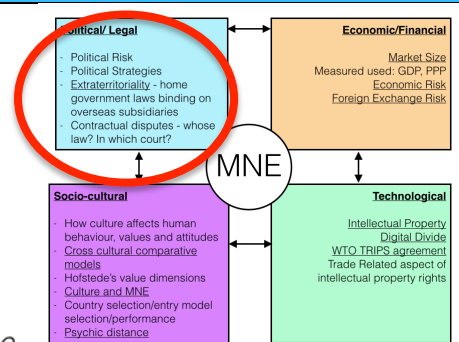


## Week 3: State vs. Firm? The political and legal environment (PEST)

To explain MNE environment and environmental scanning

A firm's Environment:

Sum of all the conditions affecting any aspect of the firm's current activities and its future development



### **A Firm's Environment**

*Sum of all the conditions affecting any aspect of the firm's current activities and its future development*

**Internal Environment**

**External Environment**

#### **Industry and Operating:**

Competitive forces  
Allies  
Suppliers  
Customers  
Intermediaries

#### **Macro Environment:**

Political/legal  
Social/cultural  
Economic/finances  
Technological forces

Our Focus for the course

### **Environmental Scanning:**

A systematic approach by which a MNE assesses external conditions affecting their operations:

- A country's risks and opportunities
- A relative attractiveness of alternative countries
- Future predictions
- Likely impact on firms

Varies across firms:

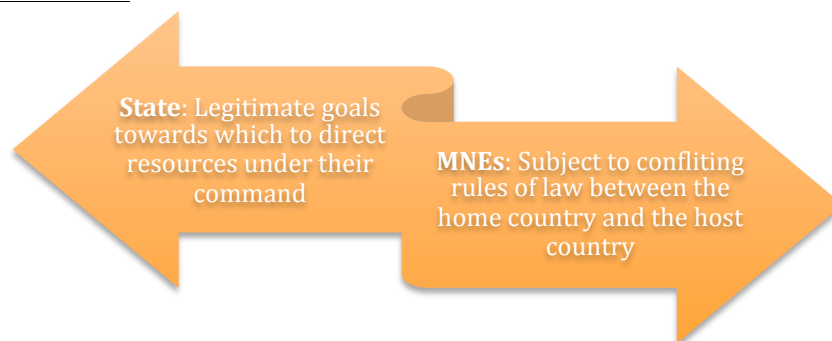
- Frequency (how many times)
- Scope (how much information)
- Sophistication (who gives you the information)
- Contingent on factors
  - Organisation culture
  - Degree of uncertainty
  - Nature of activity
  - Perceptions

To understand differences in national politics and how they interact with business

### Relevance of state:

- **Sovereignty:** ultimate legal authority of state supported by exclusive use of coercive power within its defined territory (internal) and freedom from interference from another state (external)
- **Failed states:** consequences include brain drain
  - Republic of Congo: 50% of the population were under the age of 14, due to adults being killed in tribal wars
  - Zimbabwe: 'failed state' because the president has been in office for 20+ years and most of the population fled the country
- Bestows power to control and restrict commercial activities within our borders (by law)
- Influence over the internationalisation process

### State v MNE: CLASH?



### National Political Differences:

Source of Risk:	Why does it matter?
<b>Source of authority</b>	Constitutionalism (rule of law) provides MNEs with certainty
<b>Dominant ideologies</b>	Role of government in the economy
<b>Democratic rights/freedom</b>	Lack of political freedoms can also restrict company actions; oppression can lead to instability
<b>Interest aggregation</b>	Interest/pressure groups E.g. Unions/farmers
<b>Unitary vs. Federal systems</b>	How many governments does the MNE need to deal with? E.g. India is governed by several different governments
<b>Policy implementation</b>	Effective implementation of policies/laws
<b>Government system</b>	MNEs need to know where power lies E.g. execution or legislature
<b>Institutional quality</b>	Institutions by which authority is exercised for the common good E.g. National bank – is exempt from institutional pressures
<b>Degree of political risk</b>	Assessments and active responses Degree of political risk will be different in different countries

