

# International Management

# PLAN FOR THE DAY

Part 1: How do (differences in) formal institutions pose non-trivial risks for international business?

Part 2: How do firms use political relationships to (re)shape the rules under which they operate?

Part 3: How can these 'non-market strategies' create opportunities that affect international competitive success?

Part 4: Informal institutions: looking at culture

Part 5: Dimensions of culture and cultural distance

Part 6: The relevance of culture for business

# PART 1:

HOW DO FORMAL INSTITUTIONS RELATE TO RISK?

# GOVERNMENTS MATTER

BUSINESS | Updated September 4, 2012, 8:15 p.m. ET

## Effort to Start Pumping Ugandan Oil Stalls

Plans by Tullow, Total and Cnooc for the Sector Face Setbacks as Government Approval Until Refinery Is Built

Article

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By NICHOLAS BARIYO and GERALDINE AMIEL

LONDON—Plans by [Tullow Oil](#) TLW.LN -0.79% PLC, [Total SA](#) and [Cnooc Ltd.](#) CEO -1.61% to start pumping Ugandan crude face renewed setbacks as a growing rift between the partners and the East African nation delays an ambitious plan to develop the country's nascent oil sector.



Enlarge Image

Tullow Oil Uganda/Reuters

A Tullow Oil site in Uganda, where the company's plans to pump oil have become mired in a dispute over construction of a refinery.

Less than six months after Uganda approved Tullow's long-delayed \$2 billion deal to split its oil licenses with Cnooc and Total, Uganda is withholding approval of the companies' development plan until several issues are resolved, chief of which is Uganda's desire to partly fund a large refinery.

With around 1.8 billion untapped reserves of oil, Uganda is expected soon to join Nigeria, Angola and Sudan among Saharan Africa's major crude oil producers.

Tullow—and its predecessors—have faced a litany of problems that continue to back the planned start of production.

Tullow bought out former partner, [Heritage Oil PLC](#) HOILLN -0.81%. They are used to co-own two oil blocks in the Lake Albertine rift basin, currently owned by Total and Cnooc.

In an interview, Uganda Junior Energy and Minerals Minister Peter Lokoris said he rather see initial production delayed by several years than implement an accelerated development plan.

BUSINESS | Updated September 4, 2012, 4:17 p.m. ET

## EU Opens Investigation of Russia's Gazprom

Article

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By VANESSA MOCK and STEPHEN FIDLER

BRUSSELS—The European Union escalated its push to break Russian domination of Europe's natural-gas supplies as it launched an investigation Tuesday into suspected efforts by Moscow's state-owned energy giant OAO [Gazprom](#) OGZPY +0.10% to lock up markets on the bloc's eastern flanks.

The investigation, which followed raids on the company's offices last September, is aimed at lifting obstacles Gazprom has supposedly thrown in the path of countries diversifying their supplies of natural gas and integrating their energy markets with the rest of the continent, officials said.

EU said the probe will look at Gazprom's behavior in eight countries. Russia supplies 36% of the EU's natural gas, but it is the effective sole supplier to Bulgaria, Estonia, Latvia, Lithuania and Slovakia. According to EU data, it also supplies 82% of Poland's gas, 83% of Hungary's and 69% of the Czech Republic's.

Gazprom's domination of the market in that region, its ownership of pipelines that only deliver gas east to west, and its insistence that gas buyers sign long-term contracts that tie natural gas prices to the price of oil have been a source of concern to the European Commission, the EU executive in Brussels, particularly since Russia cut off supplies to Ukraine and parts of Eastern Europe in 2006 and 2009.

The commission has sought to reduce Gazprom's grip on the region by introducing new energy policies aimed at splitting gas suppliers from pipeline ownership in the EU, and by encouraging the construction of pipelines from gas fields outside Russia, for example

# RISK = WHEN THE RULES ARE UNKNOWN

Try to match numbers with letters:

- |  |                |
|--|----------------|
| 1) It is illegal to kill a sasquatch in...   | a) South Korea |
| 2) You must make sure there are no children under your car before you start the engine in... | b) Canada      |
| 3) It is illegal to kiss in train stations in...   | c) Thailand    |
| 4) Traffic police are required to report all bribes that they receive from motorists in...   | d) Singapore   |
| 5) It is illegal to pee in an elevator in...   | e) Denmark     |
| 6) It is illegal to leave your house if you are not wearing underwear in...                  | f) Japan       |
| 7) The “age of consent” is as low as 13 in...  | g) France      |

# INSTITUTIONS CAN BE WEAK OR STRONG

- “Institutional weakness” means incentive structures are absent, arbitrary, or ambiguous
- This translates into unpredictability and thus risk: political risk, legal risk, financial risk
- Depends in part on whether society is rule-based or relationship-based:
  - In rule-based settings, institutions are more transparent and predictable (to outsiders) than in relationship-based settings



# INSTITUTIONAL WEAKNESS = UNCERTAINTY

## China Sentences Rio Tinto Employees in Bribe Case

By DAVID BARBOZA

Published: March 29, 2010

SHANGHAI — Four employees of the British-Australian mining giant Rio Tinto, including an Australian citizen, were found guilty Monday of accepting millions of dollars in bribes and stealing commercial secrets.

RECOMMEND

TWITTER

E-MAIL

“All traffic laws in European countries aren't really followed.”

“Shopping in Seoul – Instead of paying previously established prices, individuals often bargain.”

# ENFORCEMENT ISSUES

e.g. the protection of intellectual property rights

**Figure 6: Estimates of International Trade in Infringing Goods  
(in billions)**

	2005 (OECD)	2007 (OECD)	2008 (BASCAP)	2015 (Est.) (BASCAP)
Value of infringing goods traveling across borders	\$200	\$250	\$285-360	\$770-960
Domestically produced and consumed infringing goods	N/A	N/A	\$140-215	\$370-570
Digital piracy	N/A	N/A	\$35-70	\$80-240
Total	N/A	N/A	\$460-645	\$1,220-1,770

**Source:** Organisation for Economic Co-Operation and Development, "The Economic Impact of Counterfeiting and Piracy," 2008; Frontier Economics, "Estimating the Global Economic and Social Impacts of Counterfeiting and Piracy: A Report Commissioned by the Business Action to Stop Counterfeiting and Piracy (BASCAP)," Feb. 2011.





# DEFINITIONAL ISSUES

## Corruption and bribery

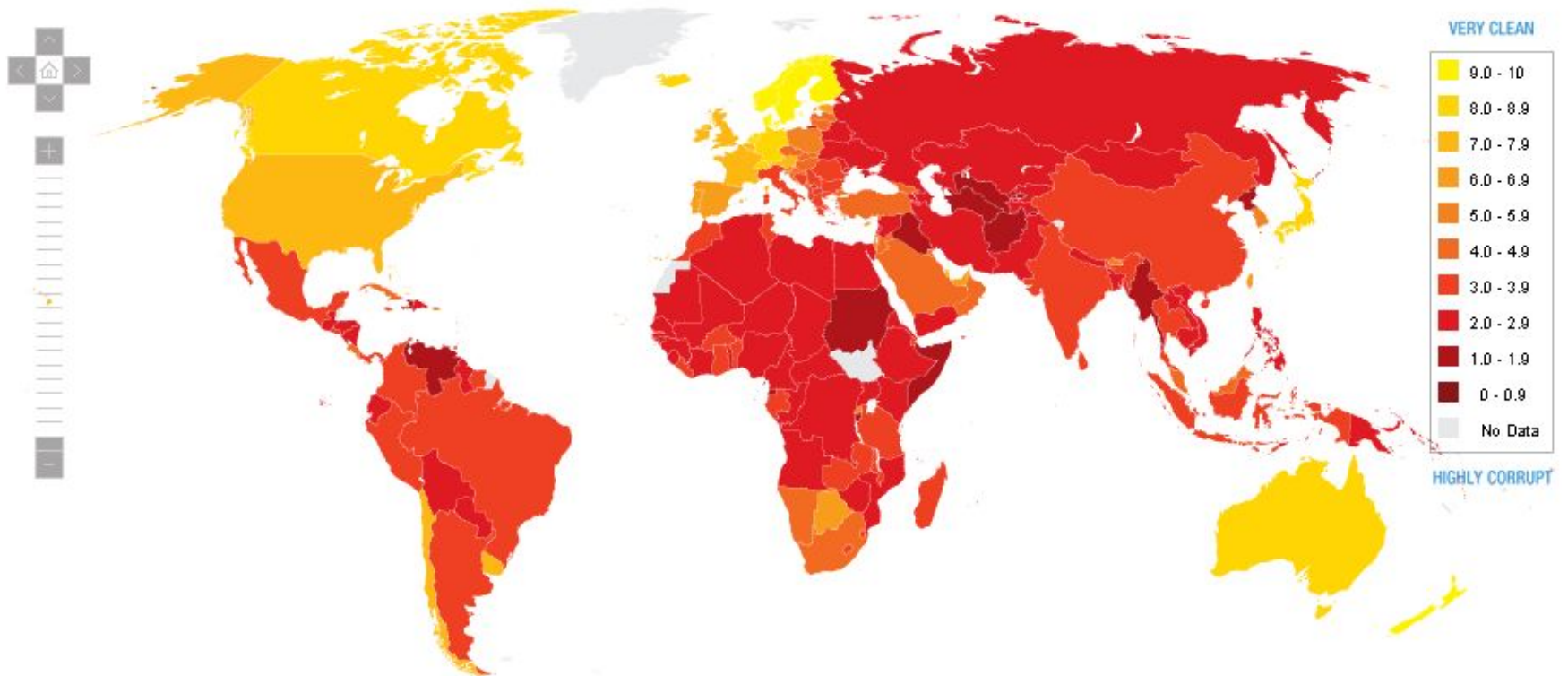


- ‘Facilitating payments’ - not uncommon
- US has laws against bribery abroad (the Foreign Corrupt Practices Act)
  - But: how to define bribery, especially where a technical, legal definition is lacking?

# ON CORRUPTION

CORRUPTION PERCEPTIONS INDEX 2011

[VIEW COUNTRY RESULTS](#)



# INSTITUTIONAL STRENGTH CAN = RISK

- Institutional barriers: host-country regulations
  - FDI requirements
  - Restrictions on marketing
  - Limits on income repatriation
  - Environmental regulation
  - 'Anti-terrorism' laws
  - Competition policy



# OTHER UNPREDICTABLES...

- Embargoes and sanctions (e.g. Cuba, North Korea)
- Boycotts (e.g. Shell / Nigeria)
- Terrorism (e.g. Spain (ETA), India, Pakistan, Iraq)
- Hostage taking (e.g. Colombia)
- Expropriation (e.g. Colombia)





# OTHER UNPREDICTABLES...

THEORY & PRACTICE | MARCH 7, 2011

## Venezuela Roils

Devaluation of Bolivar, Expro

Article Stock Quote

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By DANA MATTIOLI

Venezuela's currency devaluation companies last year and remain



View Full Image

Venezuelan President Hugo Chávez Friday, has threatened the expro Toyota.

2.15 bolivars a dollar. The formula maker Mead Johnson last year. Mattel Inc. and

"Unfortunately, we are facing Johnson's finance chief, call.

## Bottled Water Firm Closing Namesake Fiji Business

Monday, 29 November 2010 14:12

SUVA, Fiji — Fiji Water on Monday closed its operations in the South Pacific country that gives the popular bottled drink its name, saying it was being singled out by the military appointed government for a massive tax increase.

A company statement announcing the decision did not say whether the company was shutting down permanently in Fiji, where an aquifer deep underground has been the source of one of the world's most popular bottled water brands.

The company, owned by California entrepreneurs Lynda and Stewart Resnick, said it was closing its facility in Fiji, canceling orders from suppliers and putting on hold several construction contracts in the country.

But the company wanted to keep operating in Fiji and was willing to hold discussions with the government about that, said the statement, issued from the company's headquarters in Los Angeles.

In the statement, Fiji Water president John Cochran said Fiji's government announced last week that it was imposing a new tax rate of 15 cents per liter on companies extracting more than 3.5 million liters (920,000 gallons) of water a month - up from the current one-third of one percent rate. Fiji Water is the only company extracting that much water.

"This new tax is untenable and as a consequence, Fiji Water is left with no choice but to close our facility in Fiji," the company, which sells its bottled water in more than 40 countries, said.

The tax rise comes amid a deep downturn in Fiji's economy that is blamed on political instability following a coup in 2006 by armed forces chief Commodore Frank Bainimarama - Fiji's fourth coup since 1987. Key trading partners have imposed various sanctions on the government, including European Union restrictions on the vital sugar industry.

Bainimarama's government has also taken a hard line with foreign companies. Rupert Murdoch's News Ltd. in September sold its controlling stake in Fiji's main daily newspaper after the government imposed strict new foreign ownership limits on media companies.

## COMPANIES

### assets seizure

2011 22:30

the foreign assets of Sonatrach to against its Algerian partner

ptional profits in 2006, levying price exceeds \$30 per barrel. 93m last year - violates an 1989. An arbitration hearing on

EDITOR'S CHOICE

- Algeria frustrates BP asset sales plan - Dec-05
- Anadarko's Jubilee party caps tough year - Dec-14
- Algeria reshuffle hits oil portfolio - May-30

ats that his lawyers were e, if not in Algeria then ding to a cable sent in

the situation: "If Sonatrach Anadarko would then ets abroad."

n if it wins the arbitration, valent costs".

etly within Anadarko management is wondering whether

# MARKET STRATEGIES FOR REDUCING RISK

- Negotiating risk has a price, and that price can be evidenced in various *hedging* strategies:
  - Allying with local partners in foreign locations
  - Using extensive legal contracts and dispute settlement (conciliation, arbitration, litigation)
  - Keeping intellectual property close to home
  - Spreading operations across multiple locations
  - Continuous monitoring of the environment, including contingency planning (financial reserves)

# PART 2:

POLITICAL STRATEGIES FOR REDUCING RISK:  
THE BUSINESS-GOVERNMENT NEXUS

# BUSINESS-GOVERNMENT DYNAMICS

- Firms have two basic strategies to exert pressure on politicians: **Voice** and **Exit**
  - Voice typically means lobbying, but can also be collective bargaining
  - Exit means relocating value-adding activities offshore (or at least the threat)
- Business-government interaction can be thought of as **institution building (establishing rules)**



# 'VOICE' STRATEGIES

'Voice' is big business. In the US in 2007, for instance:

- AMA spent \$22.1 million
  - GE spent \$23.6 million
  - US CoC spent \$52.8 million
  - Drug and Health Care product makers spent \$227 million
- ... for a Grand Total of \$2.79 billion, or \$17 million for each day Congress was in session

# 'VOICE' STRATEGIES

BUSINESS | FEBRUARY 7, 2012

## Aerospace Report Hits Rules on Exports

Article | Stock Quotes | Comments (3)

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By ANDY PASZTOR

Satellite makers and their suppliers are stepping up demands for controls, painting in stark economic terms the impact of what they see as curbing their ability to compete for commercial orders against foreign satellite makers.

On Tuesday, industry trade group Aerospace Industries Association released details of a report concluding that U.S. export controls may have cost tens of thousands of American jobs and hurt aerospace companies since the late 1990s. More than 400 satellite manufacturing disappeared in some years, according to data, followed by many thousands of additional jobs that are dependent on aerospace spending.

**More**

- Boeing Teams Speed Up 737 Output

The study is the latest in a long effort by U.S. Congress to ease export controls governing commercial-satellite sales globally. The report aims to highlight the

HEARD ON THE STREET | DECEMBER 10, 2011

## China Sweetens Regulations for Foreign Firms

Article | Comments (1)

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By TOM ORLIK

This week, China's antitrust regulators approved Nestlé's \$1.7 billion purchase of candy maker Hsu Fu Chi International Ltd. That follows hot on the heels of approval for Yum Brands Inc. to buy hot-pot restaurant chain Little Sheep. It is a striking contrast to 2009, when Coca-Cola's \$2.4 billion bid for Huiyuan, one of China's top juice makers, was blocked on competition grounds.



Nestlé's market share is small, so the acquisition doesn't raise the same competition concerns as the Coke deal. A combined Coke and Huiyuan would have commanded about 20% of the fruit and vegetable drink market, according to Euromonitor. Nestlé's sugar confectionary market share with Hsu Fu Chi will be 6.1%.

But Yum's portion of the food-service market is more significant. Buying Little Sheep takes the U.S. firm's share to 19.9%, from 17.8%. If Coke's deal rang anticommunity alarm bells, they also should have rung when Yum moved to wolf down Little Sheep.

# 'EXIT' VERSUS 'VOICE'?

- Threat of relocation is real, but should not be overstated – governments want their firms to stay
- So does the firm!
  - Consider the \$ invested in 'voice' vs. 'exit' (given that only 10% of world GDP is foreign controlled)
- Governments invest in public goods and policies designed to 'help' their own firms and benefit the economy – they don't want this to drain away

# HOW DO GOVERNMENTS RESPOND TO 'VOICE'?

With favorable rules! (=INSTITUTIONS)

- Exporting industries: subsidies
  - Getting the competitor to cede market share
- Import-competing industries: tariffs
  - Getting 'infant industries' competitive
- Domestic non-tradable industries: FDI restrictions
  - Securing value added within borders

# PART 3:

HOW DO POLITICAL STRATEGIES AFFECT  
INTERNATIONAL COMPETITIVE SUCCESS?

# WE CAN LOOK AT IT FROM THIS ANGLE

- Why do some firms enjoy a political advantage over their competitors in international trade disputes?



**BOMBARDIER**



# ...BECAUSE OF BUSINESS-GOVERNMENT RELATIONSHIPS

Business-government dynamics differ across countries

- In 'Pluralist' / 'Associational': countries
  - Large number of interests exist with equal access to policymakers; government relatively neutral
- In 'Corporatist' countries:
  - Close ties between government and corporate elite aimed at long-term growth; greater government intervention

How does this relate to the ability to grant political favors?

## IN THE BRAZIL/ CANADA CASE:

### Questions:

1. What does it mean to “win” the subsidy game?
2. What evidence do you see of “pluralism” in Canada, as opposed to Brazil?
3. How does this contrast affect Bombardier’s ability to win the subsidy game?
4. Knowing this, what option should Bombardier push for in this case?



# PART 4:

## INFORMAL INSTITUTIONS – CULTURE

# DEALING WITH CULTURAL DIFFERENCES

“You are a mid-level manager in a Dutch company involved in business dealings with a company in Panama. You spot something in the contract that you think needs to be changed. You contact your counterpart at the Panamanian company and explain your concerns.”

Should you expect a quick decision by the Panamanian company? Why or why not?

# CULTURE

- “The collective programming of the mind which distinguishes the members of one group or category of people from another” – Geert Hofstede
- Connected to language, regions, religion, ethnicity... so many dimensions
- Cultural misunderstandings are largely cognitive – a key part of the “liability of foreignness”
- Organizational culture is strongly embedded in national culture

# CULTURE

- Is there then no “right” or “best” way of doing things?
- So, different measures of “performance” are ok?
- If culture and norms underlie laws, then different laws are ok too? Bribery is ok then?
- Are there any “universal” values (“hypernorms”)?
- What are the implications for the more “vague” activities, such as Corporate Social Responsibility and ethics

# PART 5:

## DIMENSIONS OF CULTURE AND CULTURAL DIFFERENCES

# HOFSTEDE'S DIMENSIONS

- **Power distance:** weaker members' acceptance of inequality
- **Individualism:** loose ties between individuals; each responsible for him/herself
- **Masculinity:** the degree to which men have different values than women
- **Uncertainty avoidance:** a function of how comfortable group members feel with uncertainty
- **Long-term orientation:** thrift and perseverance

# MEASURING HOFSTEDE'S DIMENSIONS

## Power distance is higher when:

- PDI1: A good working relationship with your direct superior is more important
- PDI2: Being consulted by your direct superior in his/her decisions is less important
- PDI3: subordinates are more afraid to express disagreement with their superiors
- PDI4: you are ok with an organizational structure in which certain subordinates have two bosses

# MEASURING HOFSTEDE'S DIMENSIONS

## Individualism is greater when:

- IDV1: sufficient time for your personal or family life is important
- IDV2: good physical working conditions (good ventilation and lighting, adequate work space, etc.) are not so important
- IDV3: security of employment is not so important
- IDV4: variety and adventure in the job is important

***=> Behavior towards others depends on group membership in collectivist societies, but not in individualist societies***



# MEASURING HOFSTEDE'S DIMENSIONS

## **Masculinity is greater when:**

- MAS1: you think most people cannot be trusted
- MAS2: you think that it is usually their own fault when people have failed in life
- MAS3: working with people who cooperate well with one another is not so important
- MAS4: having an opportunity for advancement to higher level jobs is important

# MEASURING HOFSTEDE'S DIMENSIONS

## Uncertainty avoidance is greater when:

- UAI1: you feel nervous or tense at work
- UAI2: you think one cannot be a good manager without having precise answers to most questions that subordinates may raise about their work
- UAI3: you think competition between employees usually does more harm than good
- UAI4: you think an organization's rules should not be broken, even when the employee thinks it is in the company's best interest

# MEASURING HOFSTEDE'S DIMENSIONS

## Long-term orientation is greater when:

- LTO1: you attach more importance to thrift/ being economical
- LTO2: you attach less importance to respect for tradition and 'saving face'

# PART 6:

THE RELEVANCE OF CULTURE FOR BUSINESS

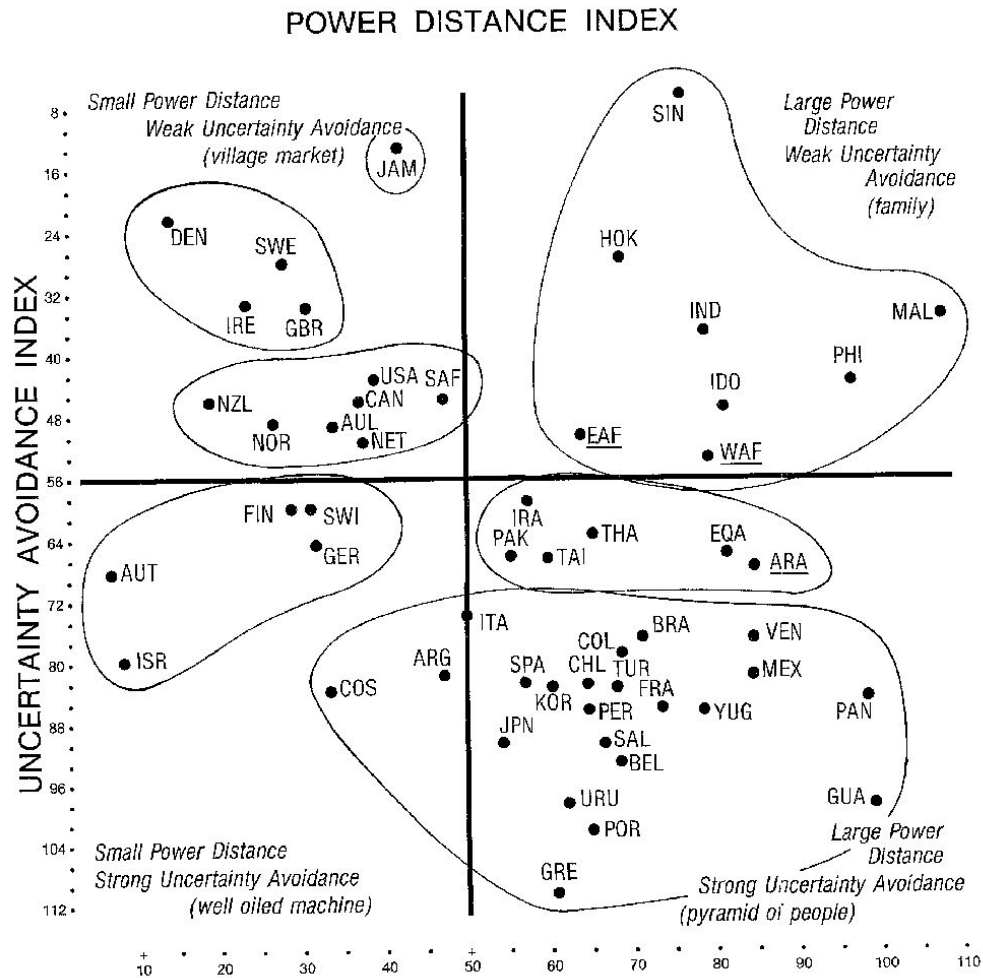
# CULTURE AS A BARRIER

- “Psychic”/ cultural distance: how different countries are in terms of their culture
- Comparing Hofstede’s scores between 2 countries:
  - $PDI_1$  minus  $PDI_2$
  - $UAI_1$  minus  $UAI_2$  etc.
- As we will see, IM research shows that cultural distance is important for MNE strategy and operations (e.g. for entry modes and organizational structures)

# CULTURE'S RELEVANCE FOR MARKETING

	Size (Million)	CULTURAL CHARACTERISTICS				Illustrative Marketing Implications
		Power Distance	Uncertainty Avoidance	Individualism	Masculinity	
Cluster 1 Denmark, Sweden, Finland, Netherlands, Norway	37	Small	Low	High	Low	Relatively weak resistance to new products, strong consumer desire for novelty and variety, high consumer regard for "environmentally friendly" marketers and socially conscious firms
Cluster 2 Belgium, France, Greece, Portugal, Spain, Turkey	182	Medium	Strong	Varied	Low-Medium	Appeal to consumer's status and power position, reduce perceived risk in product purchase and use, emphasize product functionality
Cluster 3 Austria, Germany, Switzerland, Italy, Great Britain, Ireland	203	Small	Medium	Medium-High	High	Preference for "high- performance" products; use "successful- achiever" theme in advertising; desire for novelty, variety, and pleasure; fairly risk-averse market

# CULTURE'S RELEVANCE FOR MANAGEMENT



Tools for dealing with organizational dilemmas?

- French:
- Germans:
- Brits:
- Indians:

**QUESTIONS?**