

Case Discussions

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Special Topics in Internationalization

Università degli Studi di Bergamo

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Bergamo, ITALY

Class Discussions



■ Adidas

- ❖ **WHAT** is this case all about? Any specific arguments?
- ❖ **HOW** would you evaluate the degree of Adidas's internationalization?
- ❖ **TO WHICH EXTENT & HOW** would you consider that global sports shoes & clothing industry is competitive?
- ❖ **WHAT PRACTICAL RELEVANCE** can you identify based on this small case?



■ Political Risk Management

Would you agree that **political risk management** should be **an active strategy**?

Class Discussions

■ Carlsberg Faces Political Risk in Russia

- ❖ **WHAT** is the key motivation for Western firms to invest in Russia?
- ❖ **WHY** is it so difficult for foreign firms to set up & manage their local operations in emerging economies like Russia in general?
- ❖ **HOW** did institutional change in Russia affect Carlsberg's performance?
- ❖ **HOW** should MNCs respond to economic volatility & institutional instability in the foreign market where they are in operation?
- ❖ If you were a board member of Carlsberg, would you vote 'yes' or 'no' for a new project to acquire a local company in Russia? If yes, **WHY**? If no, **WHY** not?

Class Discussions

■ Managing Business Risks in Turkey

- ❖ **WHAT** is this case all about?
- ❖ Identify **HOW** Turkey's market environment looks like.
- ❖ **WHAT** factors are responsible for shaping Turkey's business system & institutional infrastructure?
- ❖ Discuss **HOW** Turkey's institutional quality looks similar to or different from its counterparts.
- ❖ Would you invest in Turkey **IF** your company tries to expand?
- ❖ **WHAT** is your conclusive remarks? **WHAT** managerial implications can you draw from this case?

About Your Career

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About Your Career



Get Your CV Ready ! Add Value to It Every Single Day !

About Your Career



■ Deloitte.

The screenshot shows a web browser window with the Deloitte website. The browser tabs include 'D. Students' and 'D. Interviewing tips | Deloitte | Car...'. The address bar shows the URL 'https://www2.deloitte.com/global/en/careers/studen...learn-more...?cid=top_students-learn-more'. The website header features the Deloitte logo, navigation menus for 'Services', 'Industries', 'Insights', and 'Careers' (which is circled in red), a search bar, and a 'GLOBAL-EN' language selector. The main content area has a large image of a hiker in a cave looking out at a sunset. Below the image, the text reads: 'Join Deloitte', 'Change the world, not who you are.', 'What impact will you make?', and 'There is no standing still. At Deloitte, you're encouraged to challenge yourself and empowered to mentor others. To forge new paths. To make an impact that matters across the globe - for clients, for Deloitte colleagues and within our communities. And'. On the right side, there are three menu items: 'Job Search', 'Interviewing tips', and 'Awards and recognition'. The Windows taskbar at the bottom shows various application icons, the system clock at 7:54 on 2022/03/08, and the temperature at -6°C.

About Your Career



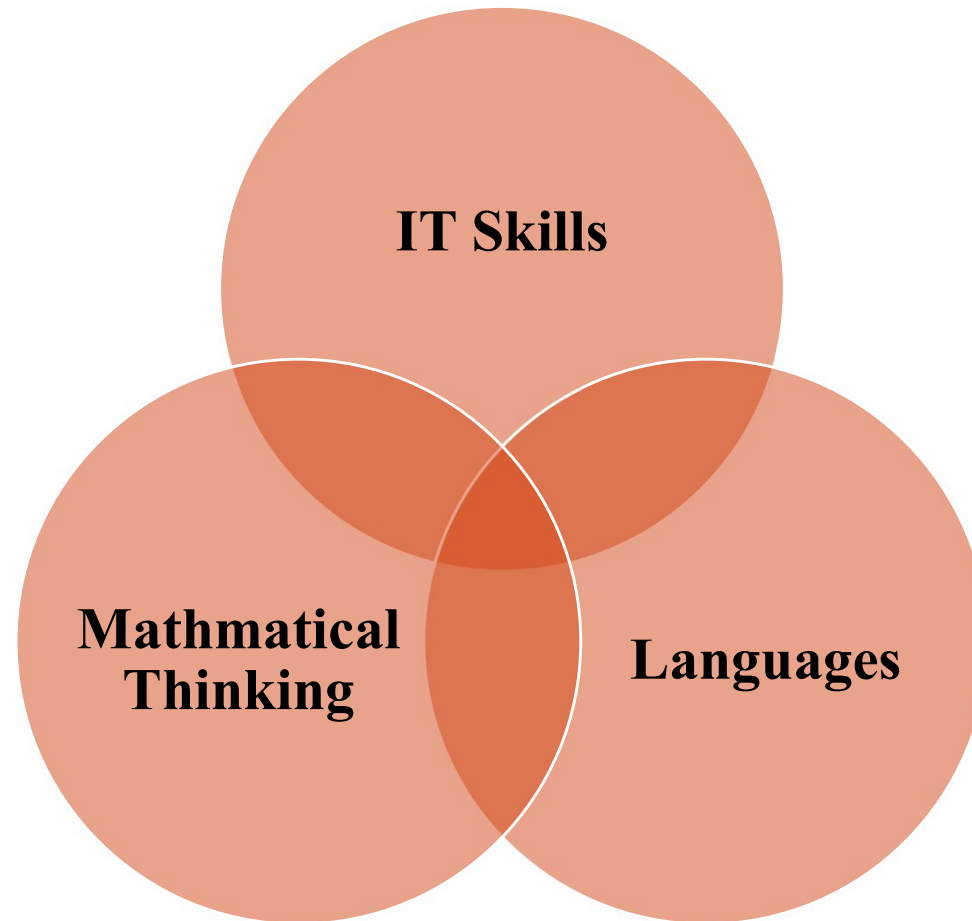
■ Deloitte.

The screenshot shows a web browser window with the URL <https://www2.deloitte.com/global/en/pages/careers/articles/interview-tips.html>. The Deloitte logo and navigation menu are visible at the top. The main article title, "Interviewing tips", is circled in red. Below the title, the text reads: "Want to make a big impression on your interview? Here are seven tips to help you to prepare and be at your best." The article content includes:

- Tip #1: Do your homework**
We're impressed when candidates have taken the time to do some research and learn about us. Since you are here on this site, you obviously find value in this too. Take a look around and learn as much as you can. Being prepared will also minimize your anxiety.
- Tip #2: Make an impact**
Dress for the occasion. The rule is, when in doubt, overdress. Recent trends have dictated business-casual attire, but it's still appropriate to wear a business suit. If you mean business, show us. And remember...it's not always what you say, but how you present yourself that makes an impression. Be sure to shake hands firmly and maintain contact.

On the right side of the page, there are buttons for "Search jobs" and "Contact us", and a section for "Explore Content" with a link for "Related topics". A grey box labeled "Seven interview tips" is also visible on the right.

About Your Career



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*Formal Institutions:
Economic, Political & Legal Systems*
(Mike Peng & Klaus Meyer, International Business)

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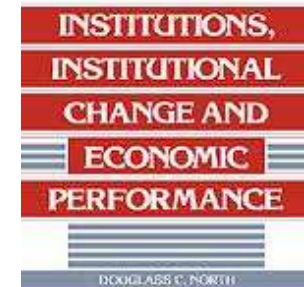
- ▶ **1. An Institution-Based View of IB**
- 2. Political Systems
- 3. Economic Systems
- 4. Legal Systems
- 5. Implications for Practice

An Institution-Based View of IB



■ Definition

❖ Douglass North defines institutions as:
‘the humanly devised constraints that structure human interaction’.



Political Economy
of Institutions and Decisions

❖ Firms doing business abroad encounter **various rules** in their home countries, in host countries, & in international & regional organizations (*e.g.*, WTO, EU, ILO etc.)

❖ Transaction costs economics (TCE)

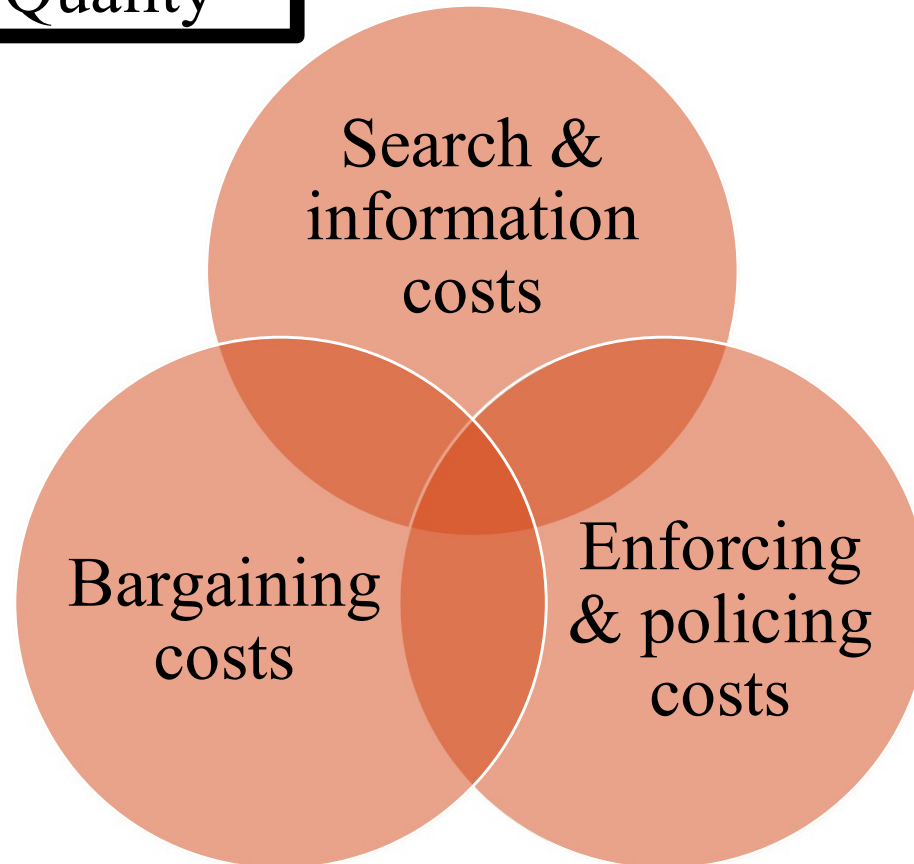
- It is costly to use the market mechanism & as a result economic actors organize themselves in less costly ways, notably by establishing firms.
- **The transaction costs** are, to a large extent, influenced by **the institutions governing the market.**

An Institution-Based View of IB



Transaction Costs

Institutional Quality



Example



An Institution-Based View of IB



■ Dimensions of Institutions

Degree of formality	Examples	Supportive pillars
1 Formal institutions	<ul style="list-style-type: none">> Laws> Regulations> Rules	<ul style="list-style-type: none">> Regulatory (coercive)
2 Informal institutions	<ul style="list-style-type: none">> Norms> Cultures> Traditions> Ethics	<ul style="list-style-type: none">> Normative> Cognitive

The institutional framework governing a particular context

❖ Examples

- **Anti-dumping rules** by the EU against Chinese products
- **Global financial crisis:** The norms of many financial organizations favored the aggressive attitudes of the traders, who desire to make profits.



■ What Do Institutions Do?

❖ The major role of institutions is:

- To **reduce uncertainty** (e.g., .expropriation, lack of trust in your JV partner)
- To influence individuals' & firms' decision-making by **signaling what conduct is legitimate & acceptable**.
- To **penalize** individuals' & firms' **illegitimate & opportunistic behavior**.

❖ *Uncertainty* increases **transaction costs**, which are defined as the costs associated with economic transactions.



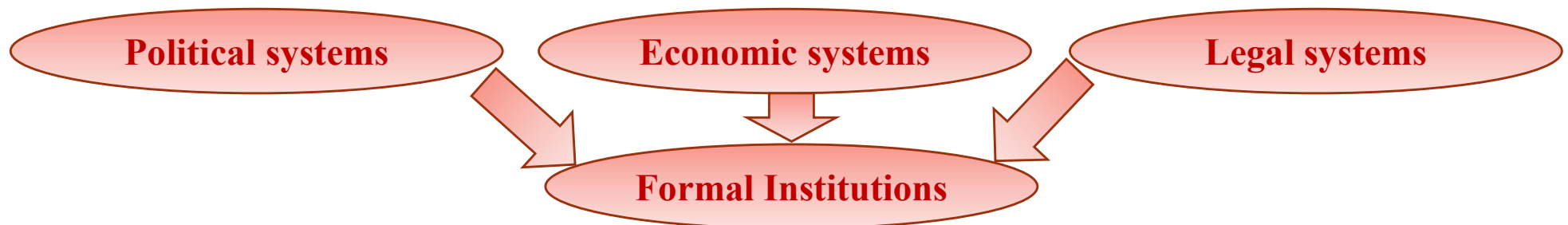
- > The **absence** of the stable institutional frameworks => transaction costs (↑)
- > e.g., **Why rich Russians may purchase foreign assets** such as a football club in London or a seaside villa in Cyprus instead of investing in Russia?

An Institution-Based View of IB



■ '2' Core Propositions

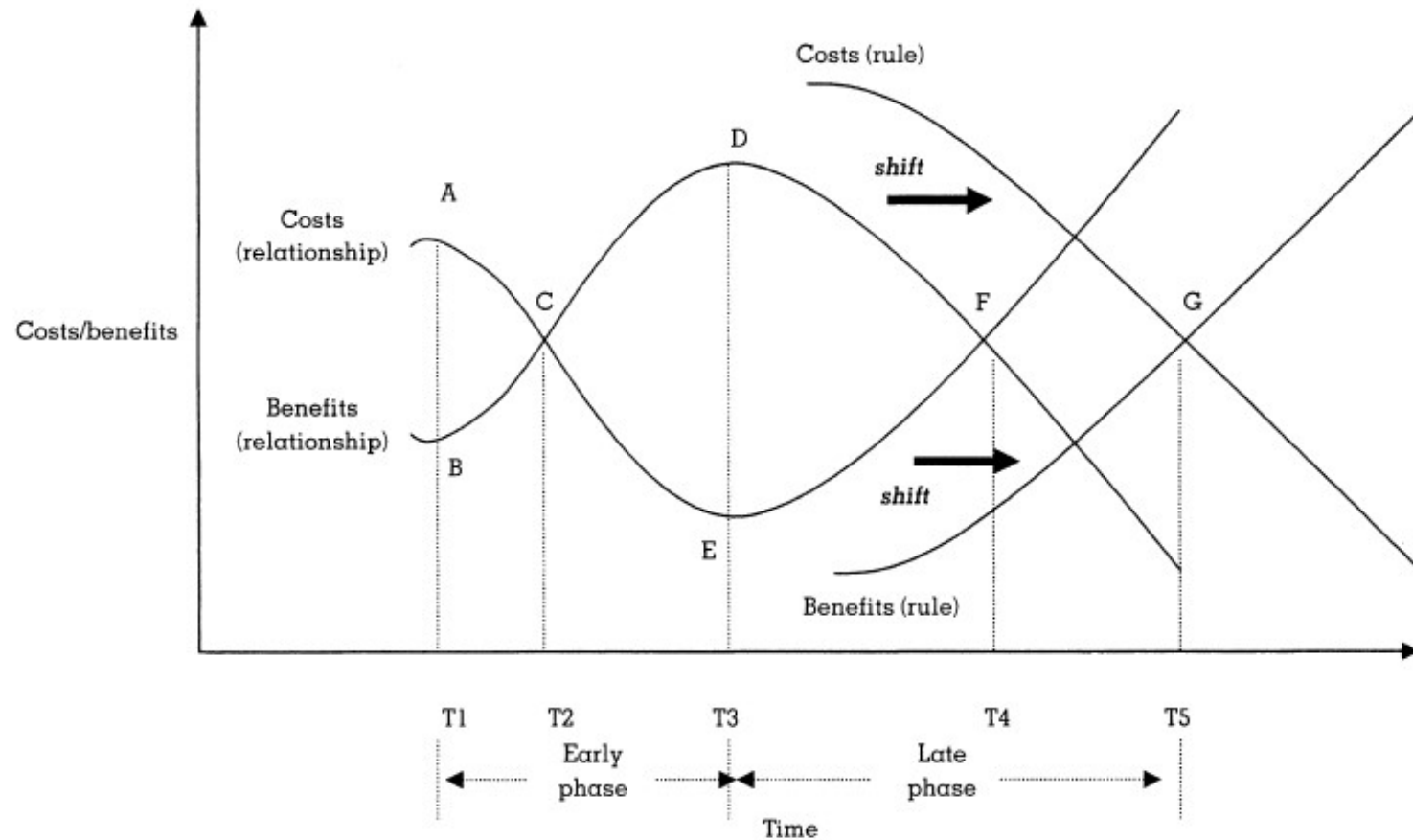
Assumption	Description	Examples
1 Proposition 1	Managers & firms <i>rationally</i> pursue their interests & make choices within the formal & informal constraints in a given institutional framework.	> Labour laws: Firing people in the UK is easy but not in Germany.
2 Proposition 2	Although formal & informal institutions combine to govern firm behaviour, in situations where formal constraints fail, informal constraints will play a <i>larger role</i> in reducing uncertainty.	> Personal networks matters: <i>Blat</i> or <i>guanxi</i> substitutes for formal institutions.



An Institution-Based View of IB



■ Peng's (2003) Two-Phase Model of Institutional Transition



Source: Peng, M. (2003: 281). 'Institutional Transition and Strategic Choice', *Academy of Management Review*.

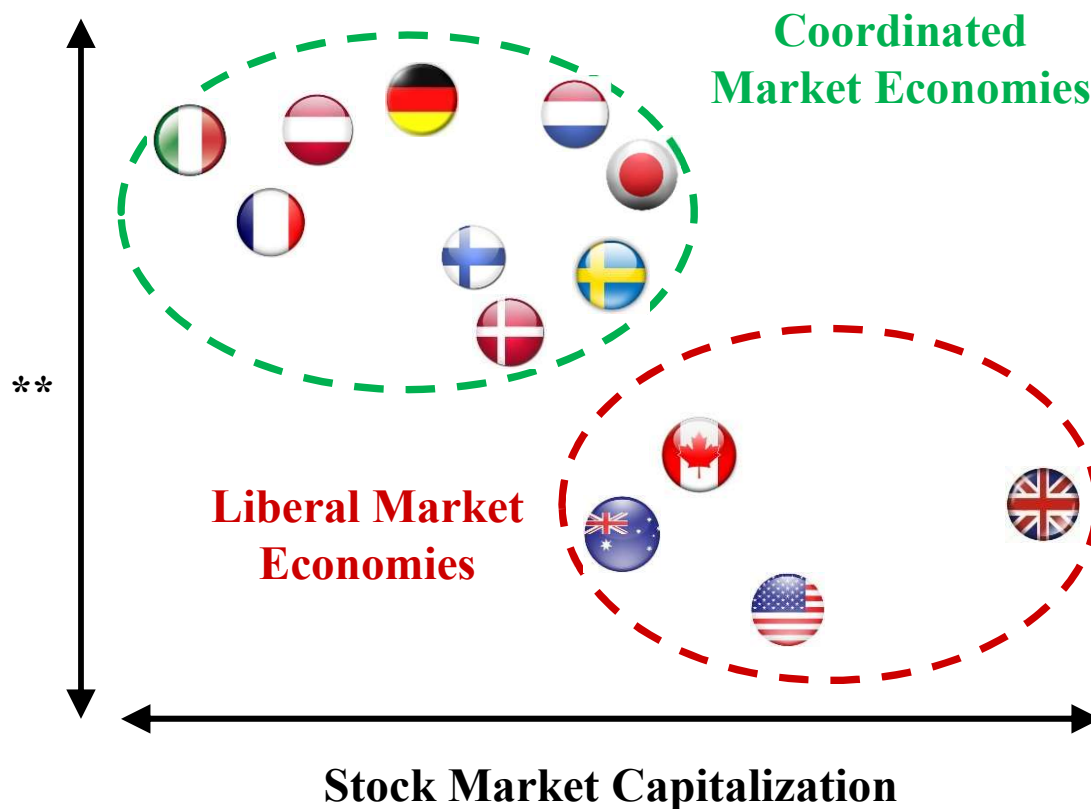


1. An Institution-Based View of IB
2. Political Systems
- ▶ 3. **Economic Systems**
4. Legal Systems
5. Implications for Practice



■ Varieties of Capitalism (**Employment Protection)

The Elements of LMEs & CME (P&M, 2011: 46)



COMMENTS

- > **LMEs**
 - Companies respond sensitively to **price signals of the market**.
 - Labor markets are **flexible**.
 - Companies are financed by **shares**.
 - **Less job protection**.
- > **CMEs**
 - Businesses, governments, unions & industry associations coordinate their actions through **a variety of mechanisms**.
 - Less opportunities to raise capital through the stock market.
 - Employees have **representatives on corporate boards**.



1. An Institution-Based View of IB
- ▶ 2. **Political Systems**
3. Economic Systems
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■ '4' Types of Political Risks

1

Systemic Risks

- > Expropriation
- > Nationalization
- > Policy shifts



2

Procedural Risks

- > Government corruption
- > A partisan judicial system



- > Increases in tax rates on profits
- > Barriers to transferring profits out of the country



Distributive Risks

3

- > Military action
- > Ethnic discord
- > Illegal regime change
- > Civil disorder
- > Insurrection



Catasrophic Risks

4



1. An Institution-Based View of IB
2. Political Systems
3. Economic Systems
4. **Legal Systems**
5. Implications for Practice





■ Types of Legal Systems

- **Common Law:** Existing **case law** guides dispute resolution.
- **Civil Law:** Judges **apply existing legal & procedural codes** to resolve disputes (e.g., Germany).
- **Theocratic Law:** **Religious** doctrine, precepts, & beliefs define the legal environment.
- **Customary Law:** **Local spiritual legacies & philosophical traditions** are key elements in a customary law system.
- **Mixed System:** A legal systems consist of **two or more of the legal systems.**



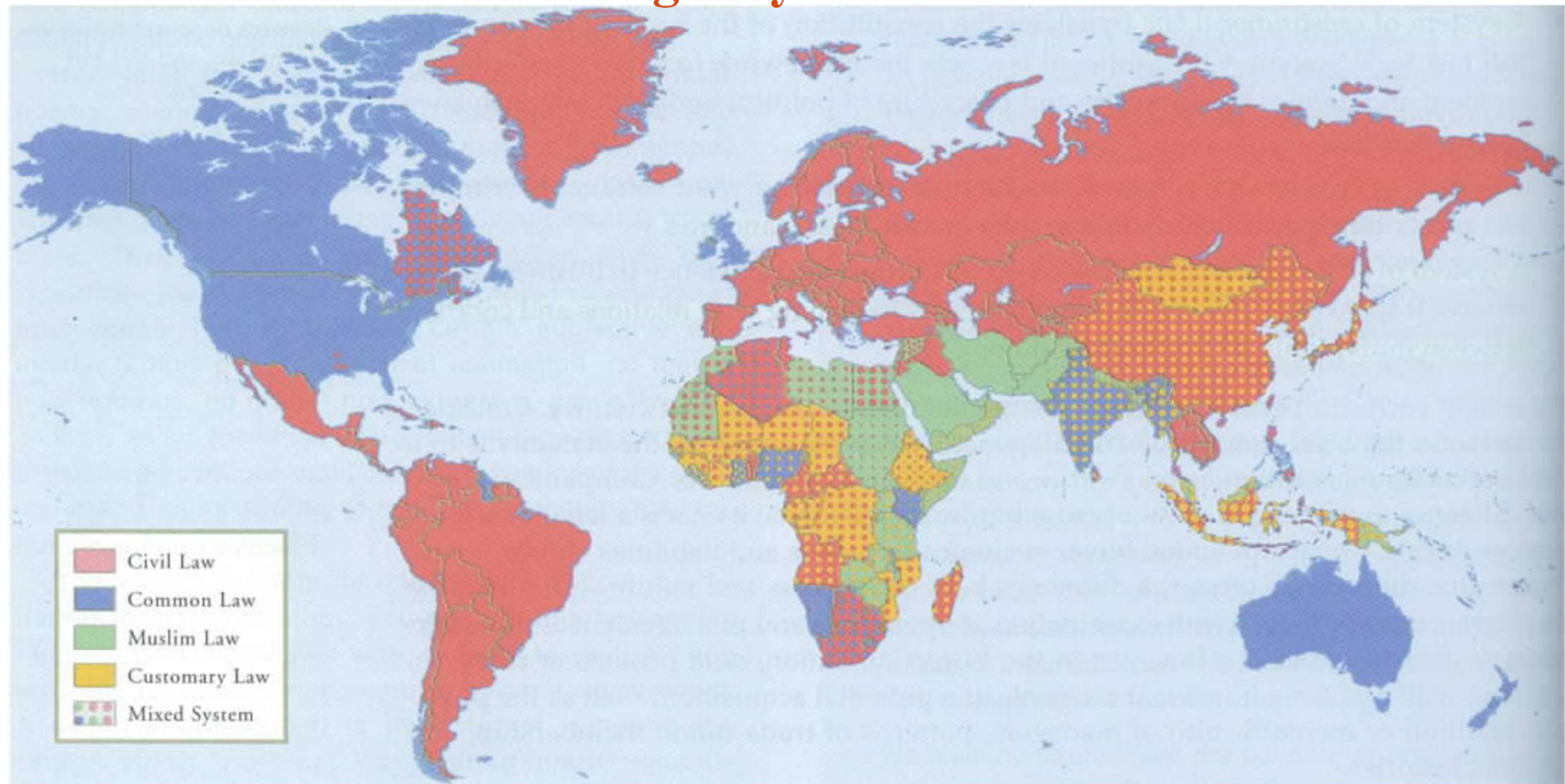
■ Civil Law vs Common Law

	Civil Law	Common Law
▶ Historical origins	Roman law & French code civil of 1804	English customary law
▶ Primary sources of laws	Codified in books of law, scholarly conceptualization	Statues, customs, court decisions
▶ Court proceedings	Judges lead the proceedings, incl. asking questions & deciding	Judges as arbitrators, lawyers dominate proceedings & juries as decision makers
▶ Business practice	Contracts & codes of practice comparatively brief, traditionally more protection of employees & customers	Greater freedom to design contracts & codes of practice; detailed contracts filling gaps in the legal framework; extensive use of lawyers

Source: Peng & Meyer (2011: 48).



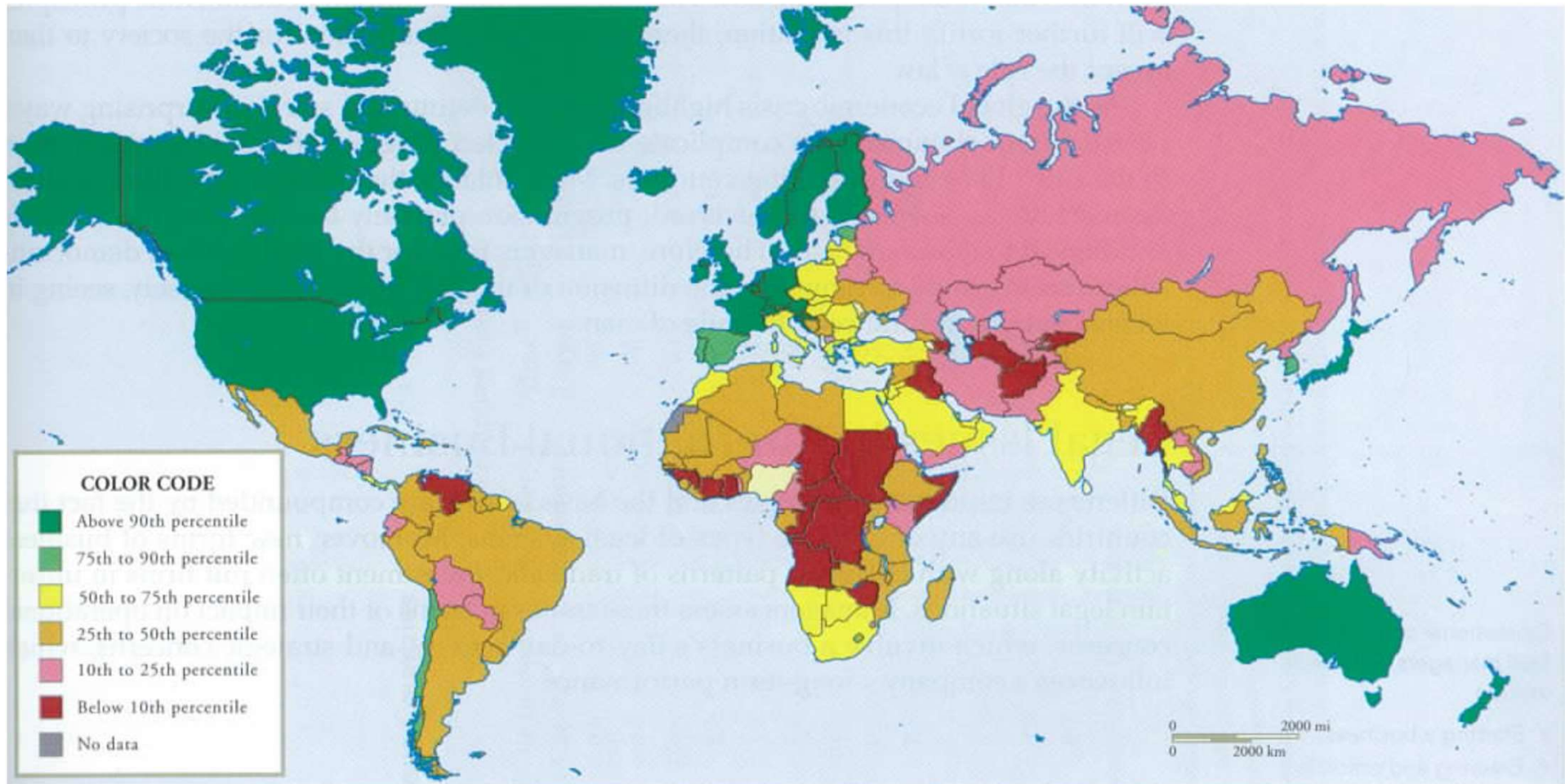
■ The Wide World of Legal Systems



Source: Daniels, Radebaugh and Sullivan (2010: 154).



■ The Rule of Law vs. The Rule of Man



Source: Daniels, Radebaugh and Sullivan (2010: 157).



■ Intellectual Property Rights

- **Intellectual property:** *“the creative ideas, innovative expertise, or intangible insights that give an individual, company, or country a competitive advantage”*.
- IP is difficult to conceive but **easy to copy**.
- The role of transnational institutions like the **WTO** & **WIPO** in protecting patents, copyrights & trademarks.
- **Most counterfeit goods** are made in markets in which **the rule of man** is the basis of the legal system.
- **Quality of legal protection** of intellectual property:
 - Wealthier countries > poorer countries



1. An Institution-Based View of IB
2. Political Systems
3. Economic Systems
4. Legal Systems
- ▶ 5. **Implications for Practice**



■ What Should Managers Care About?



> Do as Romans do !

- Managerial choices should be made rationally within the constraints of a given institutional framework.
- A superficial understanding may cause miscommunication and danger.



> Understand that formal institutions are changeable !

- A tariffs or taxation
- Firms may be able to influence different economic, political & legal changes through lobbying at the appropriate places.

关系
guānxi

> Informal constraints (e.g., relationship norms) matter !

- When doing business in countries with a strong propensity for informal, relational exchanges, insisting on formalizing the contract right away may back fire.

Reading Assignments



■ Informal Institutions

❖ “*Limitations of Hofstede’s Framework*” (p.67 in P&M).

❖ “*Multilinguists in MNEs*” (p.70 in P&M).

➔ Please make sure that you understand the content of these articles & summarize your opinions.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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