

Why companies engage in IB;

1. Inc

Summary

LEARNING OBJECTIVE 3.1 Contrast democratic and autocratic, and individual and collective political ideologies.

Market-based systems generally align with democratic governments and encourage private ownership and control of assets. Command-based systems tend to align with authoritarian governments and encourage government-run planning and ownership. While governments typically lean more toward one system or the other, most economies are actually mixed systems in which the market controls some aspects of the market and the government controls others.

LEARNING OBJECTIVE 3.2 Outline the types of political risks inherent in conducting international business.

Macro political risk affects all companies in a country, whereas micro political risk affects a specific company, industry, or project. Potential strategies for minimizing political risk include conducting a political risk analysis, negotiating a contract with the host country for recourse should the business face government interference, and buying political risk insurance. Ultimately, businesses have no perfect defense, and the best they can do is to remain well informed of the political dangers of a country and make decisions accordingly.

LEARNING OBJECTIVE 3.3 Describe some measures of political freedom and the consequences of freedom for international business.

When entering foreign markets, companies need to assess the level of freedom in those markets. Measures of freedom include the extent of personal property rights, rule of law, and the level of governmental regulation. These measures correlate, in turn, with increased levels of wealth, which typically indicate better business opportunities. Businesses are also freer, making the business environment more stable and predictable in politically more stable countries.

LEARNING OBJECTIVE 3.4 Discuss the levels of governmental involvement in business.

Some governments intervene more directly in the operation of business than by simply passing laws and regulation. In some cases, governments with extensive control of their economy will relax that control and shift from a command system to a market system through privatization, property rights, and deregulation. In privatization, a government transfers (sells) ownership of an SOE to private stakeholders. The adoption or expansion of property rights enables international

businesses to control more resources in a market. Last, deregulation relaxes government involvement in an industry, opening it to free-market pressures of supply and demand.