The Adaptation of Business Processes to External Forces to Optimize Performance

Overview of Political Legal Environment
- Basic Political Systems
- The Legal Environment
- Impact of the political system on management decisions
- Impact of the political system on management decisions

Basic Political Ideologies
- Political ideology—a body of constructs, theories, and aims that constitute a sociopolitical program
  - Ultimate test of any political system is its ability to hold a society together despite pressures from different ideologies, and
  - It’s ability to meet its objectives
  - Ideologies help bring countries together/keep them apart
- In Terms of Business
  Companies must understand the potential sources of political tension and instability

The Political Spectrum
- Democracy—involves wide participation by citizens in the decision-making process
  - Democratic governments differ
    - Presidential versus parliamentary
    - Number of important political parties
    - Amount of citizen participation in decision making
    - Fragility and stability of new democracies
  - Democracy (not surprisingly) is believed in democracies to be the best form of government

Totalitarianism (Absolutist)—a single party, individual, or group of individuals monopolizes political power
- Opposition is effectively not permitted
- Totalitarianism takes several forms
  - Theocratic—religious leaders are political leaders
  - Secular—government often imposes order through military power
  - Authoritarianism—desires to control the people
  - Communism—political and economic systems are virtually inseparable
Impact of the Political System on Management Decisions

Political Risk—caused by political instability
- Can be assessed
  - Evaluate political risk prior to market entry
- Can be monitored for change
- Can be managed
  - To an extent by
  - Form of market entry, and
  - Form of ownership
Causes of political risk
- Change in political leadership
- Civil disorder
- External relations

Types of political risk
- Micro—political actions are aimed at specific foreign investments
- Macro—political actions affect a broad spectrum of foreign investors

Kinds of Legal Systems

Common law—based on tradition, precedent, custom, and usage
- Laws are subject to interpretation by the courts
- Past decisions affect current decisions
Civil law—codified legal system
- Based on a detailed set of laws that make up a code
- Rules for business transactions included
- Based on how the law is applied to the facts
Theocratic law—based on religious precepts
- E.g., Islamic law
  - Has remained frozen
  - Moral rather than commercial law
  - Intended to govern all aspects of life
Consumer safeguards—differ in different legal systems
- Deal with product liability issues

In Business Disagreements

- Negotiate
  - These are your partners
- Arbitrate
  - It is private and heard by an expert
- Litigate
  - This is public, heard by a court, and very costly

The Legal Environment

- Jurisdiction is a major concept in international business
- In domestic business there is an ultimate persuasive authority
  - This is not the case internationally
- Contracts often specify where disagreements will be heard
Legal Issues in International Business
Affect many aspects of IB

National laws
- May affect both domestic and foreign companies operating within the country’s borders
  - health and safety standards
  - employment practices
  - antitrust prohibitions
  - contractual relationships
  - environmental practices
  - patents and trademarks
- May govern cross-border activities
  - investment of capital
  - payment of dividends to foreign investors
  - customs and duties on imports