. Ask students to browse the Internet and find at least five additional sites that provide information on Hitachi.

2. As suggested in the exercise, after doing their research, ask students to write a brief assessment of Hitachi's operations in Asia (specifically Hong Kong and Singapore), North America, or Europe.

In the International Spotlight: Vietnam

Questions and Suggested Answers

1. In what way does the political environment in Vietnam pose both an opportunity and a threat for American MNCs seeking to do business there?

   Answer: The political environment poses an opportunity for American firms because the government is now working hard to attract U.S. investment. American companies have the chance to gain a favorable position by striking while the political opportunities are good. In 2007, Vietnam became a member of the World Trade Organization (WTO). While uneven regulations still exist, Vietnam's membership in the WTO has attracted a great deal of foreign investment from China, Singapore, Taiwan, Japan, South Korea, Hong Kong, and the United States.

2. Why are U.S. multinationals so interested in going into Vietnam? How much potential does the country offer? How might Vietnam compare to China as a place to do business?

   Answer: Vietnam has a population of 90 million. This makes it an attractive market for many firms because the growth of this economy will spawn the need for a variety of goods and services, many of which are currently not widely available. The increased productivity, in particular, will help Vietnam improve the standard of living of its people. It will also provide the basis for developing an export economy that can help the country grow and pay for its international purchases.

Students might compare Vietnam with China. Vietnam is rapidly staking its claim as a player in the global economy by signing trade agreements with other countries, participating in the World Trade Organization, and opening its borders to foreign direct investment. In addition, Vietnam is implementing structural reforms designed to modernize its economy. Together, these changes are creating a more stable and predictable environment for companies.

3. Will there be any opportunities in Vietnam for high-tech American firms? Why, or why not?

   Answer: There certainly would be opportunities in Vietnam for high-tech American firms. Telecommunications is a good example. Firms that can offer cellular telephone technology will find Vietnam to be an excellent, largely untapped market. One reason is that cellular technology bypasses the need to install expensive overhead (or underground) lines. This means that a telephone system can be created that connects all parts of the country and provides international service at a fraction of what it could cost to wire the nation for landlines. Other good examples of high-tech opportunities for U.S. firms are provided by computer and electronics companies that install state-of-the-art technology that can help increase Vietnam's productivity and economic growth.

A Closer Look: Comparing European Union (EU) and U.S. Financial Reform

Summary

1. The G20 wants to end the belief that banks are "too big to fail" by requiring resolution mechanisms and "living wills" for speedy windups that don't destabilize markets.

   a. The U.S. Senate set up an "orderly liquidation" process.
   b. The EU executive, European Commission, published a policy outline on resolution funds so that banks pay for future bailouts.
   c. *Winners/Losers:* Banks face an extra levy on top of higher capital and liquidity requirements. Taxpayers should be better shielded.

2. Over-the-Counter Derivatives

   a. U.S. Senate: The Dodd–Frank Act requires banks to spin off their swaps desk.
   b. The EU adopted legislation that focused on mandatory clearing of contracts.
   c. *Winners/Losers:* Global banks will shift some trading. Corporations face higher

costs.

3. Bonuses

   a. The United States and the EU are applying the G20 principles to curb excessive pay and bonuses.
   b. *Winners/Losers*: It is harder to justify big bonuses in the future.

4. Credit Ratings Agencies

   a. The G20 agreed that ratings agencies should be required to register, report to *supervisors*, and show how they manage internal conflicts of interest; the EU adopted even stricter laws, increasing the liability of ratings agencies and improving transparency.
   b. *Winners/Losers*: Ratings agencies must justify what they do. There will be more competition in the EU for the “Big Three.”

5. Hedge Funds/Private Equity

   a. The United States and the EU are introducing a G20 pledge to require hedge fund managers to register and report a range of data on their positions.
   b. *Winners/Losers*: It will be harder for U.S. hedge fund managers to do business in the EU. European investors may end up with less choice. Regulators will have better data on funds.

6. Banks Trading

   a. The U.S. Senate has adopted the “Volcker rule,” which would ban risky trading unrelated to customers’ needs at deposit-insured banks. In the EU, key states disagree with the rule as they want to preserve their universal banking model.
   b. *Winners/Losers*: Some trading could switch to the EU from the United States inside global banks.

7. Systemic Risk

   a. The U.S. Senate sets up a council of regulators; the House wants a bigger role for the Fed.
   b. The EU is approving a reform that will make the European Central Bank (ECB) the hub of a pan-EU systemic risk board.
   c. *Winners/Losers*: The ECB has an enhanced role. Banks will have yet another pair of

eyes staring down at them.

8. Bank Capital Requirements

    a. The U.S. bill directs regulators to increase capital requirements on large financial firms as they grow in size or engage in riskier activities.
    b. The EU is approving new rules on requirements to discourage risky behavior.
    c. *Winners/Losers*: Bank return on equity is set to be squeezed. Regulators will have many more tools to control the sector. Higher costs are likely to be passed on to consumer investors. There could also be timing issues.

9. Fixing Securitization

    a. The U.S. Senate forces securitizers to keep a baseline of 5 percent of credit risk on securitized assets.
    b. The EU already approved a similar bill.
    c. *Winners/Losers*: Banks believe 5 percent is not enough and that the key problem is investor confidence.

Source*:* "Factbox: Comparing EU and U.S. Financial Reform," Reuters, May 19, 2010. Additional research by authors.

International Management in Action: The United States Goes to the Mat

Summary

1. The trade relationship between the United States and China is unbalanced, with the U.S. deficit with China reaching $319 billion in 2012. Many blame China with its undervalued yuan and its government subsidies and regulations that favor Chinese MNCs. One U.S. strategy to level the playing field is to threaten to impose tariffs and then to focus on specific industries.

    In 2006, the United States and China announced a "strategic economic dialogue" to provide an overarching framework for bilateral economic dialogue and future economic relations. Issues include exchange rates, intellectual property rights, and market access. The future of claims and disagreements between the countries is uncertain. The EU and the United States would like to break down trade walls and be a part of the lucrative Chinese market, but they may need the added support of the WTO for effective negotiations.

2. Articles on this issue are multiple. Check the following sites for examples:
    - http://www.forbes.com, http://www.china-embassy.org

- http://www.census.gov/foreign-trade/balance/c5700.html

2. Cross-Cultural Conflicts in the Corning–Vitro Joint Venture

This simulation is designed to develop skills at international negotiation with an emphasis on cross-cultural communication and negotiation.

Case Summary

During the NAFTA negotiations, many U.S. firms were concerned about the reduction of U.S. tariffs on flat glass, which averaged 20 percent, and the perceived competitive advantages Mexican glass firms would have in the event these tariffs were removed. In the fall of 1991, in the midst of the NAFTA negotiations, Vitro S.A., the $3 billion Mexican glassmaker, signed a tentative $800 million joint venture with Corning Inc. Two mirror companies were established—Corning–Vitro and Vitro–Corning—and each company took an equity stake in each of these joint-venture firms. In addition, the two parent companies agreed to a series of marketing, sales, and distribution relationships to support the activities of each of the new companies.[1] Two years later, the joint venture was in distress, and some of the interested parties were suggesting that it be dissolved. This simulation provides participants with an opportunity to undertake negotiations designed to resolve these differences.

Background

Vitro Sociedad Anonima is a 100-year-old Mexican company with roughly $3.5 billion in sales and 40,000 employees. As Vitro positioned itself to take advantage of the emerging North American market, CEO Ernesto Martens-Rebolledo described the tightrope the company must walk: "We don't want to lose our identity as a Mexican company with a unique culture and relationship with our employees, but we don't want to be battered in the world marketplace either."[2] In 1989, Vitro completed a hostile takeover of Anchor Glass Container Corporation, and in 1992, Vitro laid off some 3,000 workers, an unusual move in Mexico at that time, given traditional notions about labor-management relations and job security.

Corning, an upstate New York maker of glass, traces its roots back to the mid-1800s. In recent years, Corning has diversified into fiber optics and other high-technology applications of glass, ceramics, and composite materials. During the 1980s, Corning's business increasingly relied on sales of fiber optics to telecommunications firms. These firms were beginning construction of the new infrastructure to support high-speed voice and data transmission. At the same time, sales of household, flat glass, and other traditional glass products remained important to the company.

NAFTA and Glass[3]

During the early part of NAFTA negotiations (1989–1991), U.S. makers of household and flat glass products expressed concern about their ability to compete against cheaper Mexican imports, and some even accused Corning S.A. of unfair trading practices. Guardian Industries Corp., a Michigan-based manufacturer of float glass—the high-quality flat glass used in mirrors, insulated windows, furniture, and automobiles—complained that Vitro, the only Mexican producer of float glass, was engaged in anticompetitive practices by trying to intimidate a Mexican glass distributor that was considering buying a product from Guardian. Vitro exported approximately $120 million in float glass and related products to the United States in 1990. Other glassmakers argued that even with present U.S. duties averaging over 20 percent on household glassware from Mexico, the after-duty prices of the Mexican products were significantly below those of U.S. producers, owing in large part to considerably lower labor and energy costs.

In February 1991, the International Trade Commission (ITC) issued a report on these allegations. Vitro Crisa (an operating subsidiary of Vitro S.A.) allegedly priced its glass beverageware at about 20 to 30 percent below that of U.S. producers in the U.S. market. Vitro Crisa's lower productivity relative to U.S. industry, said the ITC, was offset by considerably lower labor costs (about $1.50 an hour versus $15 an hour in 1987 in the United States), which constituted nearly half of the production costs of the U.S. household glassware industry. The cost of natural gas, another major production input, was about 15 percent lower in Mexico.

Problems Arise[4]

"Vitro and Corning share a customer-oriented philosophy and remarkably similar corporate cultures." This was the characterization of the joint venture offered at the time by Julio Escamez, a Vitro executive. Both companies had long histories of successful joint ventures. Corning Inc. had been an innovative leader in foreign alliances for over 73 years. One of the company's first successes was an alliance with St. Gobain, a French glassmaker, to produce Pyrex cookware in Europe during the 1920s. Corning has formed approximately 50 ventures over the years. Only nine failed (dissolved), an impressive number considering one recent study found that over one-half of foreign and national alliances do not succeed. From 1985 to 1990, Corning's sales from joint ventures were over $3 billion, contributing more than $500 million to its net income. Corning enters into joint ventures primarily to gain access to markets that it cannot penetrate quickly enough to obtain a competitive advantage. In addition, both companies were globally oriented, and both had founding families still at their centers. Yet the joint venture became subject to a series of cultural and other conflicts that began to undermine this vision.

U.S.-Mexico Alliances[5]

"There are many reasons why corporate marriages between Mexican and U.S. companies fail," says Richard Sinkin, managing director of InterAmerican Holdings, a consultancy based in San Diego, California, that advises U.S. companies doing business in Mexico. Sinkin says that U.S. and Mexican companies often get together for the wrong reasons. Unless the two partners contribute essential qualities to the marriage, the alliance soon founders. The second difficulty is corporate control. "Most Mexican firms are still run as family businesses," Sinkin says, "and these firms are often reluctant to share control with an outside investor."

In the case of the Corning/Vitro JV, Corning managers said that they were sometimes left waiting for important decisions about marketing and sales because in the Mexican culture, only top managers could make them and at Vitro those people were busy with other matters. Vitro's sales approach was less aggressive than Corning's, the remnant of years in a closed economy, and was sometimes at odds with the pragmatic approach Corning had developed over decades of competition.

NAFTA and Alliances[6]

To varying degrees, such cultural issues have plagued many mergers and alliances with their roots in the North American Free Trade Agreement. "Mexico initially appears to be the United States except that people speak Spanish," said Harley Shaiken, a labor economist who often works in Mexico. "That's just not the case, which everyone finds out in the short term rather than the long term." The trade pact may have created false expectations about how much like the United States Mexico has become. In discussing cultural differences, it's difficult not to slip into stereotypes about "mañana"—Mexicans who move at a slower pace. But what the gap separating the two business cultures really amounts to is a different approach to work, reflected in everything from scheduling to decision making to etiquette.

In the Corning venture, the Mexicans sometimes saw the Americans as too direct, and Vitro managers, in their dogged pursuit of politeness, sometimes seemed to the Americans unwilling to acknowledge problems and faults. The Mexicans sometimes thought Corning moved too fast; the Americans felt Vitro was too slow.

Cultural differences generally, said Richard Sinkin, the corporate consultant, are "the No. 1 problem for doing business in Mexico." That may be an exaggeration, but it underscores the difficulty of transferring a culture across the border. Sinkin's own experience bears that out. He is bilingual and often works in Mexico but finds that it isn't always easy to get paid because the Mexican view of contracts differs markedly from the view commonly held in the United States. In Mexico, the terms of a contract "are kind of ideal things that you strive to achieve," Sinkin said, "while in the U.S. they are law." In general, corporate style is more formal in Mexico than in the United States. Titles are common, and nearly everyone is "licenciado," which loosely refers to having any professional training. Forgetting the honorific can be seen as a serious insult.

In Mexico, executives can expect the unquestioned loyalty of employees, but outsiders are often viewed with mistrust. Horace E. Scherer, director general of Hobart Dayton Mexicana, the Mexican subsidiary of the Hobart Corporation, said his salespeople must often make four trips to complete one transaction because of that lack of trust. To sell the company's scales and other equipment, a salesperson starts with a visit to the client's top official. If a sale is made, a representative of the company itself must deliver the goods because the customer won't accept delivery from DHL or some other service. If all the papers are in order on delivery, the company representative is told to come back on an appointed day to present an invoice, in person; if the invoice is accepted, an appointment is made for the rep to return to receive payment.

Many companies that have formed joint ventures end up creating their own new corporate culture, taking bits and pieces from each side. At Vitro-Whirlpool in Monterrey, assembly-line workers have a long tradition of taking what in Mexico is referred to as "el puente," or the bridge, which commonly extends a formal holiday into a mini-vacation. When, for instance, Mexico's version of Mother's Day fell on Tuesday, May 10, workers did not show up on Monday, bridging the gap to the holiday. (If an American holiday falls on a Tuesday, of course, absenteeism will be high on Monday, but in Mexico the custom is far more entrenched—and can even shut a plant down.) The company now allows workers to take the "puente," but only if they agree to work an extra hour each day for eight days beforehand.

Because their corporate conversations can be filled with so many feints and pleasantries, Mexicans often use memos to convey dissatisfaction. When Labatt's (the Canadian brewer) Mexican manager, Noel Trainor, decided to cut back employees' lunch from two hours to one, he had to do it in a memo that all 30 employees had to sign. Trainor said he abided by a strict holiday policy, priding himself on the degree to which his compatriots had been able to adapt to the expectations of the United States and seemingly only half aware of the degree to which he had compromised. "We only give what we are obligated by law to give," he said, "and of course half a day on Mother's Day."

Financial and Commercial Concerns[7]

Added complications emerged from the relatively strong peso, increased overseas competition, and a reconsideration of marketing strategies by both companies. The joint ventures suffered from the different administrative practices of the two companies. "Managing from two countries was more complicated than we anticipated," said Corning. "There were different (management) structures, styles and accounting systems." Corning said the different needs of customers in the United States and Mexico complicated the integration of sales and distribution. Corning's U.S. customers, especially the large discount stores, expect the timely and regular delivery of products packaged in a certain way; Vitro's Mexican customers are less demanding.

In 1992, Corning-Vitro had sales of approximately $700 million, and Vitro-Corning achieved turnover of about $230 million.

Issues for Decision

As a result of cultural clashes, failure to integrate complementary product lines, and disappointing sales, both Corning and Vitro are contemplating dissolving the joint ventures. Within the two companies, however, there are those who support maintaining the relationship, and others who oppose it. Corning and Vitro must first decide on whether they want to remain in the joint ventures and, if they do, under what conditions. If they decide to dissolve the relationship, they must negotiate the terms of the dissolution. If they decide to remain in the arrangement, some changes must be made to address the growing problems.

Simulation Instructions

You will be assigned to one of four groups.

The groups are ad hoc. Each group represents an ad-hoc committee appointed by the CEO of each company to make recommendations about the future of the alliance. The groups' initial positions can be characterized as follows:

1. Vitro—supports keeping JVs
2. Vitro—against keeping JVs
3. Corning—supports keeping JVs
4. Corning—against keeping JVs

Negotiation 1

The initial negotiation occurs *within* each company. Hence, Vitro Groups (1 and 2) discuss their differing positions, and Corning Groups (3 and 4) exchange their views with each other. Each pair of groups (1/2 + 3/4) should decide whether their company wants to remain within the joint venture or dissolve it. Each pair of groups has 45 minutes to negotiate *within* the respective companies over whether to stay in or dissolve the JV. Groups 1 and 3 should consider the following:

1. The logic and original rationale for the JV.
2. How that logic may still hold.
3. How the JV could be made to work better.

Groups 2 and 4 should consider the following:

1. What caused the JV relationship to sour.
2. Why the partner has not lived up to expectations.
3. What the terms of dissolution should be.

Each company agrees on a position to bring forward to the partner. This position need not necessarily be a demand to maintain the joint venture or to dissolve it; rather it could be a contingency laying the conditions for maintaining the relationship, or demands for how it should be dissolved. Once each company has decided on its position, representatives from each Corning group (two to four representatives total) will meet with their counterparts from the Vitro groups.

Negotiation 2

Each company must decide, collectively, through negotiation, whether to remain within the joint venture or dissolve it. The representatives from each company have 60 minutes to reach some resolution. *They must consult with the remainder of their company throughout the negotiation to ensure support for the outcome.* The main issues for consideration include:

1. The logic and original rationale for the JV.
2. How that logic may still hold.
3. How the JV could be made to work better.
4. What caused the JV relationship to sour.
5. Why the partner has not lived up to expectations.
6. Whether the JV should be terminated and, if so, what the terms of dissolution should be.

Ultimately, issue 3 or 6 must be resolved. Any solution, whether to maintain the JV, dissolve it, or some hybrid approach, should be comprehensive and address these elements:

- *Financial structure:* Terms for financing existing or new ventures under the arrangement or payments for dissolution of the relationship.
- *Governance:* Board, management, or other top-level changes in ownership and leadership under the present or revised relationship.
- *Marketing:* Agreements about marketing, distribution, and sales relationships either under the current arrangement or in any new structure.
- *Competition/cooperation:* Changes in the way in which each company operates in the other's territories or markets.

Table 1
Hofstede's Cultural Ratings for the United States and Key Latin Countries

	Power Distance	Uncertainty Avoidance	Individualism	Masculinity
United States	**40**	**46**	**91**	**62**
Mexico	**81**	**82**	**38**	**69**
Canada	39	48	80	52
Argentina	49	86	46	56
Brazil	69	76	38	49
Colombia	67	80	13	64
Peru	64	87	16	42
Venezuela	81	76	12	73
Spain	57	86	51	42
Portugal	63	104	27	31

Source: Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Beverly Hills, CA: Sage, 1980).

Questions for Discussion After Conclusion of Simulation

1. Compare your solution to the joint venture's problems with the actual outcome. What is different or similar in the two approaches?
2. How would you characterize the Mexican and U.S. culture in terms of Hofstede's scheme (see Table 1)? In what ways were the cultures similar and in what ways were they different?
3. Compare Corning-Vitro's problems to those of some of the other international joint ventures described in this simulation. How were they similar, different, and more or less challenging?
4. How have other companies in Mexico and Latin America addressed these cultural divisions in the recent past? How should they do so as they go forward with comprehensive regional Latin American strategies?

Notes

1. "Glassmakers' Complaints Aired in NAFTA Hearings," *LDC Debt Report/Latin American Market,* September 9, 1999, p. 10.
2. Nancy A. Nichols, "From Complacency to Competitiveness: An Interview with Vitro's Ernesto Martens," *Harvard Business Review,* September–October 1993, p. 162.
3. "Glassmakers' Complaints Aired in NAFTA Hearings."
4. Anthony Depalma, "It Takes More than a Visa to Do Business in Mexico," *New York Times,* June 26, 1994, sec. 3, p. 5.
5. Leslie Crawford, "Anheuser's Cross-Border Marriage on the Rocks: Modelo Deal Is the Latest U.S.-Mexican Partnership to Be Soured by Disagreement," *Financial Times,* March 18, 1998, p. 46.
6. Depalma, "It Takes More than a Visa."
7. John Holusha, "Corning to Buy Northern Telecom Assets," *New York Times,* December 16, 1993, sec. D, p. 4.

Supplemental In-Depth Integrative Case

Nokia Targets the Base of the Pyramid

One of the most widely used clichés in the world of business is the so-called 80/20 rule. In the realm of sales, the rule is sometimes interpreted as "80 percent of our sales come from 20 percent of our customers."[1] One recent business theory that has challenged this rule is the so called BOP or Bottom of the Pyramid perspective, developed and popularized by C.K. Prahalad.[2] It refers to the around 4 billion people at the bottom of the economic pyramid with a purchasing power of US$2,000 per year or less. Prahalad and colleagues have proposed that these low-income consumers represent great potential but require a unique mix of pricing, promotion, low cost delivery, and effective communication in order to successfully reach.[3] The key to selling to BOP consumers is that an MNC strategy be affordable, accessible, and socially driven. Nokia is one company that is taking this perspective seriously.

Business interest in BOP markets is rising. Multinational companies have been leaders in this trend, especially in food and consumer products. And large national companies have also taken a leadership role, proving to be among the most innovative in meeting the needs of BOP consumers and producers, especially in such sectors as housing, agriculture, consumer goods, and financial services. And small start-ups and social entrepreneurs focusing on BOP markets are rapidly growing in number. But perhaps the strongest and most dramatic BOP leadership success story is mobile telephony.[4]

The Global ICT Market

The measured BOP market for ICT—information and communication technologies and the services they provide—is $30.5 billion for Africa (11 countries), Asia (9), Eastern Europe (6), and Latin America and the Caribbean (9). This represents annual household ICT spending in the 35 low- and middle-income countries for which standardized data exist, covering 2.1 billion of the world's BOP population. The total BOP household ICT market in these four regions, including 3.96 billion people in all surveyed countries, is estimated to be $51.4 billion.[5]

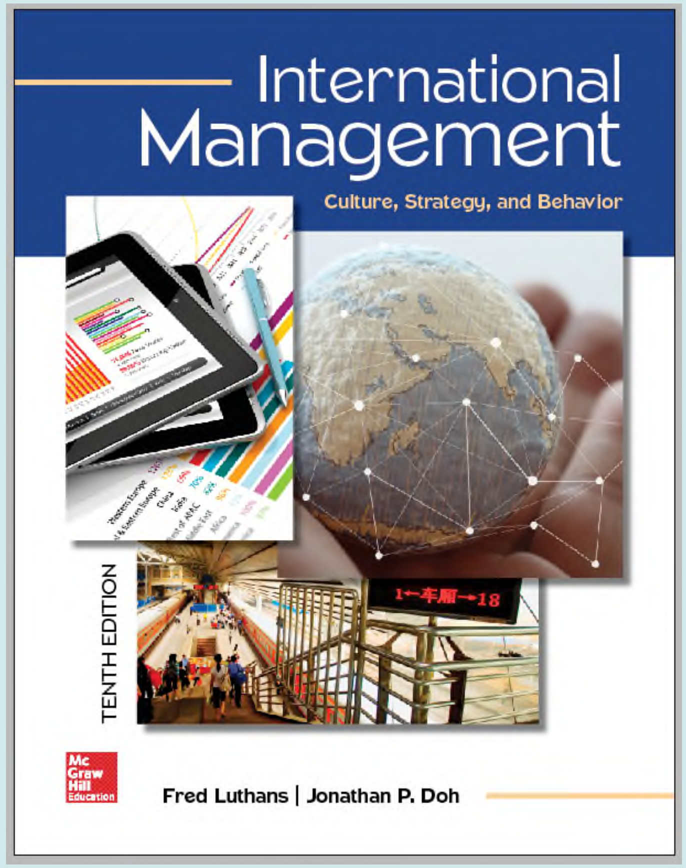
But the ICT sector has been growing explosively in developing regions in the interval since countries were surveyed, with Internet services and especially mobile phone companies adding customers at rates that may well have doubled BOP sector spending since that time. Moreover, rapid market growth is expected to continue for some time: In both Africa and India less than 15 percent of the population has mobile phones.[6]

Asia has the largest measured regional BOP market for ICT, $14.3 billion, reflecting the region's significant BOP population of 1.49 billion. Its estimated total BOP market for ICT (including the Middle East) is $28.3 billion, including the spending of 2.9 billion people. Not far behind is Latin America's measured BOP market, $11.2 billion, accounting for the ICT spending of 276 million people. The region's estimated total BOP market is $13.4 billion (360 million people). In Eastern Europe the measured BOP market for ICT is $3.0 billion (148 million people); the estimated total market is $5.3 billion (254 million people). In Africa the measured BOP market is $2.0 billion (258 million people), and the estimated total BOP market $4.4 billion (486 million people). Though smallest, the African ICT market is the most rapidly growing one—and it has already generated very profitable companies and significant wealth.[7]

The BOP share of the total household ICT market in measured countries varies across regions. In Asia the BOP share is about half of the total market, 51 percent; in other regions it is smaller though still substantial: 36 percent in Eastern Europe, 28 percent in Africa, 26 percent in Latin America. Africa shows the greatest disparity between the BOP share of the population (95 percent) and the BOP share of ICT spending (28 percent)[8].

At the national level there are wide disparities in the BOP share of ICT spending. These disparities stem in part from regulatory differences affecting the pace at which mobile phone networks expand. They also reflect national differences in urban-rural demographics, since mobile networks start in urban areas and only then spread to rural areas.[9]

In Asia the extremes are represented by Pakistan and Bangladesh, where the BOP accounts for more than 89 percent of the ICT market, and Thailand, where the BOP population, though substantial, accounts for only 29 percent of the market. In Africa the extremes are Nigeria (98 percent) and Burundi (12 percent). In Eastern Europe the extremes are represented by Belarus and Kazakhstan (74 percent) and FYR Macedonia (21 percent). In Latin America and the Caribbean, only in Jamaica does the BOP account for more than half of total ICT household spending (71 percent); the other extreme is Colombia, where the BOP accounts for only 12 percent of ICT spending.[10]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Chapter 2

The Political, Legal, and Technological Environment

Learning Objectives

- Introduce the basic political systems that characterize regions and countries around the world and offer brief examples of each and their implications for international management

Learning Objectives (continued)

- Present an overview of the legal and regulatory environment in which MNCs operate worldwide, and highlight differences in approach to legal and regulatory issues in different jurisdictions
- Review key technological developments, including the growth of e-commerce, and discuss their impact on MNCs now and in the future

Social Media and Political Change

- Role of social media as an organizing tool, a journalistic tool, and a support-building tool in the context of political change underscores:
  - Technological progress
  - Political conflict and change
- Managing the political and legal environment will be a challenge for international managers
  - Need to keep track of the rapid changes in the technological environment of global business

Political Environment

- Ideology underlies the actions of government
  - Reflects beliefs and values and behavior and culture of nations and their political systems
- Dimensions in evaluating political systems
  - Rights of citizens based on a system of government, ranging from democratic to totalitarian
  - Focus of political system on individualism or collectivism

Political Environment (continued)

- Democratic nations emphasize individualism
- Totalitarian nations lean toward collectivism

Individualism

- People should be free to pursue economic and political endeavors without constraint
- Similar to capitalism and connected to free-market society
  - Private property is more successful, productive, and progressive than communal property
  - Encourages betterment of society, which is related to level of freedom individuals have to pursue economic goals

Individualism (continued 1)

- Research has shown that team performance is negatively influenced by individualists
- Competition stimulates motivation and encourages increased efforts to achieve goals
- Principles were evolved by David Hume, Adam Smith, and Aristotle

Individualism (continued 2)

- International managers must remain alert as to how political changes may impact their business
  - Continuous struggle for a foothold in government power affects leaders in office

Collectivism

- Views the needs or goals of society as a whole as more important than individual desires
- Plato believed individual rights should be sacrificed and property should be commonly owned

Collectivism (continued)

- Has no rigid form as societal goals differ greatly among cultures
  - Reflects some attributes of fascism
    - Nationalism and authoritarianism
    - Militarism and corporatism
    - Collectivism
    - Totalitarianism
    - Anticommunism
    - Opposition to economic and political liberalism

Socialism

- Society in which there is government ownership of institutions but profit is not the ultimate goal
- Has been practiced in China, North Korea, Cuba
- Democratic socialism
  - More moderate form of socialism
  - Practiced by Great Britain’s Labour Party, Germany's Social Democrats, and in France, Spain, and Greece

Socialism (continued)

- Modern socialism draws on philosophies of Karl Marx, Friedrich Engels, and Vladimir Ilyich Lenin
  – Marx believed that governments should own businesses because in a capitalistic society only a few would benefit
- Communism - Extreme form of socialism

Social Democracy

- Socialist movement that achieved its goals through nonviolent revolution
- Reasons for not being viable
  - Businesses that were nationalized were inefficient due to the guarantee of funding and the monopolistic structure
  - Citizens suffered a hike in both taxes and prices, which was contrary to the public interest and the good of the people

Social Democracy (continued)

- Reasons for nationalization of businesses
  - Ideologies of the country encourage the government to extract more money from the firm
  - Government believes the firm is hiding money
  - Government has a large investment in the company
  - Government wants to secure wages and employment status because jobs would otherwise be lost

Political Systems: Democracy

- Government is controlled by citizens either directly or through elections
- Democratic society cannot exist without at least a two-party system
  - Once elected, representative is held accountable to the electorate for his or her actions
  - Apart from getting reelected, the number of terms is limited
  - Winner can get voted out if he or she does not adhere to the goals of the majority ruling

Political System: Totalitarianism

- Only one representative party, which exhibits control over every facet of political and human life
- Power maintained by suppression of opposition
  - Dominant ideals - Media censorship, political repression, and denial of rights and civil liberties
- Common form - Communist totalitarianism

Political Environment in China

- Making trade liberalization a top priority since joining WTO in 2001
- Supporting a more open and democratic society
- Shifting toward greater tolerance of individual freedoms
- Seeking to unleash a more dynamic market economy

Political Environment in the Middle East

- In Iran and Saudi Arabia, laws and government are based on Islamic principles
- Arab countries operate business that is in many ways similar to the West
  - Seeking modern technology and having the financial ability to pay for quality services
- Worldwide fallout from war on terrorism has made business environment risky and potentially dangerous

Legal and Regulatory Environment

- Many different laws and regulations in global business operations create confusion and pose challenges to MNCs
- Adhering to disparate legal frameworks can prevent MNCs from capitalizing on manufacturing economies
- MNCs must carefully evaluate legal framework in each market before doing business

Global Foundations of Law

Islamic law	Socialist law
Common law	Civil or code law

Islamic Law

- Derived from interpretation of the Qur’an and teachings of Prophet Muhammad
- Found in most Islamic countries in the Middle East and Central Asia

Socialist Law

- Originates from Marxist socialist system
- Continues to influence regulations in former and current communist countries
  - Soviet Union
  - China and Vietnam
  - North Korea and Cuba
- Forces MNCs to shy away from countries that follow this law

Common Law

- Derives from English law
- Foundation of legal system in:
  - United States
  - Canada
  - England
  - Australia
  - New Zealand
  - Several other nations

Civil or Code Law

- Derived from Roman law
- Found in non-Islamic and nonsocialist countries
  - France
  - Some Latin American countries
  - Louisiana in U.S.

International Law

- Sources
  - Laws of individual countries
  - Treaties - Universal, multilateral, and bilateral
  - Conventions - Geneva Convention on Human Rights or the Vienna Convention of Diplomatic Security
- Contains unwritten understandings that arise from repeated interactions among nations

Principle of Sovereignty

- Holds that governments have the right to rule themselves as they see fit
  - One country's court system cannot be used to rectify injustices or impose penalties in another country unless that country agrees

Jurisdictional Principles of International Law

- **Nationality principle**: Every country has jurisdiction over its citizens no matter where they are located
- **Territoriality principle**: Every nation has the right of jurisdiction within its legal territory
- **Protective principle**: Every country has jurisdiction over the behavior that adversely affects its national security

Jurisdictional Principles of International Law (continued 1)

- **Doctrine of comity**
  - Mutual respect for laws, institutions, and governments of other countries in the matter of jurisdiction over their own citizens
  - Part of international custom and tradition and not part of international law

Jurisdictional Principles of International Law (continued 2)

- **Act of state doctrine**
  - All acts of other governments are considered to be valid by U.S. courts
    - Even if such acts are inappropriate under U.S. law

Treatment and Rights of Aliens

- Countries have the legal right to:
  - Refuse admission of foreign citizens
  - Impose special restrictions on a foreign citizen's conduct, their right of travel, where they can stay, and what business they may conduct
- Nations can deport aliens, which may result in worker shortages

Forum for Hearing and Settling Disputes

- U.S. courts:
  - Can dismiss cases brought before them by foreigners
  - Are bound to examine issues such as:
    - Where the plaintiffs are located
    - Where the evidence must be gathered
    - Where the property to be used in restitution is located

Financial Services Regulation

- Global financial crisis of 2008–2010 underscored:
  - Integrated nature of financial markets around the world
  - Reality that regulatory failure in one jurisdiction had severe and immediate impacts on others
- Crisis and its broad economic effects have prompted regulators to tighten the financial services regulation

Foreign Corrupt Practices Act (FCPA)

- Makes it illegal to influence foreign officials through personal payment or political contributions
- Objectives of the FCPA
  - Stop U.S. MNCs from initiating or perpetuating corruption in foreign governments
  - Upgrade the image of both the United States and its businesses abroad

Foreign Corrupt Practices Act (FCPA)

(continued)

- Implementation allowed the U.S. Justice Department to uncover several developments
  - MNCs found that they could live within the guidelines set down by the FCPA
  - Many foreign governments applauded the investigations under the FCPA
    - Helped them crack down on corruption in their own country

Bureaucratization

- Restrictive foreign bureaucracies are one of the biggest problems facing MNCs
  - Particularly true when bureaucratic government controls are inefficient and left uncorrected
- In many developing and emerging markets, bureaucratic red tape impedes business growth and innovation

Regulation of Trade and Investment

- Individual countries use legal and regulatory policies to affect the international management environment
- Trade practices that distort trade
  - Countries engage in government support
  - MNCs are required to accept local partners
  - MNCs are mandated to employ a certain percentage of local workers or produce a specific amount in their country

Regulation of Trade and Investment
(continued)

- Trade agreements require that countries extend most-favored-nation status
  - Questioned by regional trade agreements

Trends in Technology, Communication, and Innovation

- Computers, telephones, televisions, and wireless forms of communication have merged to create multimedia products
  - Allow users anywhere in the world to communicate with one another
- Internet allows people to obtain information from several sources

Trends in Technology, Communication, and Innovation (continued 1)

- Open-source model allows for free and legal sharing of software and code
  - Can be utilized by underdeveloped countries in an attempt to gain competitive advantage while minimizing costs

Trends in Technology, Communication, and Innovation (continued 2)

- For-profit and nonprofit firms have created low-cost computers
  - Provided them to several children in the developing world
- Great potential exists for disruptions as the world relies more and more on digital communication and imaging

Areas of International Management Affected by Technology

- Biotechnology and nanotechnology
- Satellites
- Automatic translation telephones
- Artificial intelligence and embedded learning technology
- Silicon chips
- Advancements in computer chip technology
- Supercomputers

Biotechnology

- Creation of agricultural or medical products through industrial use and manipulation of living organisms
- Advancement has led to pharmaceutical competition and cloning of animals

Types of E-Business

Business to business (B2B)	Business to consumer (B2C)
E-retailing	Financial services (e-cash)

Telecommunications

- Technological leapfrogging is allowing the entire world to have global access to affordable cell phone services
- Merging of telephone and the Internet has replaced access via computers
- Wireless technology has been beneficial to less developed countries

Telecommunications (continued)

- Reason for the rapid increase in telecommunications services
  - Many countries believe that without an efficient communications system, their economic growth may stall
    - Governments cede control to private industry to attract foreign investments
- Developing countries are eager to attract telecommunication firms and offer liberal terms

Technological Advancements, Outsourcing, and Offshoring

- Technology has reduced and eliminated middle management and white-collar jobs
- Global competition has forced MNCs to outsource or offshore production
- Emerging technology has made work more portable
  - Advantage - Reduction in cost of doing business
  - Disadvantage - Loss of jobs or reduction in salaries

Be the International Management Consultant

- If you are a consultant for a business looking to expand in Europe, is Greece even an option?
- Do the facts that its population is comprised largely of government workers, that the citizens were largely in favor of defaulting on its national debt, and that the country nearly left the European Union constitute a deal breaker?

Be the International Management Consultant (continued)

- If the government does, in fact, implement the agreed-upon austerity measures, would that be a sign that the country is on the right track?
- What other concerns would you have about entering the Greek market?

Review and Discuss

1. In what ways do different ideologies and political systems influence the environment in which MNC's operate?
   – Would these challenges be less for those operating in the EU than for those in Russia or China?
     • Why or why not?

Review and Discuss (continued 1)

2. How do the following legal principles impact MNC operations: the principle of sovereignty, the nationality principle, the territoriality principle, the protective principle, and principle of comity?
3. How will advances in technology and telecommunications affect developing countries? Give some specific examples

Review and Discuss (continued 2)

4. Why are developing countries interested in privatizing their state-owned industries?
   – What opportunities does privatization have for MNCs?