Seminar 2 — Institutions, Politics and Culture

International Business and Finance, Warwick Summer School 2026

Dr. Ernil Sabaj

Companion to the Day 2 lecture — Student sheet

Scope. Lecture material only: institutions and income (correlation vs causation); political risk and how it changed shape (from expropriation to regulation); the political-ideology spectrum; sanctions and weaponised interdependence; legal systems and legal origins; ethics, corruption and extraterritorial law (FCPA); national culture (Hofstede, Trompenaars) and institutional voids; and Porter's single/double diamond of national competitiveness.

Part 1. Multiple choice (10 questions)

Choose the single best answer.

1. The risk of **unanticipated actions** by a host country's government or courts against a multinational is called:

(a) exchange-rate risk
(b) political risk
(c) liquidity risk
(d) operational risk

2. Modern political risk has largely shifted from "taking the firm" to "rewriting its terms." This means the dominant form is now:

(a) outright expropriation/nationalisation
(b) creeping/regulatory risk (taxes, local-content rules, licence changes)
(c) currency inconvertibility only
(d) terrorism only

3. Under WTO rules, when a country faces **dumping** by foreign exporters it may:

(a) do nothing
(b) impose an anti-dumping duty if injury is shown
(c) nationalise the exporter
(d) leave the WTO

4. The "**legal origins**" literature finds that, on average, **common-law** countries have:

(a) weaker investor protection and shallower markets
(b) stronger minority-investor protection and deeper equity markets
(c) no relationship to finance
(d) state ownership of all banks

5. The US **Foreign Corrupt Practices Act** (and similar laws) is notable because it applies:

(a) only inside the United States
(b) extraterritorially — to conduct abroad connected to the jurisdiction
(c) only to state-owned firms
(d) only to imports

6. In Hofstede's framework, a society scoring **high on power distance** tends to:
   (a) reject hierarchy and expect flat organisations
   (b) accept unequal distribution of power and clear hierarchy
   (c) avoid all uncertainty
   (d) be highly individualist by definition

7. The strong cross-country **correlation between institutions and income** cannot by itself prove causation because:
   (a) the data are wrong
   (b) richer countries can afford better institutions (reverse causation) and both may be driven by omitted factors
   (c) institutions never matter
   (d) income is unmeasurable

8. "**Weaponised interdependence**" refers to states using:
   (a) military force only
   (b) their central position in economic networks (finance, payments, data) as coercive leverage
   (c) tariffs only
   (d) cultural exports

9. A firm chooses actions purely by "the greatest good for the greatest number." This is closest to:
   (a) deontological ethics
   (b) utilitarian/consequentialist ethics
   (c) virtue ethics
   (d) cultural relativism

10. "**Institutional voids**" help explain why emerging-market business groups often:
    (a) stay small and single-product
    (b) diversify widely and build internal capital/labour markets to substitute for missing institutions
    (c) avoid all regulation
    (d) never export

Part 2. Discussion questions (10)

Short, open questions for the table; talking points follow each.

1. **Institutions and income.** "Good institutions cause prosperity." What evidence moves you from correlation to a causal claim, and why is the raw scatter insufficient?

2. **Political risk has changed shape.** Explain the shift from expropriation to regulatory/"creeping" risk and why the newer form is harder to insure against.

3. **Political ideology and the MNE.** How does a country's position on the political-ideology / state-vs-market spectrum shape the risks and opportunities an MNE faces?

4. **Sanctions and weaponised interdependence.** Why have financial-network sanctions become more powerful than tariffs, and what limits their use over time?

5. **Legal systems and legal origins.** Through what channel does legal origin (common vs civil law) affect corporate finance, and how might it show up for firms listing across borders?

6. **Corruption and extraterritorial law.** How does the FCPA (and similar law) change the calculus for a firm facing bribe solicitation abroad, and does it disadvantage firms from strict-enforcement countries?

7. **Ethics and CSR: home vs host standards.** When an MNE's home ethical/CSR standards exceed local norms, should it follow home or host standards? Use the ethics philosophies from the lecture.

8. **Culture, quantified.** How far can Hofstede/Trompenaars dimensions guide real management decisions, and what are the main dangers of treating national culture as a fixed number?

9. **Institutional voids and business groups.** Why do diversified business groups dominate many emerging markets yet trade at a discount in developed ones? (This bridges to Day 3.)

10. **Porter's Diamond.** Does national competitiveness explain firm success, or do firms succeed *despite* their home diamond? Discuss the single- vs double-diamond debate.

Part 3. Analytical questions (5)

Structured, exam-style problems; some have several parts. Full model answers follow.

1. **External environmental assessment.** An MNE plans to enter a middle-income country after a change of government. (i) Give two methods of *gathering* information about the environment. (ii) Explain how Porter's five forces are used to *assess* industry attractiveness once the information is in.

2. **Porter's diamond, single vs double.** State the four vertices of the national diamond and the two external variables. Then use *Canada* to explain the double-diamond critique: why does a single home diamond mislead for a small economy next to a large one?

3. **Classifying political risk and mitigating it.** A mining firm is considering a large, long-lived investment in a politically volatile country. (i) Classify the political risks it faces (macro vs micro; ownership, operating, transfer). (ii) Design a mitigation strategy.

4. **Sanctions and exit.** After sanctions are imposed, MNEs split into "stay" and "leave". Using political risk, sunk cost and reputation, give two reasons a firm might *stay* and two reasons it might *fully exit.*

5. **Cultural distance (a calculation).** Two countries score on four Hofstede dimensions: Country X: PDI 40, IDV 90, UAI 45, MAS 60. Country Y: PDI 80, IDV 20, UAI 85, MAS 50. (i) Compute a simple cultural-distance measure (sum of squared differences). (ii) Which dimensions drive the gap? (iii) Derive management implications.

Part 4. Case studies

Case A — Carrefour: expansion, retreat, and rules at home and abroad

Carrefour, the French retailer that pioneered the **hypermarket** (“everything under one roof”), became for a time the world’s second-largest retailer. It exported a capital-intensive, large-format store model across Latin America (Brazil, Argentina), southern Europe and Asia (China, Taiwan, Japan, South Korea). The model travelled well in some markets and badly in others: Carrefour **withdrew from Japan (2005) and South Korea (2006)**, exited several other markets, and retreated from Russia after a brief presence — while continuing to grow in Brazil and China. At **home**, its expansion ran into France’s own institutions: planning and competition laws (the Royer and Raffarin/Galland framework) restricted new large-store openings and regulated supplier pricing, limiting domestic hypermarket growth and pushing the group abroad. **Abroad**, it met a patchwork of retail-zoning rules, labour regulation, local-sourcing requirements, and consumer cultures that did not always suit a giant weekly-shop format.

Questions.

1. Classify Carrefour’s obstacles — at home and abroad — as **political**, **legal/regulatory** or **cultural** risk. Which best explains the domestic constraint, and which the Asian exits?
2. Home-market regulation limited growth and *pushed* Carrefour abroad, where it met foreign institutions. Explain this using “institutions shape strategy.”
3. Was withdrawal from Japan and South Korea a **strategic failure** or **disciplined portfolio management**? Argue both, then take a position using exit and sunk cost.

Case B — Konami is watching its employees: culture, control and talent

Konami, the Japanese entertainment and games company, became known for an unusually strict **corporate culture**. Reporting has described tight control over employees — monitored communications, reassignment of staff away from creative roles, and pressure or restrictions around departing developers, whose names were sometimes kept off projects. The practices sit against the backdrop of Japanese corporate norms: loyalty to the firm, seniority and hierarchy, and an aversion to disruption. They also collide with a global reality: the best game developers are internationally mobile creative talent who can move to studios anywhere.

Questions.

1. Read Konami’s practices through **Hofstede**. Which dimensions — power distance, uncertainty avoidance, individualism–collectivism, long-term orientation — do they reflect?
2. Why might these culturally rooted practices become a **liability** when competing for global creative talent?
3. Using “culture at two levels” (national vs corporate), how should an MNE reconcile a strong home corporate culture with a multinational, multicultural workforce?

Note. Case adapted from Collinson, Narula, Qamar & Rugman, *International Business*, 9th ed. (Pearson, 2024) and the instructor’s seminar handouts; items follow the Warwick Summer School written-exam format. Set `\answerstrue` for the answer key.