

- Corporate governance – Part A and B
- Business ethics and ethical decision making – Part A and B
- Corporate social responsibility – Part A and B
- Institutional theory – Part A and B
- Community relations – Part A
- Political Risk and Terror – Part B
- Environmental responsibility – Part B
- Sustainable approach – Part B

Institutional theory – Part A and B (lec 1)

Identify two types of institutions

- institutions – constraints that structure human interaction
- Formal
 - o Laws, regulations, rules
 - o Supported by regulatory pillars like coercive powers of government e.g. paying tax out of fear of getting caught
- Informal
 - o Norms, cultures, ethics
 - o Supported by normative pillars – how values, beliefs and actions of other players impact on the behaviour of individuals and firms
 - E.g. interest in US firms moving into China
 - o Supported by cognitive pillars – internalised values and beliefs that guide individual and firm behaviour
 - Doing things because you believe it to be right e.g. whistleblowers outing Enron and overtook normative pillar of being silent

Explain how institutions reduce uncertainty

- key role is to reduce uncertainty by constraining the range of actions
- influence decision making process of individual and firms by signalling what conduct is legitimate and acceptable
- uncertainty can be devastating – political uncertainty can lead to long range planning being obsolete
- economic uncertainty – failure to carry out a transaction may result in losses
- economic uncertainty in transactions can lead to transaction costs (costs associated with transactions and doing business)
 - o do they operate harmoniously or are there frequent misunderstandings
 - o transaction costs source is opportunism – seeking self interest with guile
 - misleading, cheating, confusing other parties to increase their costs

- institutions reduce transaction costs by outlining the rules so violations can be mitigated
- without institutions costs can be high and some transactions wouldn't take place
 - oil companies taking out foreign personnel and shutting production in Libya due to unrest and high transaction costs
- transition economies where transitions are happening in institutions
 - countries moving from central planning to market competition e.g. China, Poland
 - create challenges and opportunities for domestic and international firms

Identify two core propositions underpinning an institution-based view of global business

- institution based view – dynamic interaction between institutions and firm and firm behaviour as an outcome of the interaction
- firm behaviour is outcome of formal and informal constraints
- Institution and firm – dynamic interaction
- Institution and firm behaviour – formal and informal constraints
- Firm and firm behaviour – industry conditions and firm specific resources and capabilities
- Managers and firms RATIONALLY pursue interests
 - Make choice within formal and informal constraints
 - E.g. China and India railway not affected by competition and ask for government help and don't improve service
 - China and India it have to excel in market responses because of rules governed by global heavyweights
 - When formal constraints are unclear, informal constraints play LARGER role in reducing uncertainty and provide consistency to managers
 - When Soviet Union collapsed, growth in entrepreneurs was facilitated by informal constraints of personal relationships and connections
- Formal make up small part of institutional constraints and are applicable in developing and developed countries
- If not doing well in market, can look to institutional support for investment and give advantage

List the differences between democracy and totalitarianism

- political system – rules of the game on how a country is governed politically
- democracy
 - support global business by preserving individual right to freedom of expression and organisation
 - citizens elect representatives to govern the country on their behalf – team with majority votes wins
 - pioneered by Athenians in ancient Greece

- great Britain has longest running democracy and India has largest democracy by population
- individuals have right of freedom of expression and organisation
 - starting up firm is economic expression, international firm moving into another country
- totalitarianism
 - dictatorship
 - communist
 - centred on communist party
 - right wing
 - characterised by intense hatred of communism
 - one party (military) restricts political freedom because its members believe freedom would lead to communism
 - theocratic
 - monopolisation of political power in the hands of one religious party or group e.g. Afghanistan Taliban
 - tribal
 - one tribe or ethnic group monopolises political power and oppresses other groups
 - not as good as democracy for business
 - entail higher political risks due to wars, riots, protests
 - breakdowns can negatively impact firms
 - one person or party exercises absolute control
- associated with political risk
 - government interference with business operations
 - sovereign host government will unexpectedly change the rules under a business operation
 - risk associated with changed tax may negatively impact domestic and foreign firms
 - historically no two democracies have gone to war with each other

List the differences among civil law, common law and theoretical law

- legal system – rules of the game on how a country's laws are enacted and enforced and is the first pillar that supports institutions
- reduces transaction costs by minimising uncertainty and combating opportunism
- civil
 - oldest, most influential and most widely distributed law
 - comprehensive statutes and codes as primary means to form legal judgments
 - used in over 80 countries
 - less flexibility because judges have the power to apply the law
 - less confrontational
- common
 - English origin
 - Shaped by precedents and traditions from previous judicial decisions

- More flexibility because judges have to resolve specific disputes based on their interpretation of the law and this may give new meaning to the law
- More confrontational as defendants must argue and help judges to favourably interpret the law
- Theocratic
 - Based on religious teachings – Jewish and Islamic laws
 - Islamic law only surviving in theocratic legal system that is formally practiced by some governments
 - Koran advises against some business practices e.g. McDonalds has ladies only restaurants to comply with Koran's ban on direct face to face contact between men and women

Articulate the importance of property rights and intellectual property rights

- property rights
 - legal rights to use an economic property (resource) and to derive benefit from it
 - homes, offices, factories
 - can be used as collateral for credit e.g. start ups use mortgage of houses
 - if don't have collateral have to borrow money through informal means i.e. friends, family
- intellectual property
 - intellectual property rights associated with ownership of intellectual property, intangible property that results from intellectual activity e.g. books, videos, websites
 - patents, copyright, trademarks
 - intangible property
 - patent – awarded by government to inventors of new products and given exclusive rights to produce
 - copyright – legal right of authors to publish work
 - trademarks – legal rights to use specific names, brands
 - asserted through formal system to encourage firms to innovate and punish violators
 - piracy is widespread – IPR protection is weak in some countries

List the differences among market economy, command economy and mixed economy

- economic system – rules of the game on how a country is governed economically
 - market economy
 - invisible hand of market economies
 - government take hands off approach – everything is privately owned and government only provides things they can't e.g. roads, defense
 - command economy
 - government takes commanding height

- all factors of production are state owned and controlled and supply, demand and pricing are planned by the government - Lenin
- mixed economy (in the middle of both)
 - elements of both market and command
 - relative distribution of market forces vs command forces
 - Hong Kong has highest degree of economic freedom with lowest degree of government intervention
 - no country has ever had complete of either
- rich countries have smarter, harder working population with stronger focus on economic success
- rich countries have abundant natural resources but some developing countries are very rich in things such as diamonds e.g. Congo
- rich countries have developed better market supporting institutional frameworks
 - formal market supporting institutions encourage individuals to specialise and firms to grow – divisions of labour
 - specialisation is economically advantageous as firms can capture gains from transaction with foreign countries e.g. China market institutions progress have led to Chinese firms growing
 - lack of strong, formal market supporting institutions force individuals to trade on informal basis – forced to stay small and local e.g. Africa
 - formal, market supporting institutions protect property rights fuel more innovation and entrepreneurship leading to economic growth

Explain why it is important to understand the different institutions when doing business

- have a thorough understanding of the formal institutions governing firm behaviour
- insisting on formalising contracts may backfire in countries with strong propensities for informal relational exchanges
- managers aiming to do business in a democratic market are certainly different from role in a totalitarian command so have to abide by their rules and understand why they do things in a certain way by studying their behaviour
 - a superficial understanding won't get the business very far
- If going business somewhere with informal and relational exchanges it might not be good to enter a contract straight away
 - Relatively weak legal systems, personal relationship is used as a substitute for legal protection
 - E.g. Chinese guan xi – driven by common lack of formal market supporting institutions as well as culture