

# International Management



## **Chapter 1 Assessing the environment (part 2)**

**Political, Economic, Legal,  
Technological, And Cultural**

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## Learning Objective 1.2



**To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face**

# The Environment of the Global Manager

**EXHIBIT 1-4** The Environment of the Global Manager

Political Environment	Economic Environment
<ul style="list-style-type: none"><li>• Form of government</li><li>• Political stability</li><li>• Foreign policy</li><li>• State companies</li><li>• Role of military</li><li>• Level of terrorism</li><li>• Restrictions on imports/exports</li></ul>	<ul style="list-style-type: none"><li>• Economic system</li><li>• State of development</li><li>• Economic stability</li><li>• GNP</li><li>• International financial standing</li><li>• Monetary/fiscal policies</li><li>• Foreign investment</li></ul>
Regulatory Environment	Technological Environment
<ul style="list-style-type: none"><li>• Legal system</li><li>• Prevailing international laws</li><li>• Protectionist laws</li><li>• Tax laws</li><li>• Role of contracts</li><li>• Protection for proprietary property</li><li>• Environmental protection</li></ul>	<ul style="list-style-type: none"><li>• Level of technology</li><li>• Availability of local technical skills</li><li>• Technical requirements of country</li><li>• Appropriability</li><li>• Transfer of technology</li><li>• Infrastructure</li></ul>
<b>Cultural Environment (see Part 2)</b>	

# The Political and Economic Environment


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- ❖ Sustainability — economic, political, social, and environmental, which has become a significant worldwide issue
- ❖ Top four risks — government regulation, country financial risks, currency risks, political and social disturbances
- ❖ Regions view risks differently — cyber security is the top risk of North America
- ❖ Ethnicity — a driving force behind political instability around the world
- ❖ Religion — religious disputes lie at the heart of regional instabilities, for example, former Yugoslavia, Northern Ireland, the Middle East...

# Political Risk

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Any governmental action or politically motivated event that could adversely affect the long-term profitability or value of a firm



## Examples

- Argentina announced plans to nationalize Repsol YPF, the Spanish oil Co., taking 51% shares
- Russian—Ukraine War
- ...

- In the US, the Republican party has extreme, conservative, and explosive views on international trade and businesses
  - Brexit
  - ...

# Political Risk Example

## *In Donald Trump's Worldview, America Comes First, and Everybody Else Pays*

By DAVID E. SANGER and MAGGIE HABERMAN MARCH 26, 2016



A NEW REPUBLICAN Donald J. Trump before addressing the American Israel Public Affairs Committee. His worldview does not fit into his party's recent history. Doug Mills/The New York Times



# Trends in Global Trade (Davos)

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# The Political Risk Cont.

## Typical Political Risks

- Expropriation and confiscation
- Nationalization
- Terrorism
- Discriminatory treatment
- Barriers to repatriation of funds
- Interference in managerial decision making
- Dishonesty by government officials

## Political Risk Assessment

- Helps companies manage exposure to risk and minimize financial loss
- **Two forms:**
  - a) Consultation with experts
  - b) Development of internal staff capabilities – increasingly common

# Managing Political Risk

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## Avoidance and Adaptation

- Equity sharing
- Participating management
- Localization of the operation
- Development assistance

## Dependency and Hedging

- Input control
  - Market control
  - Expatriate position control
  - Staged contribution
- 
- Political risk insurance (OPIC and FCIA)
  - Local debt financing

# Managing Terrorism Risk

- ❖ Develop a benevolent image
- ❖ Maintain a low profile and minimize publicity.
- ❖ Using teams to monitor terrorist activities
- ❖ Hiring counterterrorism consultants
  - ❖ Examples: IBM Unilever P&G



# Managing Economic Risk

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## Economic Risk...

- ❖ Closely related to political risk
- ❖ Determined by a country's ability or intention to meet its financial obligations
- ❖ Historically, most industrialized nations have posed little risk of economic instability, however the level of economic risk in the EU is of great concern due to debt problems of Greece, even in Italy??



# Categories of Economic Risk

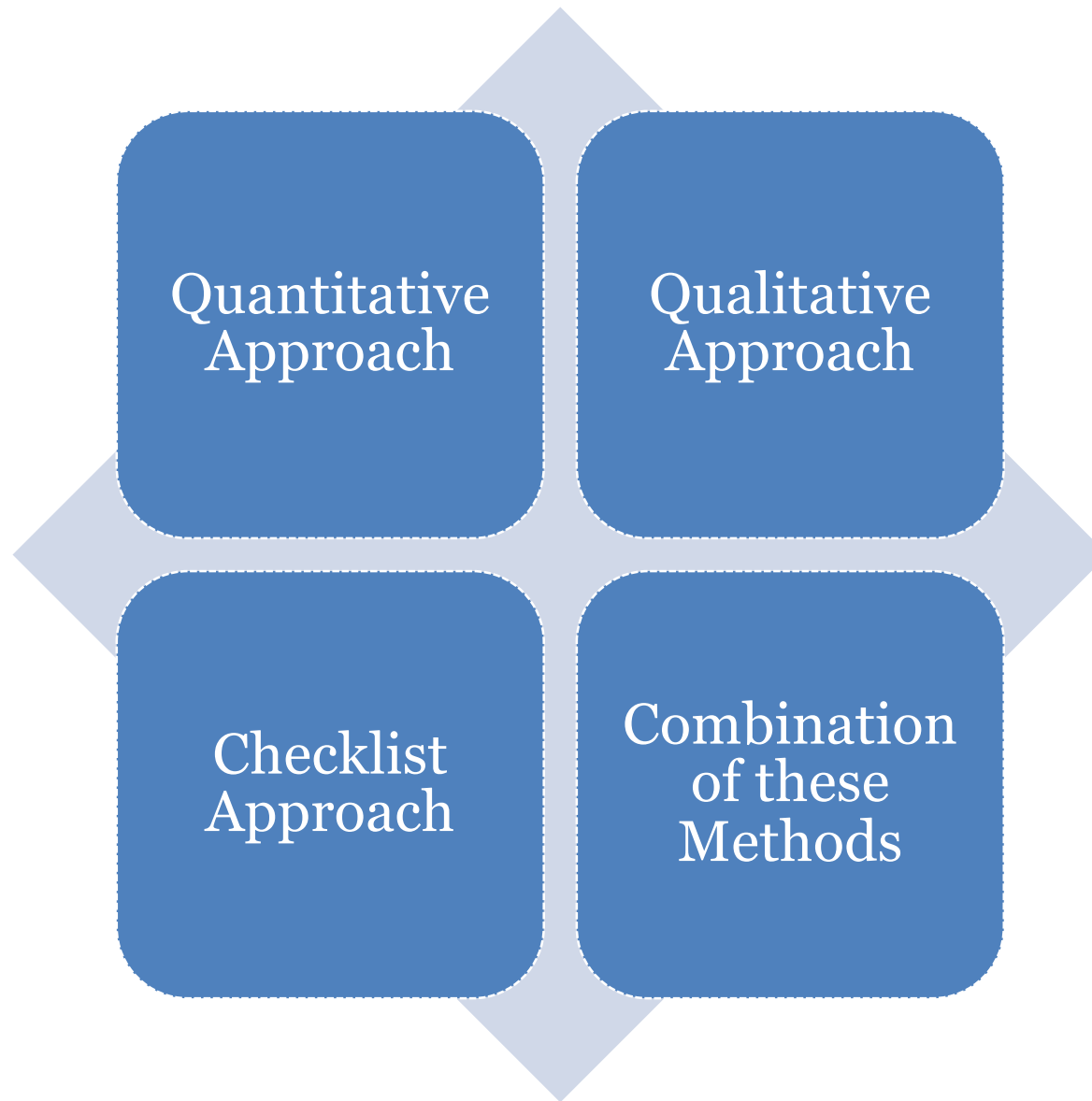
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- Loss of profitability due to abrupt changes in monetary and fiscal policies
- Loss of profitability due to changes in foreign investment policies
- Risk of currency exchange rate
  - choose a country and use the Website [www.reuters.com](http://www.reuters.com) (click *Market*, and then *Currencies*)
  - How much is that country's currency they would receive if exchanging €20.
  - What is the cost of some basic items such as the cost of a combo meal at McDonald's, a movie ticket, and a Coca-Cola?
  - How far does the money go there?

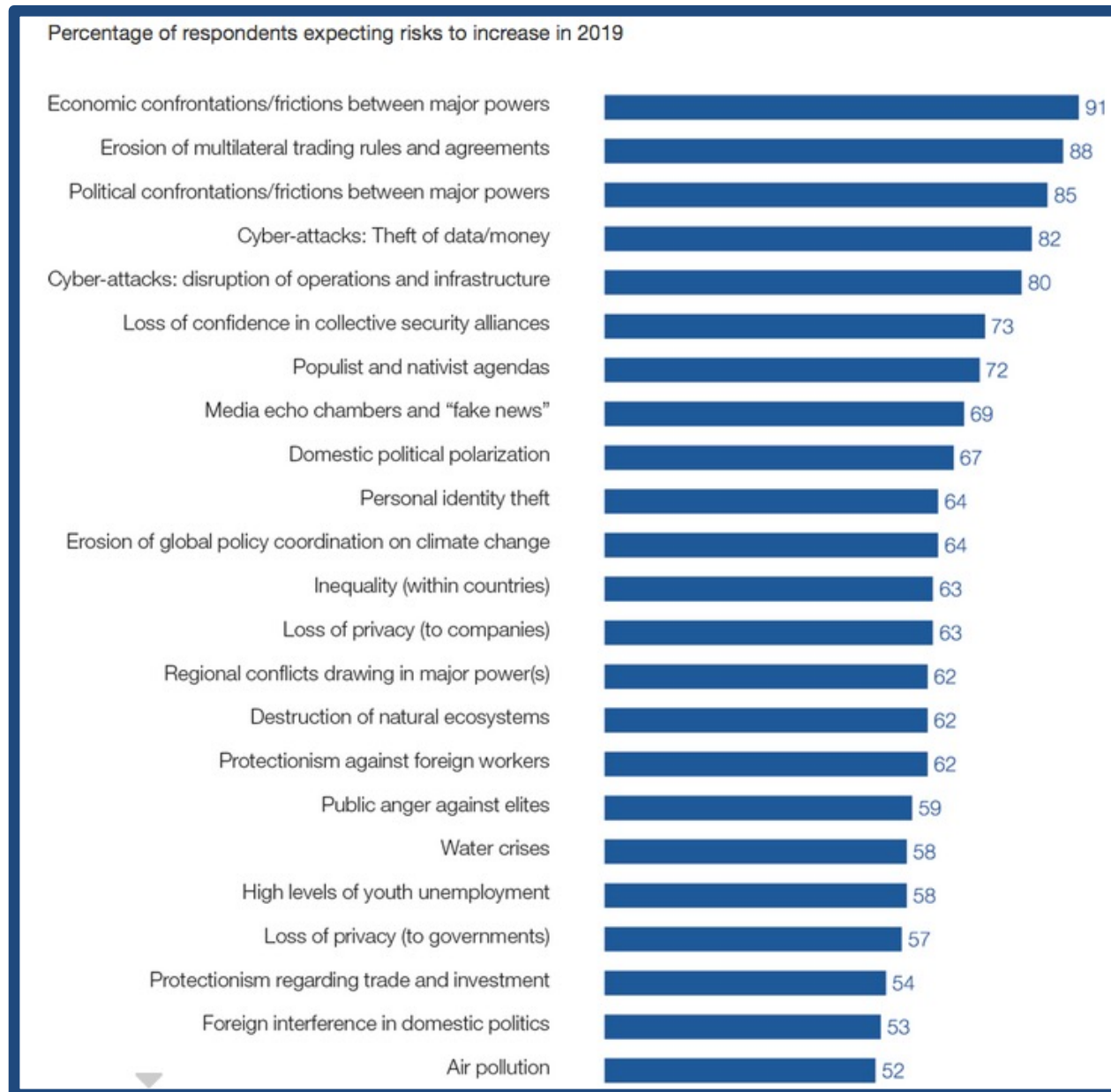


# Managing the Economic Risk

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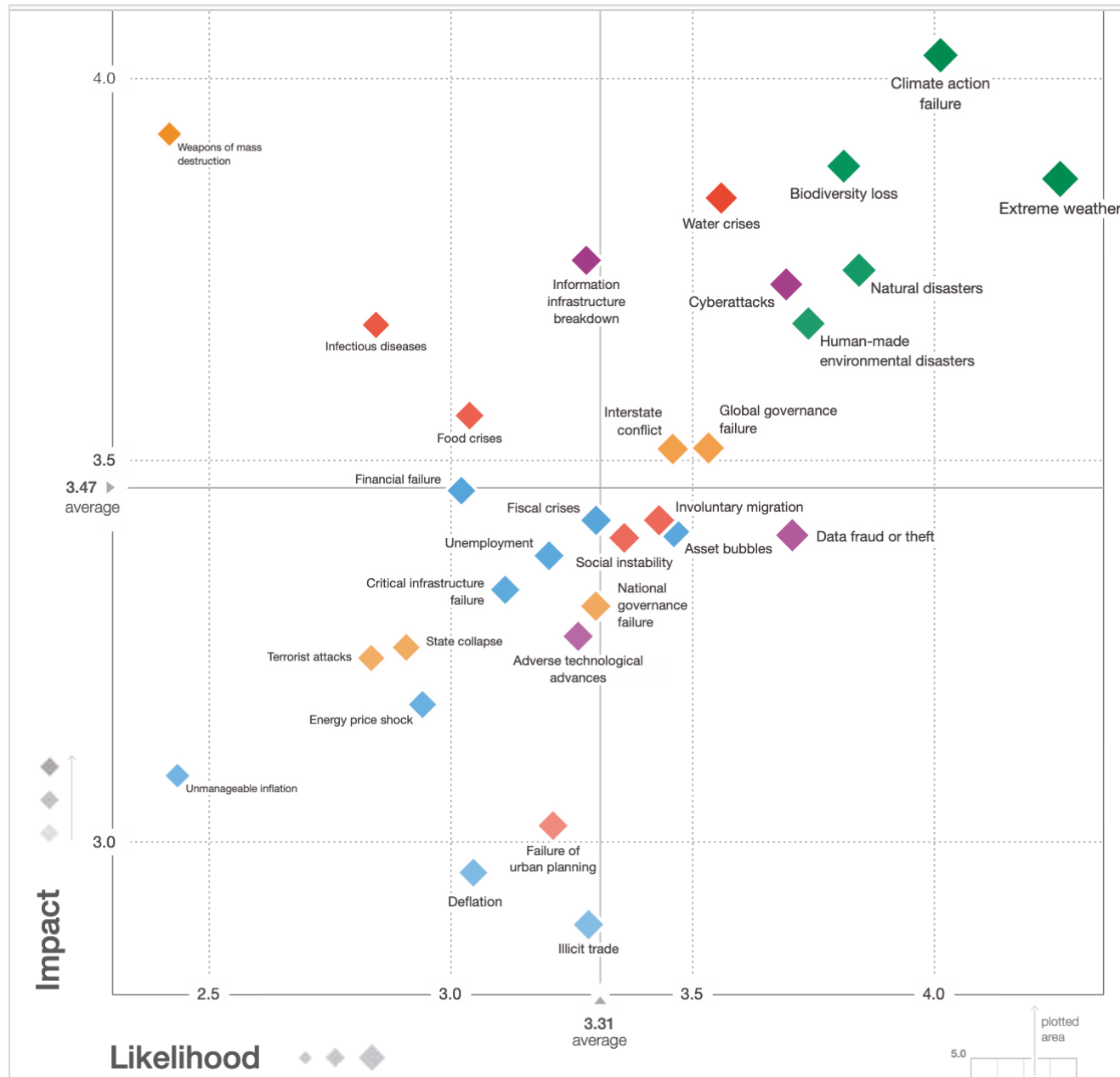


# Global Risk Ranking (2019)



Source: World Economic  
Forum Global Risks  
Perception Survey 2018 -  
2019

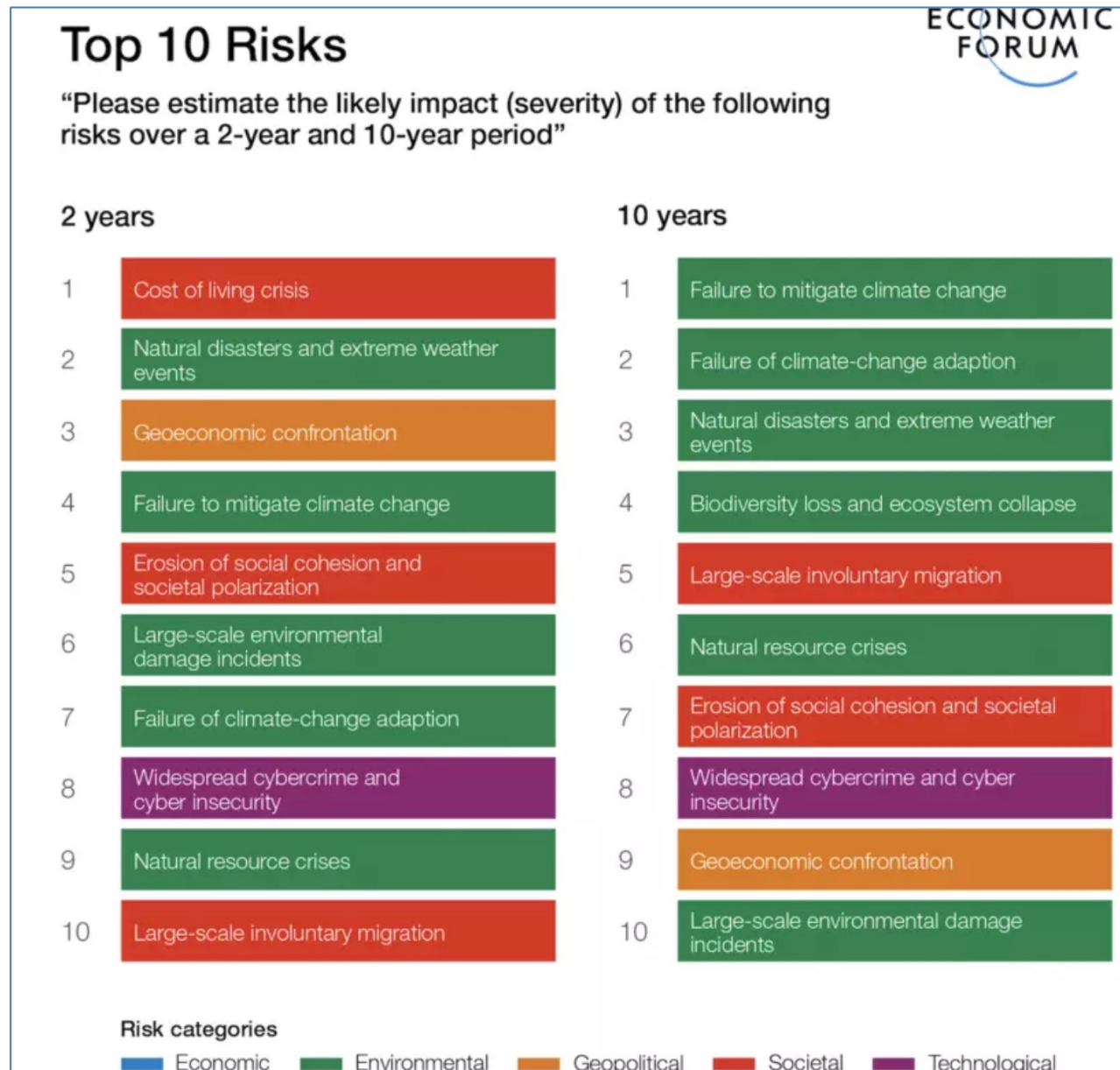
# The Global Risks Interconnection Map 2020



Source: World Economic Forum Global Risks Perception Survey 2019- 2020

# Global Risks Report 2023

## The World Economic Forum



Source: World Economic Forum, Global Risks Report 2023

# The Global Risks Report

## Short-term Government vs. Business





# The Big Mac Index

## The Big Mac index

Country	2000 — 2024	Under/over valued, %
Switzerland	Franc	43.5
Norway	Krone	25.5
Uruguay	Peso	23.7
Euro area	Euro	3.1
Sweden	Krona	3.1
Costa Rica	Colón	0.4
Britain	Pound	0.4
Denmark	Krone	0.0
United States	US\$	BASE CURRENCY
Sri Lanka	Rupee	0.0
Canada	C\$	-2.4
Mexico	Peso	-8.7
Colombia	Peso	-10.6
Australia	A\$	-10.8

Choose a base currency

US dollar

Show index at

Jan 2024

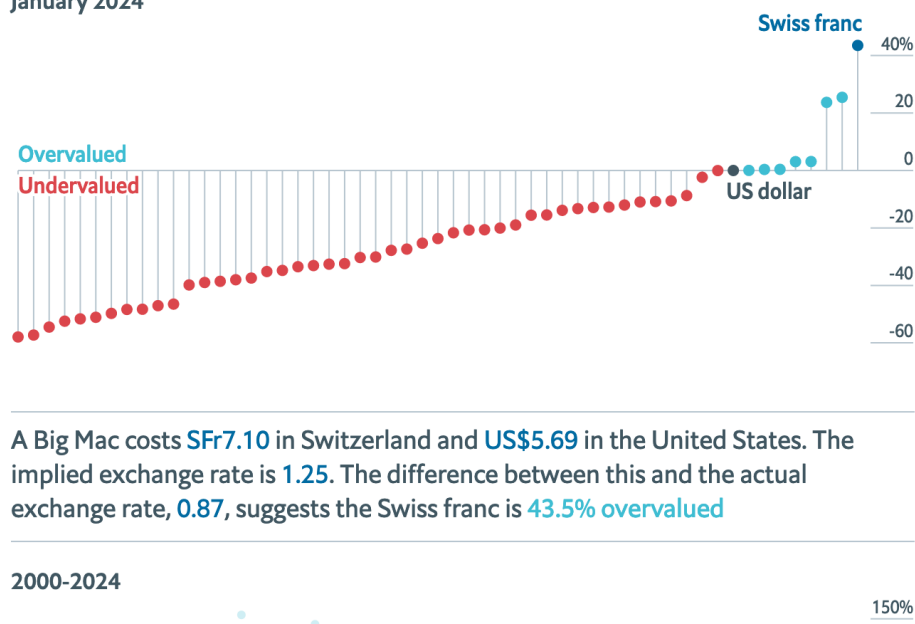
Adjust the index to account for GDP per person

Raw index

GDP-adjusted

The Swiss franc is 43.5% overvalued against the US dollar

January 2024



A Big Mac costs SFr7.10 in Switzerland and US\$5.69 in the United States. The implied exchange rate is 1.25. The difference between this and the actual exchange rate, 0.87, suggests the Swiss franc is 43.5% overvalued

An  
interactiv  
e currency  
compariso  
n tool

Invented by  
*The Economist* in  
1986

An informal  
guide to  
measure  
whether  
currencies  
are at their  
“correct”  
level

<https://www.economist.com/news/2019/01/10/the-big-mac-index>

## Learning Objective 1.3



To recognize the role of the legal environment  
in international business

# The Legal Environment

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- ❖ It consists of the local laws and legal systems of those countries in which an international company operates, and of international law, which governs relationships between sovereign countries

# The Legal Environment

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## Types of Legal Systems

- Common law
- Civil law
- Islamic law

## Approaches to Contract Law

- Common law: details must be written in the contract to be enforced
- Civil law: assumes promises will be enforced without specifying the details
- In Asia the contract may be in the relationship, not on the paper

## Other Regulatory Issues

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- ❖ Protectionist policies, such as tariffs or quotas
- ❖ The attractiveness of the tax system
- ❖ The level of government involvement in the economic and regulatory environment



# Learning Objective 1.4

To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe



# Is Globalization Finished ?

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# The Technological Environment

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- ❖ The appropriability of technology
- ❖ The International Convention for the Protection of Industrial Property (the Paris Union)
- ❖ Inappropriate use of technology by JVs, franchisees, licensees, and employees
- ❖ Appropriateness of technology for the local environment

# Globalization of Information Technology

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- ❖ The speed and accuracy of information transmission are changing the nature of international manager's jobs
- ❖ Cultural barriers are being lowered gradually
- ❖ Technology gets dispersed around the world by MNEs
- ❖ Explosive growth of information technology, artificial intelligence (e.g. ChatGPT) is both a cause and effect of globalism

Example: Management in Action  
Google to Set Up German Team to Tackle Privacy and Safety Issues

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- A team of engineers in Germany will tackle privacy issues
- Big tech companies face a backlash over harm caused by their products and services
- Google is struggling to balance its advertising focused business with a new emphasis on privacy
- Activists caution that default settings still allow Google to collect data



# Global E-Business

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- ❖ E-Business – the integration of systems, processes, organizations, value chains, and entire markets using Internet-based and related technologies and concepts
- ❖ E-Commerce – marketing and sales process via the internet
  - B2B – Business to Business (example: Alibaba in China, large proportion is SMEs)
  - B2C – Business to Customer (example: Amazon.com)
  - C2C – Customer to Customers (example: ebay)


# Digital Technology Trend

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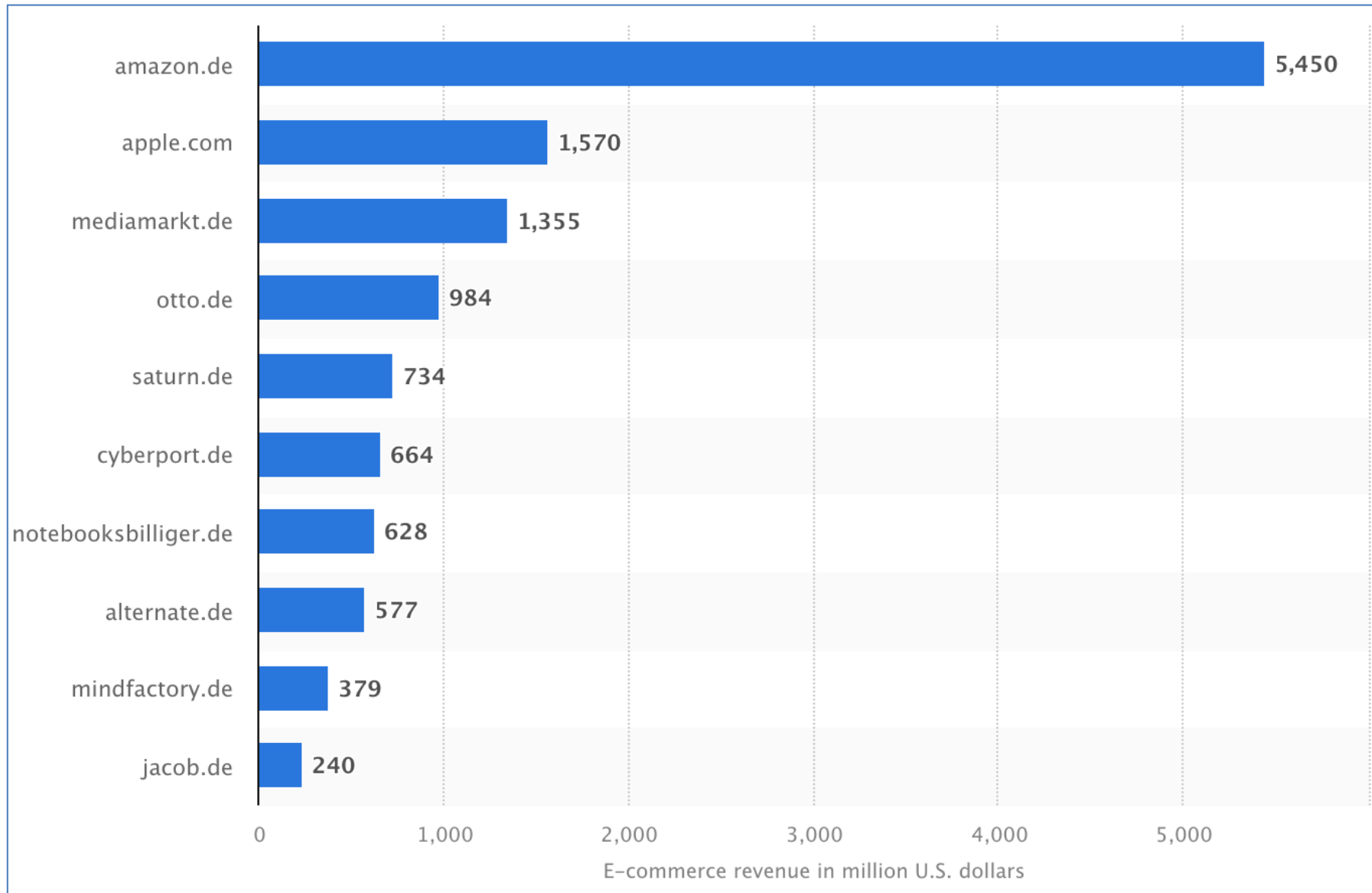
- ❖ Manufacturing – The 4th industrial revolution
- ❖ The digitization, automation, and A.I. of e.g. Robotics, will transform production, supply chain, and services
  - ❖ e.g. Goods and services are made by robots — and change the landscape of jobs
- ❖ (Winter Semester Seminar: The Impact of AI on International Business and Society)

# Leading Online Retailers Worldwide

		BASED IN	2021 ONLINE REVENUE (IN BILLIONS)	MONTHLY TRAFFIC
	AMAZON		\$469.80	3.6B
	ALIBABA		\$109.50	123.9M
	WALMART		\$64.90	618.5M
	APPLE		\$31.20	1.9B
	HOME DEPOT		\$20.70	206.8M
	TARGET		\$19.70	202M
	BEST BUY		\$18.70	153.9M
	WAYFAIR		\$13.70	77.2M
	EBAY		\$13.60	558.8M
	COSTCO		\$13.40	82.6M
	KROGER		\$12.80	75.2M
	IKEA		\$6.80	193M
	RAKUTEN		\$5.20	42.8M
	ETSY		\$2.30	432.6M

 ecommerceCEO

# Germany: Top 10 Consumer Electronics online stores 2022



Source: [Lynn Beyrouthy](#), Feb 13, 2024 Statista 2024

# The Impact of the Information Technology

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- Making Geographic barriers less relevant
- Both cause and effect of globalization
- Lowering cultural barriers (in some areas)
- Encouraging convergence of consumers' tastes and preferences across national borders
- However, China still monitors and limits electronic information

# Global E-Business

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- E-Business—the integration of systems, processes, organizations, value chains, and entire markets using Internet-based and related technologies and concepts
- E-Commerce—marketing and sales process via the internet
- B2B—Business to Business (Example: Alibaba in China, large proportion is SMEs)
- B2C—Business to Customer (Example: Amazon.com)
- C2C (Airbnb, Uber, Etsy, etc. )
- P2P (FileSharing, Homesharing, Open Source Software, etc. )
- S2C (WeChat, TikTok, Instagram, etc)
- ...

# Global E-Business: reading materials for business managers

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- ❖ *The Economist* and the *Harvard Business Review*, and *BCG*, PwC, McKinney, etc. consulting firms publish regularly special section on information technology.
- ❖ Websites like Forrester Research ([www.forrester.com](http://www.forrester.com)) and E-marketer ([www.emarketer.com](http://www.emarketer.com))
  - ❖ regular updates on all facets of Electronic Commerce including statistics on the current state of B2B transactions online.
  - ❖ You can visit online or request updates delivered to their email accounts.
- ❖ See also MIT Technology Review and Forbes:
  - ❖ <https://www.technologyreview.com/>
  - ❖ <http://www.forbes.com/technology/>

# Useful Sites

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## ❖ IT Research Sites:

- ❖ <https://www.forrester.com/home/>
- ❖ <http://www.forbes.com/technology/>

## ❖ Research site for international management:

- ❖ <http://globaledge.msu.edu/>



## Learning Objective 1.5



To explore essential skills for  
developing your career as a manager  
in a multinational company

# Developing Skills to Enhance Your Career

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- Communication
- Critical thinking
- Collaboration
- Knowledge application/analysis
- Business ethics/social responsibility

# Country Assessment Briefing Sites

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- ❖ For the latest statistics:
  - ❖ World Trade Organization—[www.WTO.org](http://www.WTO.org)
  - ❖ Financial Times—[www.ft.com](http://www.ft.com)
  - ❖ CEO Express—[www.ceoexpress.com](http://www.ceoexpress.com)
  - ❖ CIA Country Factbook

# Some Global brands

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- ❖ Disney
- ❖ Michelin
- ❖ Philips
- ❖ Honda
- ❖ Swiss Air
- ❖ Shell Oil
- ❖ Nestle
- ❖ Häagen-Dazs Ice Cream
- ❖ Procter & Gamble

- Outback Steakhouse
- Unilever
- Volvo
- LG
- AIG
- Anheuser-Busch InBev
- [Total](#)
- Rio Tinto
- Pfizer

## Some Global brands

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- ❖ Disney (United States)
- ❖ Michelin (France)
- ❖ Philips (Netherlands)
- ❖ Honda (Japan)
- ❖ **Swiss Air (Germany)**
- ❖ Shell Oil (Netherlands)
- ❖ Nestle (Switzerland)
- ❖ **Häagen-Dazs Ice Cream**  
(the brand name is still owned by General Mills **but is licensed to Nestlé in the US and Canada Switzerland**)
- ❖ Procter & Gamble (United States)

- **Outback Steakhouse (United States)**
- **Unilever (Netherlands)**
- **Volvo (China)**
- LG (South Korea)
- AIG (United States)
- Anheuser-Busch InBev (Belgium)
- [Total](#) (France)
- Rio Tinto (United Kingdom)
- Pfizer (United States)