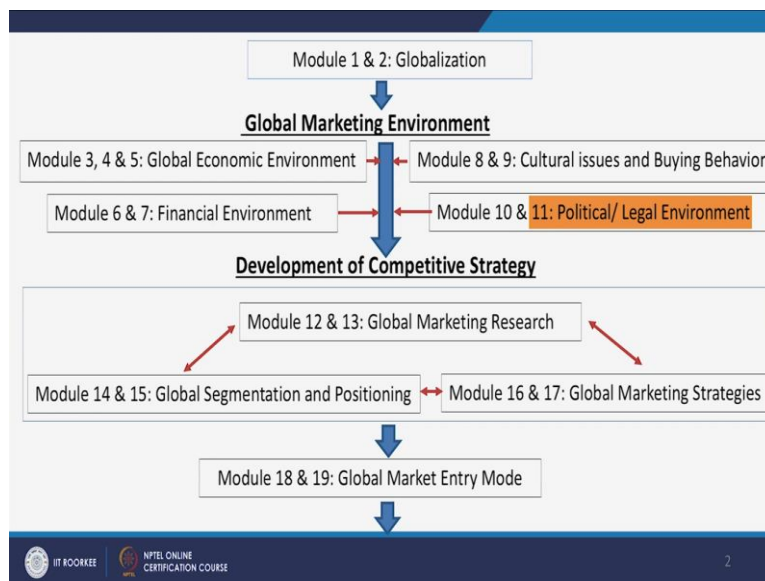


Global Marketing Management
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Module - 3
Lecture - 11
Political and Legal Environment - Part II

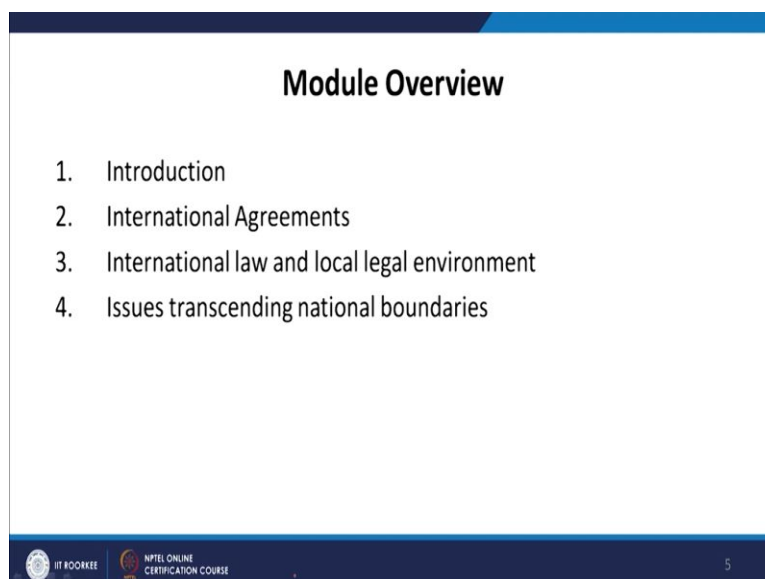
Welcome to this course on Global Marketing Management. And we were talking about the political and legal environment. This section is spread over 2 modules.

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That is module number 10 and 11. We have talked about module number 10 and today we will talk about module number 11. So, module 11 covers;

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International agreements and international laws and local legal environment. And there are certain issues that cut across national boundaries. So, these are the 3 issues that we will talk about. But before that, let us for briefly look at the importance of international law. Now you see that the political and legal systems;

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Introduction

- The political and legal systems are vital parts of a country's business environment, and in navigating different markets, firms must understand how and where national business environments converge and diverge.
- Determining precisely where, when, and how to adjust business practices, operating procedures, and strategies to meet the challenges posed by the local environment is a key to success in international marketing.
- This module examines the nature of legal environment and its impact on international marketing.



They are vital part of a country's business environment. In addition to the economic, financial and cultural factors, political and legal systems, they also form a vital part of a country's business environment. And in navigating different market, firms must understand how and where national business environments, they converge and how and where they diverge. Determining precisely where, when and how to adjust business practices, operating procedures and strategies to meet the challenges posed by local environment is the key to success in international marketing.

Now, you see that we are, as a manager, we should be worried about where, when and how to adjust our business practices. So, in this, that is why the business practice of a company may look different in 1 country and it may look different in another country. So, in this module, we examine the nature of legal environment and its impact on international marketing.

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International Agreements

- International politics has always been characterized by the predominance of strong ideological links, centered around, and dominated by, a relatively small number of large powers.
- Domestic politics cannot be isolated from international politics.
- The international political environment is determined by a dynamic process of the interactions of players each pursuing their own interests and working together for mutual interests. Coordination is of prime importance.

These are, now, let us briefly talk about international agreements. International politics has always been characterized by the predominance of strong ideological links, centered around and dominated by a relatively small number of large powers. The basic idea of this point is that, small number of large powers, they to a large extent determine the international agreements.

Although domestic politics cannot be isolated from international politics, but the international political environment is determined by a dynamic process of the interaction of players, each pursuing their own interest and knowing together and working together for mutual interest. So, there are different countries, different players, they are who interact and they have their own interest to pursue and also they work together for mutual interest. So, coordination in this case is of prime importance.

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International Agreements

- In the United States, the Congress not the president, is in charge of international trade. On the other hand, fast-track trade authority gives the president a free hand in directly negotiating trade deals with foreign governments. President Clinton did not get the fast-track trade authority, but President George W. Bush was granted this authority in 2002.



In the United States, the Congress not the president of United States is in charge of international trade. On the other hand, fast-track trade authorities give the president a freehand in directly negotiating trade deals with foreign government. President, but President Clinton did not get the fast-track trade authorities. And President Bush was granted this authority in 2002.

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International Agreements

- **G-7 (Group of Seven) and G-8 (Group of Eight)**
 - a. G-7 is an economic policy coordination group made up of political leaders from Canada, England, France, Germany, Italy, Japan, and the United States.
 - b. G-8 group consists of the original G-7 and Russia.
 - c. Discussions revolve around financial and macroeconomic issues that affect the world trade environment.



These are some, these are examples of some of the international agreements. So, there is G-7, that is group of 7 and there is G8, that is group of 8. So, G-7 is an economic policy coordination group made up of political leaders from Canada, England, France, Germany, Italy, Japan and United States. And G-7 plus Russia is G-8. Discussions in G-7 and G-8, they revolve around financial and macroeconomic issues that affect the world trade environment.

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International Agreements

- **COCOM (The Coordinating Committee for Multilateral Controls)**
 - a. Was founded in 1949 to stop the flow of western technology to the former Soviet Union.
 - b. Members countries include Australia, Japan and the NATO countries except Iceland.
 - c. Recently the focus has shifted from just technology to hardware and software products.
 - d. COCOM ceased to function after 1994.

There is another COCOM, the coordinating committee for multilateral controls. That was founded in 1949 to stop the flow of Western technology to the former Soviet Union. So, this is, we are talking about the cold war era. Member countries include Australia, Japan and the NATO countries except Iceland. Recently the focus has shifted from just technology to hardware and software. But COCOM seems to function after 1994.

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International Law and Local Legal Environment

International Law

- Also known as 'the law of nations'.
- Defined as the body of rules or laws which is binding on states and other international persons in their mutual relations.
- Most nations and international bodies have voluntarily agreed to subjugate themselves to some level of constraint for the purpose of living in a world in which order, and not chaos is the governing principle.
- Technically, there is no international enforcement body.

The international law is also known as law of nations. It is defined as the body of rules or laws which is binding on states and other international persons in their mutual relations. Most nations and international bodies have voluntarily agreed to subjugate themselves to some level of constraint. For the purpose of living in the world in which order and not chaos is the governing principal. Technically, there is no international enforcement body.

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International Law and Local Legal Environment

Sources of International law :

- a. **Customs:** Usages or practices that have become so firmly accepted that they become rule of law; customs based laws develop slowly.
- b. **International treaties:** Represent formal agreements among nations or firms that set down rules and obligation to govern their mutual relationships.
- c. **National and international court decisions:** Make rulings in cases that apply to international issues.

Now, where do, from where do the international law comes from? The first is customs. Usages or practices that have become so firmly accepted that they become rule of law. Custom based laws, they develop slowly. Then there are some international treaties. They represent formal agreements among nations or firms that set down rules and obligations to govern their mutual relationships. Then, there are national and international court decisions. They make rulings in cases that apply to international issues.

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International Law and Local Legal Environment

The Legal Environment

Nations' laws and regulations pertaining to business also influences the operations of a foreign firm. A firm must know the legal environment in each market.

The legal environment of international marketing is complicated, having three dimensions.

For a U.S. firm these are- **U.S. laws, International law** and **domestic laws** in each of the firm's foreign markets.

Now, what is the legal environment? Nations' law and regulations pertaining to business also influences the operation of a foreign firm. A firm must know the legal environment in each market it is operating or it wants to operate in. The legal environment of legal marketing is complicate of international marketing is complicated and having 3 dimensions. For a U.S.

firm, these are the U.S. laws that is the home country laws, the international laws and domestic laws.

That is, in each of the firm's foreign market. So, this is the home country law, this is the host country and then there are certain international laws. International laws, they are or local;

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International Law and Local Legal Environment

Local Legal Systems and Laws

- Many legal systems do not follow the common law system followed in the United States.
- The international marketing manager must be aware of the laws which will govern all business decisions and contracts.

Business Practices and the Legal System: *4Ps*

- Choices relating to legal industry constraints, and various regulations on product specifications, promotional activities, and distribution must be understood in order to function efficiently and profitably.

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Let us see what the local legal system and laws means. So, many legal systems do not follow the common law system followed in the United States. In international marketing, managers must be aware of the laws which will govern all business decisions and contracts. What is the relationship between business practices and the legal system? Choices relating to legal industry constraints and various regulations on product specifications, promotional activities and distribution may be understood in order to function efficiently and profitably.

These legal system, they affect the 4 Ps. Therefore, it is important to understand what is the relationship between these 2 and how the business practices, they affect the firm's 4 Ps.

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Business Practices and Legal System

Type of Decision	Issue
Pricing decisions	Price fixing Deceptive pricing — <i>initial</i> Trade discount
Packaging decisions	Pollution regulations Fair packaging and labeling
Product decisions	Patent protection Warranty requirements Product safety
Competitive decisions	Barriers to entry Anticompetitive collusion
Selling decisions	Bribery Stealing trade secrets
Production decisions	Wages and benefits — <i>workers</i> Health and safety requirements → <i>increase in cost</i>
Channel decisions	Dealers' rights Exclusive territorial distributorships → <i>geography</i>

Source: Adapted from Kotler, Philip and Gary Armstrong, *Principles of Marketing*, 8th ed. (Englewood Cliffs, NJ: Prentice Hall), 1998.



Now, look at this, look at how business practices are affected by the legal system. For example, pricing decisions. The issue here is price fixing. How to go about fixing price, deceptive pricing. So, they just give the initial price, but the final price maybe something very different. And the trade discount; what amount of discount can be given to the various trade partners. Another type of decision can be, are packaging decisions.

For example, what are the pollution regulations, whether plastics can be used for packaging or what kind of material should be used for packaging. Fair packaging and labelling. So, what should be written, how it should be written, what information should be given on the package. Then comes the product decisions. Patent protection: whether the country local laws support patent protection and to what extent; warranty requirements and product safety.

Competitive decisions: barriers to entry. So, if barriers to entry are high, then obviously the competition will be lower. And anticompetitive collusion; so, to what extent the governments will allow anticompetitive collusion. So, the anticompetitive collusion means that companies, they come together and they act as one. Selling decision: bribery and stealing trade secrets. Production decision: what are the minimum wages and the benefits that the workers will get and health and safety requirements that the company has to follow.

So, that may lead to increase in cost. And the channel decisions; what are the dealer rights, exclusive territorial distributorship. So, if the company giving gives distributorship, whether it is for certain amount of geography.

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International Law and Local Legal Environment

Regulations on E-Commerce

- Local business laws also effect the use of the Internet and its Web-related activities.
- Many countries are making laws which will impact the Internet.
- In Germany, there are strict regulations over providing “digital signatures” while making an online purchase.
- Britain has a set of e-commerce laws designed to protect consumers



Then, there are regulations on e-commerce. Local business laws also effect the use of internet and its web-related activities. Many countries are making laws which will impact the internet. In Germany, there are strict regulations over providing digital signatures while making an online purchase. Britain has a set of e-commerce laws designed to protect consumers.

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International Law and Local Legal Environment

Types of Legal Systems

a. Common law system:

This is tradition oriented; that is, the interpretation of what the law means on a given subject is heavily influenced by previous court decisions as well as by usage and custom

In other words it is based on the interpretation of law on prior court rulings.

Example: United States, Britain.



There are various types of a legal system. The 1 type of legal system is called as common law system. This is tradition oriented. That is, the interpretation of what the law means on a given subject is heavily influenced by previous court decisions as well as by usage in custom. In other words, it is based on the interpretation of law on prior court ruling. And this kind of legal system is prevalent in United States and Britain.

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International Law and Local Legal Environment

b. Code (written) law system:

Rely on statutes and codes for the interpretation of law.

The intention in civil law countries is to spell out the law on all possible legal questions rather than to rely on precedent or court interpretation.

Example: France, Germany, Spain

Another type of legal system is code. That is, written law system. This rely on statutes and codes for interpretation of law. The intention in civil law countries is to spell out the law on the possible legal questions, rather than to rely on president or court's interpretation. And this kind of law is there, this type of law system is there in France, Germany and Spain.

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International Law and Local Legal Environment

c. Islamic law system:

Rely on the legal interpretation of the Koran and the words of Prophet Mohammed (pbuh).

E.g. Saudi Arabia.

International businesses are generally more concerned with differences in **commercial laws** across different countries.

Then, the third type of system is Islamic law system. Rely on legal interpretation of the Quran and the words of Mohammed, peace be upon him; for and for example, Saudi Arabia. International businesses are generally more concerned with differences in commercial law across different countries. Now see, we the businesses they are concerned with differences in commercial laws across different countries.

So, they first have to understand what are the differences in common law. And then, they have to then decide their marketing. Cultural values and legal system. Here the important thing is that;

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International Law and Local Legal Environment

Cultural Values and Legal Systems

- Japan's population of lawyers is low, making it difficult to obtain evidence from legal opponents, but supports the cultural value of building long term business ties based on trust.
- In the U.S., emphasis is on explicit contracts and a reliance on the legal system is high.
- In China, relationships (*guanxi*) and verbal contracts are important.
- In Brazil, *Jeitinho* is used to find solutions outside the legal system.

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Cultural values, they affect the legal system. So, Japan's population of lawyers is low, making it difficult to obtain evidence from legal opponent, but supports the cultural value of building long-term business ties based on trust. In the U.S. emphasis is on explicit contracts and a reliance on legal system is high. In China, relationships and verbal contracts are important. In Brazil, Jeitinho is used to find solution outside the legal system.

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Issues Transcending National Boundaries

ISO 9000 and ISO 14000

- To establish common product standards for quality management, so as to obviate their misuse to hinder exchange of goods and services worldwide, the International Standards Organization (based in Geneva, Switzerland) has instituted a set of process standards.
- The European Union has adopted the ISO 9000 standards.

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Then, let us see there are certain issues that cut across thus that transcendent national boundaries. 1 such issue is ISO 9000 and ISO 14000. To establish common product standards

for quality management. Now, let us go back for a moment and see this slide again. So, this is, we are talking about product safety and what may be the product requirement. So, this ISO 9000, etcetera, they establishes product standards for quality management, so as to obviate their misuse to hinder exchange of goods and services worldwide.

The international standards organization, that is ISO is based in Geneva, Switzerland, has instituted a set of process standards. The European Union has adopted the ISO 9000 standards.

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Issues Transcending National Boundaries

- ISO 14000 standards are receiving a significant amount of attention from business managers which are a means to *self-regulate*, thereby minimizing the chances for surveillance and sanctions.
- These standards concern not only manufacturing areas but all the activities of the firm.
- Adoption of these standards will be a marketing tool of the future.

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ISO 14000 standards are receiving a significant amount of attention from business managers, which means, which are means to self-regulate, thereby minimizing the chances of surveillance and sanctions. These standards concern not only manufacturing areas but all the activities of the firm. So, the idea of having these type of standards that the company should may not be, should not adopt product in every country, because these standards are across national borders, so they can have product that are standardized across the world.

Adoption to these standards will be a marketing tool of the future. Another issue that cut across national boundaries is the intellectual property protection. That is the patent protection that we had talked about a couple of slides earlier.

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Issues Transcending National Boundaries

Intellectual Property Protection

- Intellectual property refers to “ideas that are translated into tangible products, writings, etc. and that are protected by the state for a limited period of time from unauthorized commercial exploitation”.
- Under the auspices of WTO, the TRIPS (Trade Related Aspects of Intellectual Property Rights) has been endorsed by the developed as well as developing countries.

Intellectual property refers to ideas that are translated into tangible products, writings etcetera. And that are protected by the state for a limited period of time from unauthorized commercial exploitation. So, intellect, these are the ideas that are translated into tangible products or writings. And they are protected by the government for a limited period of time, so that everybody cannot use them. Under the auspices of WTO, TRIPS, that is the Trade Related aspects of Intellectual Property Right rights, has been endorsed by the developed as well as developing countries.

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Issues Transcending National Boundaries

Types of Intellectual Property

- Patent:** These laws differ widely among countries.
- Copyright:** Most computer programming and software fall under this category. In the U.S., the Digital Millennium Copyright Act (DMCA) was passed in 1998 to address copyright issues of cyberspace and the Internet.
- Trademark:** A trademark is a word, symbol, or device that identifies the source of goods and may serve as an index of quality
- Trade Secret:** Laws on trade secrets are relatively new and protection is sought without registration. *(formula for Coca Cola)*

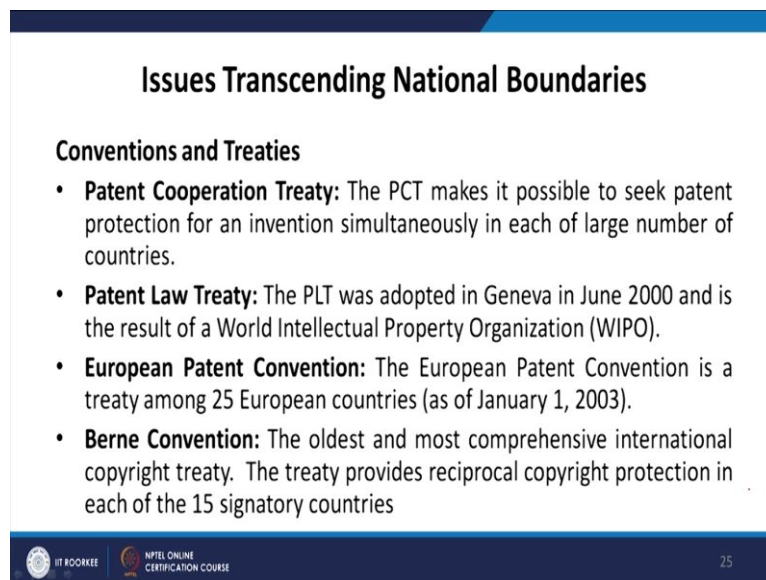
There are various types of intellectual property. The first type is patent. These law differ wildly among countries. So, some countries, they provide protection for 10 years and other some other countries they may provide protection for 20 years. And how to get a patent, the

process of getting patent is also different in different countries. Another type of intellectual property is the copyright.

Most computer programming and software fall under this category. In the United States, the Digital Millennium Copyright Act was passed in 1998 to address copyright issues of cyberspace and the internet. In India you will also come across these issues several times. So, one is a composer has stolen some amount of music form other composer and so on so forth. The third type of intellectual property is the trademark.

The trademark is a word, symbol or device that identifies the source of goods and may serve as a index of quality. Then, the fourth type of intellectual properties are the trade secrets. Laws on trade secrets are relatively new and protection is sought without registration. For example, the formula for Coca-Cola.

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Issues Transcending National Boundaries

Conventions and Treaties

- **Patent Cooperation Treaty:** The PCT makes it possible to seek patent protection for an invention simultaneously in each of large number of countries.
- **Patent Law Treaty:** The PLT was adopted in Geneva in June 2000 and is the result of a World Intellectual Property Organization (WIPO).
- **European Patent Convention:** The European Patent Convention is a treaty among 25 European countries (as of January 1, 2003).
- **Berne Convention:** The oldest and most comprehensive international copyright treaty. The treaty provides reciprocal copyright protection in each of the 15 signatory countries

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Now, there are various conventions and treaties that have been signed across the world for protection of intellectual properties. So, let us look at them. So, 1 is a patent protection treaty. It makes it possible to seek patent protection for an invention simultaneously in each of large number of countries. So, you the person, the inventor will not have to file for patent in every country but he will get protection in simultaneously in a large number of countries.

Then there are certain patent law treaties that was adopted in Geneva in June 2000 and is a result of a WIPO, that is World Intellectual Property Organization. Then there are European patent conventions, convention. The European patent convention is a treaty among 25

European countries, as of first January, 2003. Berne convention, the oldest and the most comprehensive international copyright treaty.

The treaty provides reciprocal copyright protection in each of the 15 signatory countries. So, these are the various types of intellectual property. The first is patent, copyright, trademark and trade secrets. And then, their various treaties have been signed in order to give to grant protection to various types of intellectual property.

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Issues Transcending National Boundaries

Antitrust Laws of the United States

- Foundations are laid in the Sherman Antitrust Act, the Clayton Act, the Federal Trade Commission Act, and the Robinson-Patman Act.
- The Sherman Antitrust Act of 1890 forbids every contract, combination or conspiracy to restrain free and open trade.
- The Clayton Act of 1914 outlawed exclusive dealings and price discriminations.
- The Federal Trade Commission Act of 1914 created a commission to watch over unfair methods of competition in commerce.

protect the consumer

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There are certain antitrust laws in United States. So, the foundations are laid in the Sherman Antitrust Act, the Clayton Act, the Federal Trade Commission Act and the Robinson-Patman Act. The Sherman Antitrust Act of 1890, forbids every contract, combination or conspiracy to restrain free and open trade. The Clayton Act of 1914, outlawed exclusive dealings and price discriminations.

The Federal Trade Commission of 1914 created a commission to watch over unfair methods of competition in commerce. Now, you see that all these laws, they are basically to protect the consumers.

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Issues Transcending National Boundaries

- Though these acts were originally designed to deal with domestic competition and issues, they have now been applied to foreign issues as well.
- In 1977 the Justice Department issued guidelines to monitor antitrust in international operations.

*more difficult
issues gets complicated
because of culture*

Though these acts were originally designed to deal with domestic competition and issues, they have now been applied to foreign issues as well. In 1977, the justice department issued guidelines to monitor antitrust and international operations also. And deliver the antitrust and international operations is a slightly more difficult task, because the issues gets complicated, maybe because of culture.

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Issues Transcending National Boundaries

Antitrust Laws of the European Union

- The EU's antitrust laws are applied not only to EU-member country companies but also to foreign companies as long as corporate action has antitrust implications within the EU community.
- Foreign companies must comply with EU antitrust law, just as European companies must abide by U.S. antitrust law to do business in the U.S.

There are antitrust laws in the European Union also. So, the EU's, that is the European Union antitrust laws are applied not only to the EU member countries companies but also to foreign companies as long as corporate action has antitrust implication within the EU community. Foreign companies must comply with EU's antitrust laws, just as European companies must abide by U.S. antitrust laws to do the business in the U.S. So, a company that comes from anywhere in the world to the U.S. to work, it has to abide by the U.S. antitrust laws. And

similarly, any company that goes to EU for doing business, then it has to follow the EU's antitrust laws.

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Issues Transcending National Boundaries

U.S. Foreign Corrupt Practices Act of 1977

- Among the many corrupt practices that international marketers face, bribery is considered the most endemic and murky aspect of conducting business abroad.
- The difference between bribery and local custom can be very grey.
- The FCPA was designed to prohibit the payment of any money or anything of value to a foreign official, foreign political party, or any candidate for foreign political office for purposes of obtaining, retaining, or directing business.

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Then there is another act, that is the U.S. Foreign Corrupt Practices Act of 1977. Among the many corrupt practices that international marketers face, bribery is considered the most endemic and murky aspect of conducting business abroad. The difference between bribery and local customs can be very grey. The Foreign Corrupt Practices Act was designed to prohibit the payment of any money or anything of value to a foreign official, foreign political party or any candidate for foreign political office for purpose of obtaining, retaining or directing business.

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Issues Transcending National Boundaries

- The FCPA does not prohibit so called "small grease payments" to lower level officials or persons.
- The act does not prohibit payments to non-officials, however, ethics do come into play. *unethical*
- It is advised that multinational firms maintain good "corporate citizenship" wherever they do business since long-term benefits tend to outweigh the short-term benefit gained from bribes. *→ good in following the local laws & customs*

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There, it does not prohibit so called small grease payment to lower level officials or persons. The act does not prohibit payment to non-officials, however ethics do come into play. So, it is not illegal to make payment to non-official, but it may be unethical. So, it is advised that multinationals firms maintain good corporate citizenship, that is, they may be good. Good corporate citizenship means that they may be good in following the local laws and customs. Wherever they do business, since long term benefit, they tend to outweigh the short-term benefit gain from bribes. So, today in this module, we have talked about;

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Conclusion

A firm must know the legal environment in each market because these laws constitute “rules of the game”. At the same time the firm must know the political environment because it determines how the laws are enforced and indicates the direction of new legislation.

Legal:
 → Stable, Significant Impact on the strategies and practices.

Political system
 → who sets the rules of the game.
 → who implements.
 → How they are implemented
 → Direction for new rules.

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A firm about what should a firm know about the legal environment in each market because these laws constitute rules of the game. And these rules of the game, they may be fairly stable over a long period of time. But, they have significant impact on the strategies and practices. So, that is why it is, it becomes important they that they should understand and play by the rules of the game.

At the same time, the firm must know the political environment also, because it determines how the laws are enforced and indicate the direction of new legislation. So, it is important to also understand the political system, because this determines who is setting, 1. Another, it also determine who implements rule of the game. The third is, how the rules of the games of the game are implemented and this also determines, this system, the political system also determines;



So, the legal system provides the rules of the game, the political system devices the rules of the game, they decide who will implement, they decide how they the rules will be

implemented in them. And then, they also decide the direction for new rules. So, this is why it is very important to understand the political and the legal environment of a business. And these are some of the books

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that can be used for further understanding the political and the legal environment. Thank you.