

SOLUTIONS MANUAL



Chapter 2

UNDERSTANDING FORMAL INSTITUTIONS: POLITICS, LAWS, AND ECONOMICS

Learning Objectives

After studying this chapter, you should be able to:

1. Identify two types of institutions.
2. Explain how institutions reduce uncertainty.
3. Identify the two core propositions underpinning an institution-based view of global business.
4. List the differences between democracy and totalitarianism.
5. List the differences among civil law, common law, and theocratic law.
6. Articulate the importance of property rights and intellectual property rights.
7. List the differences among market economy, command economy, and mixed economy.
8. Explain why it is important to understand the different institutions, both formal and informal, when doing business around the world.

Chapter Overview

The topic of this chapter is institutions, and their implications for global business. The discussion begins with a definition of institutions, as well as the distinction between formal and informal institutions. After identifying what institutions are, we move to the issue of what institutions do, and how they specifically affect business activities. Generally speaking, institutions constrain the range of actions that a business can take by defining the “rules of the game.” This function of institutions is illustrated by a closer examination of three types of institutions – political systems, legal systems and economic systems – and their impact upon global business.

Opening Case Discussion Guide

South Africa, which represents 45% of the GDP of the African continent, provides an excellent study in the role of institutions. Much of South Africa’s growth was fueled by the abolition of apartheid and the enactment of policies aimed at political reconciliation and economic liberalization. Other institutions in South Africa, however, pose considerable risk to firms. The Black Economic Empowerment policy, for example, puts white-owned firms at a severe competitive disadvantage.

Ask students whether prosperity in South Africa is due to or in spite of governmental policies (formal institutions). Is South Africa enjoying the level of prosperity that it might have if some of the government’s policies were modified? On the other hand, what is the primary objective of these policies – economic growth or social justice? Is South Africa achieving either objective optimally? Finally, have students consider what policy changes they would make in order to foster continuous economic growth in South Africa.

LESSON PLAN FOR LECTURE

Outline and Suggested PowerPoint Slides

Learning Outcome	PowerPoint Slides
Learning Objectives Overview	2-3: Learning Objectives
LO1 Identify two types of institutions.	4: Institutions 5: Two Types of Institutions 6: Two Types of Institutions – Formal Institutions 7: Two Types of Institutions – Informal Institutions
LO2 Explain how institutions reduce uncertainty.	8: What Do Institutions Do?
LO3 Identify the two core propositions underpinning an institution-based view of global business.	9: Institution-Based View of Global Business 10: Two Propositions
LO4 List the differences between democracy and totalitarianism.	11: Political Systems 12: Political Systems – Democracy 13: Political Systems – Totalitarianism 14: Political Systems and Business
LO5 List the differences among civil law, common law, and theocratic law.	15: Legal Systems
LO6 Articulate the importance of property rights and intellectual property rights.	16: Property Rights 17: Intellectual Property Rights
LO7 List the differences among market economy, command economy, and mixed economy.	18: Economic Systems
LO8 Explain why it is important to understand the different institutions, both formal and informal, when doing business around the world.	19: Understanding Different Institutions

Debate	20-21: What Drives Economic Development?
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CHAPTER OUTLINE

LO1: Two Types of Institutions

1. *Key Concepts*

This section elucidates the nature of institutions by comparing them to the rules of a game. “Institutions” is further broken down into two sub-categories, formal and informal. Formal institutions refer to laws, regulations and rules, while informal institutions include norms, cultures and ethics.

2. *Key Terms*

- **Cognitive pillar** refers to the internalized, taken-for-granted values and beliefs that guide individual and firm behavior.
- **Formal institutions** include laws, regulations, and rules.
- **Informal institutions** include norms, cultures, and ethics.
- **Institutional framework** is made up of formal and informal institutions governing individual and firm behavior.
- **Institutions** constrain the range of actions that a firm can take, and can be thought of as “the rules of the game.”
- **Normative pillar** refers to how the values, beliefs, and actions of other relevant players—collectively known as **norms**—influence the behavior of focal individuals and firms.
- **Regulatory pillar** is the coercive power of governments.

3. *Discussion Exercise*

In the following list of activities, have the students identify whether they are influenced by formal institutions or informal institutions.

- McDonald’s of India does not sell any products made with beef or pork, offering instead only chicken, fish and vegetarian sandwiches.
- The economic stimulus bill enacted in February 2009 (The American Recovery and Reinvestment Act of 2009) includes a provision that requires the funds to be spent for American goods.
- In August 2009, Proctor and Gamble test-marketed a lower-cost, “basic” version of its Tide product line to woo cost-conscious shoppers.

LO2: What Do Institutions Do?

1. *Key Concepts*

The key role of institutions is to reduce uncertainty. This is accomplished by influencing the decision-making process of both individuals and firms through a signaling of what is and is not legitimate conduct. It is imperative, therefore, that firms have a solid grasp of the institutional framework within which they conduct business. Further, because institutions are not static, firms need to monitor and plan for the potential institutional changes that may take place.

2. *Key Terms*

- **Institutional transitions** are defined as “fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players.”
- **Opportunism** refers to the act of seeking self-interest in guile.
- **Transaction costs** are defined as costs associated with economic transactions—or more broadly, costs of doing business.

3. *Discussion Exercise*

Since this section defines institution as “rules of the game,” lead students in an exercise in which they invent a game. Have students break into small groups, with each group creating a game. It can be a variation of something already known or something completely new. The instructor can then allow a given number of groups to present their game and lead the rest of the class in playing it. During this time, the group in charge is free to change the rules as they see fit, either to clarify or revise rules that are unclear, or just for the sake of change.

The goals of this exercise is to demonstrate: 1) the importance of establishing clear and concise rules for an activity; 2) the importance of having sure knowledge of the rules; 3) the importance of monitoring changes in the rules; 4) the volume of rules that are needed to cover various situations and contingencies.

LO3: An Institution-Based View of Global Business

1. *Key Concepts*

How do institutions matter? How do the rules of the game influence the business activities of a firm? This section suggests two answers to these questions: The first is that managers and firms rationally pursue their interests and make choices within institutional constraints. The second is that while formal and informal institutions combine to govern firm behavior, informal constraints play a larger role in reducing uncertainty and providing constancy for managers and firms in situations where formal constraints are unclear or fail.

2. *Discussion Exercise*

The importance of institutions to the conduct of business can be seen in recent attempts by world governments to stem the global financial downturn through various policy changes. In areas as diverse as lending, taxation and infrastructure, governments have passed substantial legislation intended to stimulate economic growth. These policies thus provide a first-hand account of how institutions affect the conduct of business around the globe.

As an introduction to the role of institutions, have students consider the legal and economic policies that were enacted in the US in response to the global financial crisis of 2008-2009. First, have students research and identify what practical measures a particular policy called for. Then, have students discuss its positive or

negative impact on global business.

Examples of policies that could be discussed include:

- Housing and Economic Recovery Act (July 2008)
- The US government's takeover of the lenders Fannie Mae and Freddie Mac (September 2008).
- Troubled Asset Relief Program (September 2008)
- Temporary Liquidity Guarantee Program (October 2008)
- The American Recovery and Reinvestment Act of 2009 (February 2009)
- Car Allowance Rebate System (a.k.a Cash for Clunkers; July 2009)

In this discussion, the focal point need not be on the details of each policy, but rather, the identification of how these policies established or changed the rules of the game in order to help businesses remain solvent.

LO4: Democracy and Totalitarianism

1. Key Concepts

A political system is the set of rules that determine how a country is governed. Their influence on business activities is considerable, since many of the rules and regulations that a firm must follow originate from legislation. After defining two primary political systems, democracy and totalitarianism, the chapter discusses their ramifications for political risk, and the implications they carry for global business.

2. Key Terms

- **Communist totalitarianism** is political rule dominated by a single, communist party.
- **Democracy** is a political system in which citizens elect representatives to govern the country on their behalf.
- **Political risk** is a risk associated with political changes that may negatively impact domestic and foreign firms.
- **Political system** refers to the rules of the game on how a country is governed politically.
- **Right-wing totalitarianism** is a political system characterized by its intense hatred of communism.
- **Theocratic totalitarianism** is a political system characterized by the monopolization of political power in the hands of one religious party or group.
- **Totalitarianism (dictatorship)** is defined as a political system in which one person or party exercises absolute political control over the population.
- **Tribal totalitarianism** refers to one tribe or ethnic group (which may or may not be the majority of the population) monopolizing political power and oppressing other tribes or ethnic groups.

3. *Discussion Exercise*

Because of the vast effects that political systems can have on business, changes in government represent significant opportunities or crises to MNEs. For 24 years, the nation of Iraq was a single-party, totalitarian state under the control of Saddam Hussein. In 2003, he was overthrown during the invasion of the US-led coalition. Totalitarian rule was replaced in 2004 with a US-sponsored Coalition Provisional Authority in 2004, and in 2006 by a democratically elected government. Now, imagine that you are a high-level executive of an oil company with extensive dealing in Iraq, which at its peak produced 2.6 million barrels per day. Compare and contrast your approach to business in Iraq under the Hussein regime and the newly created democratic regime. Explain which aspects of your business plan would change and which would not given the radical change in government. Also, discuss how your business would react to the continuous political and security unrest in Iraq.

LO5: Civil, Common, Theocratic Law/LO6: Property and Intellectual Property Rights

1. *Key Concepts*

A legal system refers to the rules of the game on how a country's laws are enacted and enforced. By determining how rules are established and enforced, a legal system reduces transaction costs and minimizes uncertainty for firms. This section discusses three major types of legal systems – civil law, common law and theocratic law – and then moves to a consideration of a key legal issue, property rights, the proper enforcement of which is critical for economic development.

2. *Key Terms*

- **Civil law** is a legal tradition that is shaped by precedents from previous judicial decisions.
- **Common law** is a legal tradition shaped by precedents and traditions from previous judicial decisions.
- **Copyrights** are the exclusive legal rights of authors and publishers to publish and disseminate their work.
- **Intellectual property** specifically refers to intangible property that results from intellectual activity (such as books, videos, and websites).
- **Intellectual property rights (IPRs)** are rights associated with the ownership of intellectual property. IPRs primarily include rights associated with (1) patents, (2) copyrights, and (3) trademarks
- **Legal system** refers to the rules of the game on how a country's laws are enacted and enforced.
- **Patents** are legal rights awarded by government authorities to inventors of new products or processes, who are given exclusive rights to derive income from such inventions through activities such as manufacturing, licensing, or selling.
- **Piracy** refers to the unauthorized use of IPRs, ranging from unauthorized sharing of music files to deliberate counterfeiting of branded products.

- **Property rights** are the legal rights to use an economic property (resource) in order to derive income and benefits from it.
- **Theocratic law** is a legal system based on religious teachings.
- **Trademarks** are the exclusive legal rights of firms to use specific names, brands, and designs to differentiate their products from others

3. *Discussion Exercise*

Piracy, the unauthorized use of IPR, is a critical issue in the entertainment industry. Various file-sharing services, such as USENET, BitTorrent and Limewire, allow users to download movies, TV programs and music for virtually no cost. A principal means by which firms have sought to combat file-sharing is through Digital Rights Management (DRM), various technologies that restrict the use of digital content. DRM has been the target of extreme criticism, blamed for everything from hurting legitimate users to hampering viral marketing and presenting a significant barrier to free trade. What is worse, most DRM systems have been cracked with relatively little difficulty.

Given both the ease of piracy and the relative lack of success of preventive measures, how should media firms ensure protect their IPR and ensure their profitability? Should they pursue alternative IPR technologies? Should they aggressively pursue and prosecute offenders? Or, are there ways in which firms can earn a profit while allowing open access?

LO7: Market, Command and Mixed Economy

1. *Key Concepts*

n economic system refers to the rules of the game on how a country is governed economically. It refers primarily to the level of governmental and institutional intervention in business activities. This section defines the three major types of economic systems – market, command and mixed.

A key principle of this section is that all economies, to one extent or another, are mixed economic systems. That is, there is no pure form of either a market economy or a command economy. To illustrate, consider the various pieces of economic legislation passed by the US during the recent recession. These include the Toxic Asset Relief Program, the nationalization of Chrysler and GM, the American Recovery and Reinvestment Act of 2009, and the Car Allowance Rebate System (a.k.a, Cash for Clunkers). Each is an example of how the government applied command economy principles to a market economy. Of course, government intervention of this type is nothing new in the US. For example, the Agricultural Adjustment Act of 1933 paid farmers to reduce crop area, effectively reducing the supply of agricultural products and raising their price. At the other end of the extreme, consider North Korea, which appears to exemplify a command economy. In 2002, the totalitarian government created the Kaesong Industrial Park, a special economic zone that operates according to market principles, and is home to 72 South Korean firms.

2. Key Terms

- **Command economy** is an economic system in which all factors of production are government- or state-owned and controlled, and all supply, demand, and pricing are planned by the government.
- **Economic system** refers to the rules of the game on how a country is governed economically.
- **Market economy** is a term an economic system characterized by the “invisible hand” of market forces and the government takes a hands-off approach known as *laissez faire*.
- **Mixed economy** is an economic system that has elements of both a market economy and a command economy.

LO8: Management Savvy

1. Key Concepts

Managers considering working abroad should have a thorough understanding of the formal institutions before entering a country. In situations where formal constraints are unclear, managers can reduce uncertainty by relying on informal constraints, such as relationship norms.

Debate

What Drives Economic Development?

1. Key Concepts

The differences in economic development around the globe are striking. The difference between the richest and poorest countries of the world in terms of per capita GNI is more than \$50,000. What contributes to such a disparity? Some argue that it is a matter of culture, while others argue that it is a matter of geography. Still others argue that this disparity is caused by differences in the institutional framework.

2. Key Terms

- **Market transition debate** pertains to how to make the transitions work in a most effective and least disruptive way.
- **Path dependency** refers to how the present choices of countries (as well as firms and individuals) are constrained by the choices made previously.

Closing Case

• Closing Case Discussion Guide

As a response to the global financial meltdown of 2008, several governments enacted policies that fundamentally challenged the principle of *laissez faire*. Both the US and the UK executed plans that would effectively lead to the nationalization of banks and other financial institutions. The once-cherished notions about the superiority of a free market economy, and the harm that government intervention can do, are now in serious doubt.

- **Closing Case Discussion Questions**

1. Before the announcement of the bailouts in September-October 2008, did you believe that the United States had a free market economy? Did your views change by the end of 2008?

Students' responses will vary, but the important element in their answers is the recognition that there was a fundamental shift away from free market principles.

2. What are the benefits and drawbacks of government/public ownership?
Some of the benefits students list might include a lower level of risk for firms and less subjectivity to supply and demand conditions. Some of the drawbacks might include less competition, higher prices and less choice for the consumer.

3. If you were a board member at a major non-US financial services firm, would you vote Yes or No for a new multimillion dollar project to enter the United States after hearing about the \$700 billion bailout plan? (Although the Paulson plan would also bail out qualified foreign banks active in the United States, assume your bank will not be qualified. The question is about whether the plan would give you the confidence to enter the United States).

Answers will vary; ideally, students should consider that the bailout provides US banks with a financial and competitive advantage over foreign banks, which do not qualify for such funds.

4. If you were a government official in Brazil, China, Poland or South Korea who was lectured by your US counterpart on the virtues of free market capitalism, deregulation and reduced government intervention in early 2008, would your views have changed by the end of 2008?

Answers will vary.

Video Case

“Monitor Your Business Environment and Anticipate Change” by Paul Skinner of Rio Tinto.

- **Introduction**

he case demonstrates the value of contingency planning and shows how institutions (the government) can affect an organization. In discussing the case, point out that it is not only good to consider what is likely to happen as a result of government action and develop contingency plans for such an outcome but consider how the firm may help bring about the action that it wants. Help students to go beyond lobbying and consider how certain positive actions might affect the public and in turn legislators.

NB For the Video Quizzes, there are two sets of questions, one on the Instructor’s Edition Prep Cards, and one that is available to students on the GLOBAL web site. Both sets, with suggested responses, have been provided here.

- **Questions and Answers from Prep Card**

1. How did formal institutions impact Mr. Skinner's organization?
Because of various governmental regulations, the range of actions that his firm could take was restricted. For example, they were not allowed to own retail outlets, there were strict limitations placed on where the firm could invest, and the government imposed caps on prices that limited the firm's profits through sales.
2. How did his contingency planning give him an advantage over those with a herd mentality and enable his firm to profit from the change in formal institutions?
His organization had been tracking changes that would ultimately result in deregulation. The firm thus developed a contingency plan to deal with the changes once they occurred so that it would be able to exploit those changes faster and more effectively than competitors.
3. Based on Mr. Skinner's experience, how do the economic system and the regulatory pillar interact in affecting the organization?
New Zealand had a mixed economy but the mix tilted toward government control. As a result, the regulatory pillar had a far greater impact on what a business could do than later when the "mix" in that economy shifted toward more private control.
4. According to this chapter, "managers and firms *rationaly* pursue their interests and make choices within institutional constraints." Based on that, how might firms in Mr. Skinner's industry maximize their position before and after deregulation?
Students may have various suggestions. Some may point out that in view of government controls, prior to deregulation there would have been incentive to lobby the government and seek favorable rules from regulators. After deregulation, firms would need to place greater focus on being more effective than competitors in seeking a favorable response from customers.

- **Questions and Answers from Students' Web Site**

1. How did formal institutions impact Mr. Skinner's organization?
Because of various governmental regulations, the range of actions that his firm could take was restricted. For example, they were not allowed to own retail outlets, there were strict limitations placed on where the firm could invest, and the government imposed caps on prices that limited the firm's profits through sales.

2. How does Mr. Skinner's experience illustrate the importance of understanding institutional transitions?

As related in the video case, the board at Shell had been thinking about and tracking potential institutional changes for a long time, partly by tracking political opinions. Further, they explored, through various scenarios, how they might respond to particular institutional changes. Thus, they had in place, well in advance of actual changes, specific plans to deal with a deregulation of their industry, as well as funding for those plans. By forecasting and tracking institutional changes, the firm was able to rollout a plan that took full advantage of new deregulation policies much more rapidly than competitors that had not been thinking about possible changes.

3. According to this video, why is it important for a firm to understand formal institutions?

As defined in the chapter, formal institutions establish the rules of the game by which business is conducted. First, a firm needs to have a solid grasp on formal institutions so that they conduct business in a legitimate, legal manner. Second, a firm needs to be very familiar with how institutions change, since these transitions would limit firms from performing some activity, but would also allow it to perform other activities. In other words, what a firm can and cannot do is defined in large part by formal institutions, making proper comprehension of them critical for any business.

ADDITIONAL DISCUSSION MATERIAL

*Review Questions

*Critical Discussion Questions

Review Questions

1. Name and describe the one pillar that supports formal institutions and the two additional pillars that support informal institutions.
The formal and primary pillar is the regulatory pillar: it is the coercive power of governments. The informal pillars consist of the following: (1) the cognitive pillar which refers to the internalized, taken-for-granted values and beliefs that guide individual and firm behavior and the normative pillar which refers to how the values, beliefs, and actions of other relevant players—collectively known as norms—influence the behavior of focal individuals and firms.
2. In what ways do institutions influence individuals' and firms' behaviors? Explain your answer.
Institutional framework is made up of formal and informal institutions governing individual and firm behavior. Institution-based views require firms to constantly monitor, decode, and adapt to the changing rules of the game to survive and prosper.
3. Define institutional transitions, and give three examples of where they can be found.
Institutional transitions are defined as “fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players.” China, Poland, and Russia are among the emerging economies moving from central planning to market competition.
4. Explain the two core propositions behind the institution-based view of global business.
First, managers and firms rationally pursue their interests and make choices within institutional constraints. Second, formal and informal institutions combine to govern firm behavior but where formal constraints are unclear or fail; informal constraints play a larger role.
5. Which are generally more significant: formal or informal constraints? Explain your answer.
In situations where formal constraints are unclear or fail, informal constraints play a larger role in reducing uncertainty and providing constancy to managers and firms.

6. What fundamental aspect of democracy is relevant to the effective conduct of global business?
A fundamental aspect of democracy that is relevant to the effective conduct of global business is an individual's right to freedom of expression and organization. In most modern democracies, this right to organize economically has not only been extended to domestic individuals and firms but also to foreign individuals and firms that come to do business.
7. Name and describe the four types of totalitarianism.
 - *Communist totalitarianism centers on a communist party.*
 - *Right-wing totalitarianism is characterized by its intense hatred of communism.*
 - *Theocratic totalitarianism refers to the monopolization of political power in the hands of one religious party or group.*
 - *Tribal totalitarianism refers to one tribe or ethnic group (which may or may not be the majority of the population) monopolizing political power and oppressing other tribes or ethnic groups.*
8. How does political risk affect global business?
Political risk by definition is risk associated with political changes that may negatively impact domestic and foreign firms. When the risk is very high in a given country, it is not surprising that companies would rather go to "greener pastures" elsewhere.
9. Describe the differences among the three types of legal systems.
The three systems: Civil Law, Common Law, and Theocratic Law. Civil law uses comprehensive statutes and codes as a primary means to form legal judgments. Common law is shaped by precedents and traditions from previous judicial decisions. Theocratic law is a legal system based on religious teachings.
10. Give an example of how theocratic law affects daily business operations.
There are many possible examples. In Saudi Arabia, McDonald's operates "ladies only" fast-food restaurant and banks have to maintain two retail branches: one for male customers staffed by men and another for female customers staffed by women. These requirements obviously increase costs.
11. Name three types of economic property, and explain how they could be used in business.
Economic property includes tangible economic resources (homes, offices, factories), intangible economic resources (3 kinds: patents, copyrights, trademarks) and the right to obtain income and benefits from those resources.

12. Name three types of intellectual property, and explain how they could be used in business.

Intellectual property rights (IPRs) primarily include rights associated with (1) patents, (2) copyrights, and (3) trademarks. Patents are legal rights awarded by government authorities to inventors of new products or processes, who are given exclusive (monopoly) rights to derive income from such inventions through activities such as manufacturing, licensing, or selling. Copyrights are the exclusive legal rights of authors and publishers to publish and disseminate their work. Trademarks are the exclusive legal rights of firms to use specific names, brands, and designs to differentiate their products from others.

13. What is TRIPS?

TRIPS refers to the Agreement on Trade-Related Aspects of Intellectual Property Rights. Given the global differences in the formal rules, much stricter IPR protection is provided by TRIPS. Once countries join TRIPS, firms are often forced to pay more attention to innovation.

14. Name and describe the three economic systems.

- *Command economy: under this system, all factors of production should be government- or state-owned and controlled, and all supply, demand, and pricing are planned by the government.*
- *Market economy is a term referring to a system characterized by the “invisible hand” of market forces: government takes a hands-off approach known as the laissez faire.*
- *Mixed economy, by definition, is an economic system that has elements of both a market economy and a command economy.*

15. Which economic system is the most common and why?

Overall, the economic system of most countries is a mixed economy. In practice, when we say a country has a market economy, it is really a shorthand version for a country that organizes its economy mostly (but not completely) by market forces and that still has certain elements of a command economy.

16. Our current system of intellectual property protection stems from what early patent law?

The Statute of Monopolies enacted in Great Britain in 1624 was the world’s first patent law to formally protect the IPRs of inventors and make innovation financially lucrative.

17. Describe two contrasting examples of market transitions.

Market transition debate pertains to how to make the transitions work in a most effective and least disruptive way. The important thing is not so much the answer as the extent to which the student demonstrates thought in providing the answer.

18. Explain path dependency, how a country's present choices are often constrained by earlier choices.
Path dependency: the present choices of countries (as well as firms and individuals) are constrained by the choices made previously.
19. Which do you think offers a more accurate measure of political risk: one based on perception or one based on political and regulatory structures? Explain your answer.
Perceptions can be inaccurate but they affect what people and firms do. The important thing is not so much the answer as the extent to which the student demonstrates thought in providing the answer.
20. Generally speaking, what is the result of strong, effective, market-supporting formal institutions?
Formal institutions include laws, regulations, and rules and are essential to the growth of global business.
21. Why should managers guard against a herd mentality?
It is important to use independent judgment rather than simply doing what everyone else is doing since there may be a better way than what others are doing.
22. If formal constraints are unclear or ineffective, what else can managers use to reduce uncertainty?
It is important to use independent judgment rather than simply doing what everyone else is doing since there may be a better way than what others are doing.

Critical Discussion Questions

1. Without looking at any references, please identify the top-three countries with the most significant change in political risk in the last five years. Why do you think so?
This is a question in which the answer is not as important as the thought process and the ability to clearly articulate.
2. **ON ETHICS:** As manager, you discover that your firm's products are counterfeited by small family firms that employ child labor in rural Bangladesh. You are aware of the corporate plan to phase out these products soon. You also realize that once you report to the authorities, these firms will be shut down, employees will be out of work, and families and children will be starving. How would you proceed?
This is a question in which the answer is not as important as the thought process and the ability to clearly articulate.

3. **ON ETHICS:** Your multinational is the largest foreign investor and enjoys good profits in (1) Sudan, where government forces are reportedly cracking down on rebels and killing civilians, and (2) Vietnam, where religious leaders are reportedly being prosecuted. As country manager, you understand that your firm is pressured by activists to exit these countries. The alleged government actions, which you personally find distasteful, are not directly related to your operations. How would you proceed?

Although this is also a question in which the answer is not as important as the thought process and the ability to clearly articulate, there are some things that should be considered even by students who really do not care about social/humanitarian issues and are only concerned about the bottom line. In a global economy with instant global communication of news, the policies of a given country might not affect a firm's operations in that country but it might affect the firm's sales and problems with legislative initiatives in other countries.