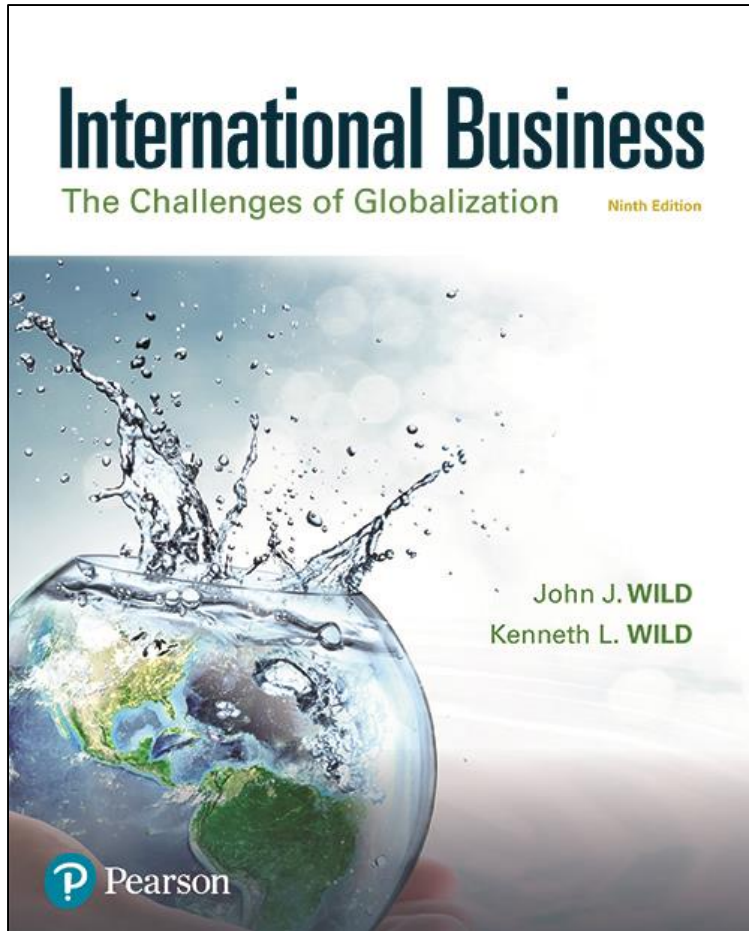


International Business: The Challenges of Globalization

Ninth Edition



Chapter 3

Political Economy and Ethics

Learning Objectives

- 3.1** Describe the key features of each form of political system.
- 3.2** Explain how the three types of economic systems differ.
- 3.3** Summarize the main elements of each type of legal system.
- 3.4** Outline the global legal issues facing international firms.
- 3.5** Describe the main issues of global ethics and social responsibility.

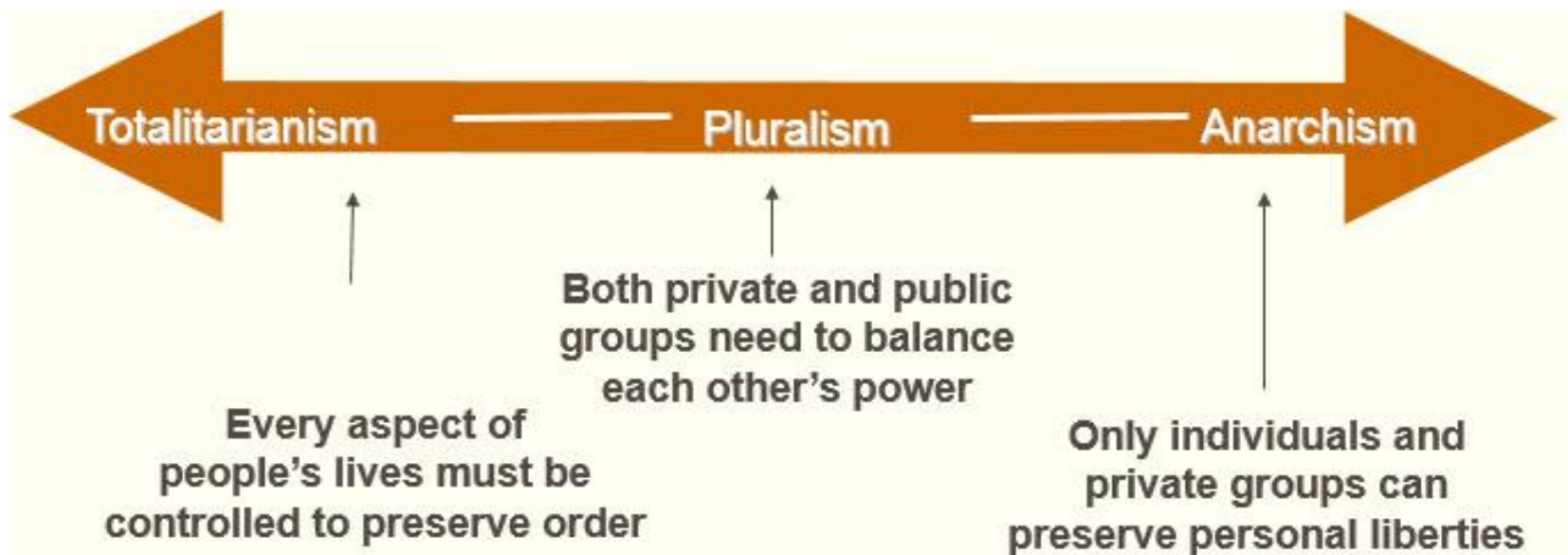
PepsiCo's Global Challenge

- Targeting international sales
 - PepsiCo's international sales comprise 40 percent of total revenue
 - Investing aggressively in India
 - Moving the company's product line in healthier directions
 - Decreasing the company impact on the environment
 - Taking care of the company's workforce



Political Systems (1 of 5)

- **Political System:** Structures, processes, and activities by which a nation governs itself



Political Systems (2 of 5)

Totalitarianism

- Imposed Authority
- Lack of Constitutional Guarantees
- Restricted Participation

Political Systems (3 of 5)

Totalitarianism

- Theocratic Totalitarianism
- Secular Totalitarianism
 - Communist Totalitarianism
 - Tribal Totalitarianism
 - Right-Wing Totalitarianism

Political Systems (4 of 5)

Democracy

- **Democracy:** Political system in which government leaders are elected directly by the wide participation of the people or by their representatives
- **Representative Democracy:** Democracy in which citizens elect individuals from their groups to represent their political views



Political Systems (5 of 5)

Representative Democracy

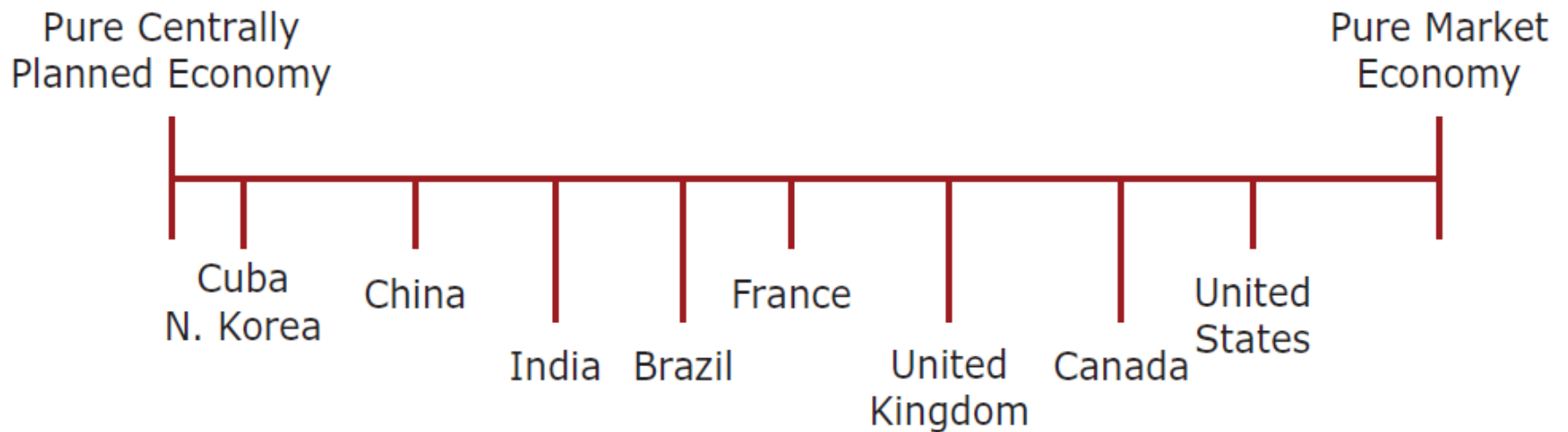
- Freedom of Expression
- Periodic Elections
- Full Civil and Property Rights
- Minority Rights
- Nonpolitical Bureaucracies

Quick Study 1

1. What features characterize the political ideology called pluralism?
2. Communists believe that a violent revolution is needed to seize control over resources, wish to eliminate political opposition, and do what else?
3. What does a representative democracy strive to provide for its people?
4. By what other name is capitalism often referred?

Economic Systems

Figure 3.1 Range of Economic Systems



Centrally Planned Economy

Origin and Decline

Origin

- Rooted in collectivism
- Popularized by Karl Marx in the nineteenth century
- Implemented in the twentieth century by means of violent upheaval

Decline

- Failure to create economic value
- Failure to provide incentives
- Failure to achieve rapid growth
- Failure to satisfy consumer needs

Mixed Economy

Origin and Decline

Goals

- Low unemployment and poverty
- Steady economic growth
- Equitable distribution of wealth

Decline

- Lack of accountability, rising costs, and slow economic growth
- Move toward market-based systems
 - Move toward privatization

Market Economy (1 of 2)

Origin, Essence, and Features

Origin and Essence

- Private ownership
- Interplay of two forces: supply and demand
- Emphasis on individualism
- Laissez-faire economics
- Economic freedom

Features

- Free choice
 - Alternative purchase options
- Free enterprise
 - Firms choose products and markets
- Price flexibility
 - Prices follow supply and demand

Market Economy (2 of 2)

Government's Role

- Enforce antitrust laws
- Preserve property rights
- Provide fiscal and monetary stability
- Preserve political stability

Quick Study 2

1. What factors contributed to the decline of centrally planned economies?
2. Which economic system strives toward low unemployment, low poverty, steady economic growth, and an equitable distribution of wealth?
3. Laissez-faire economics calls for less government interference in commerce and what else?
4. Countries with the greatest amount of economic freedom tend to have what?

Legal Systems (1 of 2)

- **Legal System:** Set of laws and regulations, including the processes by which a country's laws are enacted and enforced and the ways in which its courts hold parties accountable for their actions.
- A country's political system also influences its legal system.
- Legal systems are frequently influenced by political moods and upsurges of nationalism.

Legal Systems (2 of 2)

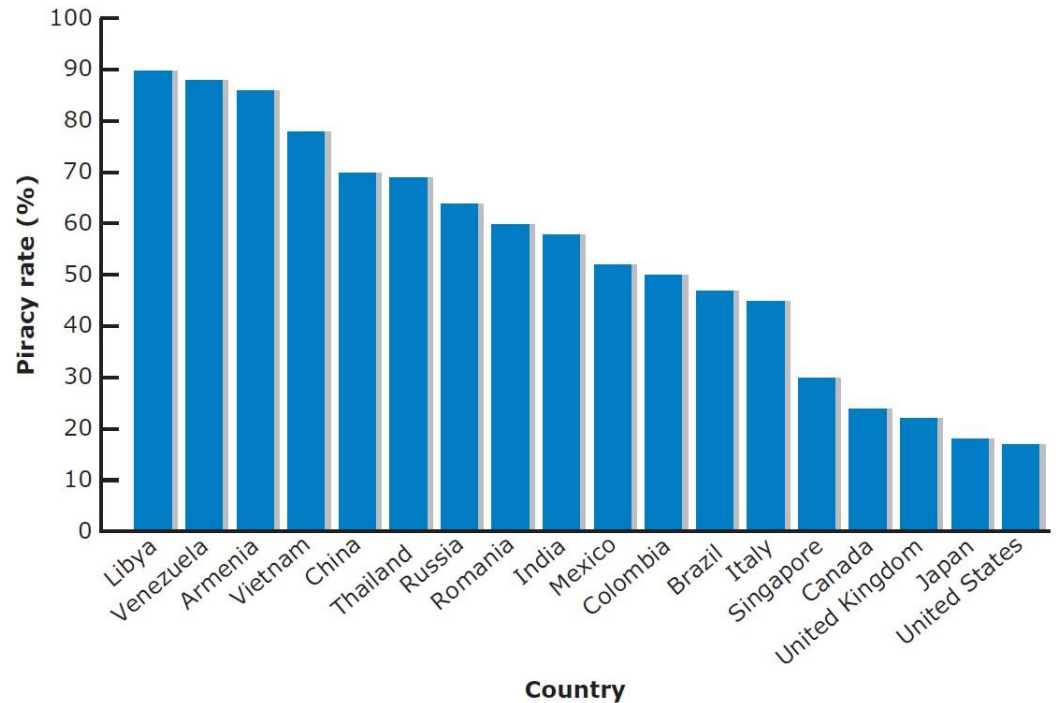
- **Common Law**
 - **Tradition:** A country's legal history
 - **Precedent:** Past cases that have come before the courts
 - **Usage:** How laws are applied in specific situations
- **Civil Law**
 - **Legal code**
- **Theocratic Law**
 - **Based on religious teachings**

Quick Study 3

1. Which legal system decides cases by interpreting the law on the basis of tradition, precedent, and usage?
2. Which legal system is based on a detailed set of written rules and statutes that constitute a legal code?
3. A legal tradition based on faithless teaching is called what?

Global Legal Issues (1 of 2)

- **Intellectual Property**
- **Property Rights**
 - Industrial Property
 - Patents
 - Trademarks
 - Copyright



Global Legal Issues (2 of 2)

- **Product Safety and Liability**
 - Responsibility for damage, injury, or death
- **Taxation**
 - Income, sales, consumption, and VAT
- **Antitrust Regulations**
 - Prevent market sharing, price fixing, and unfair advantage

Quick Study 4

1. What are some examples of intellectual property?
2. What are the different types of industrial property?
3. Laws that hold manufacturers, sellers, individuals, and others responsible for damage, injury, or death caused by defective products are called what?

Ethics and Social Responsibility (1 of 3)

Corporate Social Responsibility (CSR)

- Traditional Philanthropy
- Risk Management
- Strategic CSR

Ethics and Social Responsibility (2 of 3)

Philosophies of Ethics and Social Responsibility

Philosophies

- Friedman View
- Cultural Relativist View
- Righteous Moralist View
- Utilitarian View

Ethics and Social Responsibility (3 of 3)

Key Issues

- Bribery and Corruption
- Labor Conditions and Human Rights
- Fair Trade Practices
- Environment
 - Carbon footprint



Quick Study 5

- The essence of which philosophy is captured by the expression, “When in Rome, do as the Romans do”?
- Possible consequences of corruption include what?
- What are some criteria a product must meet in order to be Fair Trade certified?
- The environmental impact of greenhouse gases that result from human activity is called what?

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