
CHAPTER TWO

The Political, Legal and Technological Environment

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The Political, Legal, and Technological Environment

■ Chapter Objectives:

1. **INTRODUCE** the basic political systems that characterize regions and countries around the world and offer brief examples of each.
2. **PRESENT** an overview of the legal and regulatory environment in which MNCs operate worldwide.
3. **REVIEW** key technological developments as well as their impact on MNCs now and in the future.

Political Environment:

- **Ideologies** (ideas reflecting beliefs and values influencing behavior/culture of nations and political systems) underlie the actions of governments.
- **Evaluate a political system** along two dimensions: (1) rights of citizens based on a system of government (range democratic to totalitarian); (2) Focus of political system on individualism vs. collectivism.
- No pure form of government
- Democratic tend to emphasize individualism and totalitarian tends to emphasize collectivism.

(1) Ideologies:

Individualism

- People should be free to pursue economic and political endeavors without constraint.
- In business context, similar to capitalism and connected to free market society
- Private property more successful, productive, and progressive than communal property
- Betterment of society related to level of freedom individuals have in pursuing economic goals.

(1) Ideologies: Collectivism

- Does not value individual as such
- Views needs/goals of society at large as more important than individual desires
- No rigid form of collectivism as societal goals differ greatly among cultures
- e.g.: *Fascism*: nationalism, authoritarianism, militarism, corporatism, collectivism, totalitarianism

(1) Ideologies:

Socialism

- Government ownership of institutions
- Profit is not the ultimate goal
- Can be viewed as moderate example of collectivism in practice
- Has been practiced in China, North Korea, Cuba
- Democratic socialism, more moderate form, practiced by Great Britain's Labour Party, and in France, Spain, and Greece
- Communism

(2) Political Systems: **Democracy**

- European roots
- System in which 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 electorate for actions (which limits power of government)

(2) Political System: **Totalitarianism**

- The control of political and human life
- The maintenance of power
- Others

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Political Environment

Regional Example: China

- Emerging economic power
- Government attempting to open up economy:
 - Speed up conversion of state enterprises into corporations
 - Trade liberalization a top priority since joining WTO in 2001
 - Becoming a more open, democratic society
 - Greater tolerance of individual freedoms
 - Worker retraining, low-cost housing and other programs
 - Seeking to unleash a more dynamic market economy

Political Environment:

Regional Example: Europe

- Privatization and economic liberalization reinforce EU-wide political and economic integration
- Political power is variable and complex
- Strong opposition to U.S.-led intervention in Iraq sometimes spill over into business relationships and dealings
- Europe is a large interwoven region economically, but contains vast cultural differences

Political Environment:

Example: The Middle East

- In Iran and Saudi Arabia laws and government based on Islamic principles
- Business conduct in Middle East similar to Western in many ways
- Worldwide fallout from war on terrorism have made business environment there risky and potentially dangerous

Political Environment:

Example: Russia

- Neglect and confusing changes in economic policy
- Infrastructure is weak and a political quagmire
- Corruption interferes with attraction of more foreign investment

Legal and Regulatory Environment

- Confusion and challenge for the MNC due to many different laws and regulations in global business operations
- MNCs must carefully evaluate legal framework in each market before doing business

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Four Global Foundations of Law:

1. Islamic
2. Socialist
3. Common
4. Civil or code

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Four Global Foundations of Law:

Islamic Law

- Derived from interpretation of Qur'an and teachings of Prophet Muhammad
- Found in Islamic countries: Middle East and Central Asia

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Four Global Foundations of Law:

Socialist Law

- Origins in Marxist socialist system
- Requires most property to be owned by state or state enterprises
- Continues to influence regulations in former communist countries:
 - Members of former Soviet Union
 - Peoples' Republic of China
 - Vietnam [cuu duong than cong. com](http://cuuduongthancong.com)
 - North Korea
 - Cuba

Four Global Foundations of Law: Common Law

- Origins in English law
- Foundation of legal system for:
 - United States
 - Canada
 - England
 - Australia
 - New Zealand

Four Global Foundations of Law: Civil or Code Law

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

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Basic Principles of International Law

- Sovereignty and Sovereign Immunity
- International Jurisdiction
- Doctrine of Comity
- Act of State Doctrine
- Treatment and Rights of Aliens
- Forum for Hearing and Settling Disputes

Basic Principles of International Law:

- **Sovereignty and Sovereign Immunity:** An international principle of law which holds that governments have the right to rule themselves as they see fit.

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Basic Principles of International Law:

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

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Basic Principles of International Law:

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

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Basic Principles of International Law:

- **Act of State Doctrine:** A jurisdictional principle of international law which holds that all acts of other governments are considered to be valid by the court of the country, even if such acts are illegal or inappropriate under that country's law.

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Basic Principles of International Law:

- **Treatment and Rights of Aliens:** Countries have the legal right to refuse admission of foreign citizens and to impose special restrictions on their conduct, right of travel, where they can stay, and what business they may conduct.
- Nations can also deport aliens.

Basic Principles of International Law:

- **Forum for Hearing and Settling Disputes:**
U.S. courts can dismiss cases brought before them by foreigners; however, they are bound to examine issues such as:
 - ❑ where the plaintiffs are located
 - ❑ where the evidence must be gathered
 - ❑ where property to be used in restitution is located

Legal and Regulatory Issues

- Foreign Corrupt Practices Act
 - Illegal to influence foreign officials through:
 - personal payment
 - political contribution
- Restrictive bureaucratization
- Privatization

Regulation of Trade and Investment

- Individual countries use legal and regulatory policies to affect the international management environment
- Country is perceived to engage in unfair trade practices (WTO and similar agreements)
 - Government support (subsidies)
 - Require MNCs to accept local partners
- Response may be
 - Retaliatory tariffs
 - Restrictive trade regulations

Technological Environment and Global Shifts in Production

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



Technological Environment and Global Shifts in Production (continued):

■ E-business:

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



■ Telecommunications

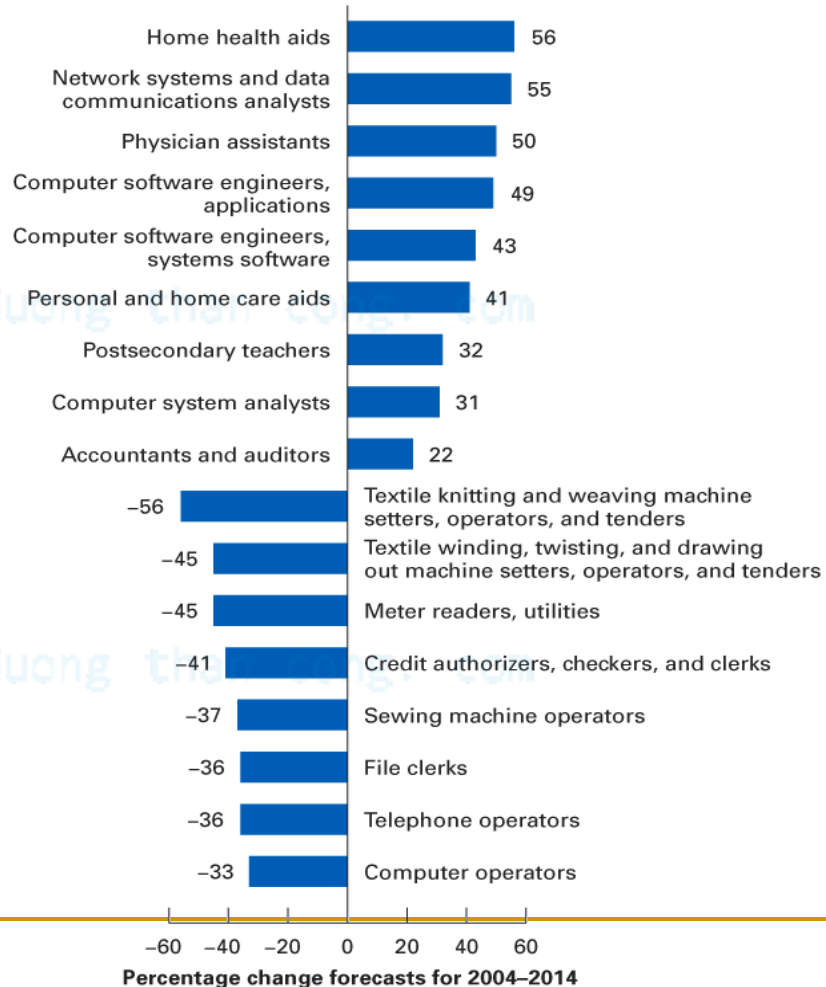
■ Technology, outsourcing and offshoring:

- ❑ Technology has reduced and eliminated some work in middle management and white collar
- ❑ Global competition has forced some MNCs to outsource jobs to offshore productions
- ❑ Emerging technology makes work more portable

Expected Winners/Losers in Selected Occupations

Figure 2-1

**Winners and Losers in
Selected Occupations:
Percentage Change
Forecasts for 2004-2014**



Source: U.S. Bureau of Labor Statistics, www.bls.gov/opub/mlr/2005/11/art5_full.pdf.

Review and Discuss

1. In what ways do different ideologies and political systems influence the environment in which MNC's operate?
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.