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INTERNATIONAL-BUSINESS POLITICAL BEHAVIOR: NEW THEORETICAL DIRECTIONS

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Alternative *assumptions* are advanced regarding the political nature of international business and the role of government as a factor of production, which firms must manage in their international value-added chains. Based on a model of business political behavior, various *propositions* are developed regarding the interactions among firm, industry, and nonmarket factors as well as the impact they have on various forms and intensities of political behavior, as affected by strategic objectives. Finally, the *strategic-theorizing* implications of such behavior are discussed in the context of the recent emphasis on resource-based models of strategy management.

Research in international business (IB) is much more infused with a consideration of political factors than its domestic counterpart. Authors of IB studies have constantly mentioned and even emphasized government as a variable, rather than a constant or given, because international firms (exporters, importers, licensors, foreign direct investors, etc.) operate under a great variety of evolving political regimes that have an impact on these firms' entry, operation, and exit.

When IB topics were first researched in a policy-oriented manner, Fayerweather (1969) stressed "the accommodation of interests and the resolution of conflict" between international firms and political actors at home and abroad as one of the four key decision areas in this policy field—besides those concerning the transmission of resources, relations with host societies, and the handling of fragmentation and unification in multicountry operations. Related managerial treatments of international political factors and behaviors can be found in the studies published around that time by Robinson (1964), Behrman (1971), Moran (1973), and Vernon (1971); and research interest in IB political behavior has remained lively (e.g., Behrman & Grosse, 1990; Brewer, 1993; Doz, 1979; Fagre & Wells, 1982; Gladwin & Walter, 1980; Gomez-Casseres, 1990; Kobrin, 1987; Ring, Lenway, & Govekar, 1990; Rugman & Verbeke, 1990).

This interest in external political behavior (compared to "internal organization politics") is less apparent in mainstream organization theory and strategy analysis (see the comments of Carroll, Delacroix, & Goldstein, 1990, to that effect). To be sure, proponents of resource dependence

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(e.g., Pfeffer & Salancik, 1978), institutionalization (e.g., DiMaggio & Powell, 1983), and interorganizational theories (e.g., Benson, 1975) do refer to business-government relations and other aspects of external affairs, whether of a conflictual, isomorphic, or relational nature. However, these activities are not central to their principal concerns but only illustrate them. In contrast, the literatures on the management of social issues (e.g., Buchholz, Evans, & Wagley, 1985), public affairs (e.g., Mitnick, 1993), and business political behavior (e.g., Epstein, 1980; Keim & Baysinger, 1988) are much more explicit in their consideration of political factors and activities, although their application to international-business situations remains limited (but see Blake, 1977; Business International, 1975).

Besides, the new paradigm of organizational economics based on transaction cost and agency theory (e.g., Barney & Ouchi, 1986) is essentially silent about "nonmarket" phenomena, even though the latter also affects efficiency, the paradigm's main concern. Stranger still is the relative silence of the now popular resource-based theory of strategic advantages (e.g., Barney, 1986; Collis, 1991; Conner, 1991; Grant, 1991; Mahoney & Pandian, 1992; Peteraf, 1993; Teece, Pisano, & Shuen, 1990). In this theory, the distinctive competences of firms—that is, their resources as deployed through capabilities—are essentially economic and organizational in nature *but not political*. When mentioned at all, political factors act only as constraints (e.g., Conner, 1991: 134). Moreover, when the tradeability of resources is discussed, only economic markets are mentioned *but not political ones*. In other words, the means acquired and used to gain rents, as the aim of strategic behavior, are purely "intraeconomic" (Etzioni, 1988: 218–219).

This discrepancy between the international and domestic theoretical literatures, as far as the salience of political behavior is concerned, deserves scrutiny. Besides, authors of both literatures are deficient in terms of making explicit their assumptions about (a) the nature of government and other political actors and (b) the relative role of political behavior in strategy management. These are the foci of the present analysis of international-business political behavior, which (a) develops an integrated model of political behavior; (b) revises some key assumptions; (c) offers propositions about political behavior's conditions, forms, and intensities; and (d) derives various implications for strategic theorizing.

MODELING BUSINESS POLITICAL BEHAVIOR

Political behavior usually refers to the acquisition, development, securing, and use of power in relation to other entities, where power is viewed as the capacity of social actors to overcome the resistance of other actors (Astley & Sachdeva, 1984). As such, it is focused on (a) related *actors* located in the nonmarket environment of the firm—essentially, governments, interest groups, the intelligentsia, and public opinion and (b) a variety of *actions* such as compliance, evasion, negotiation, cooperation, coalition building, and co-optation (see Oliver [1991] for a classification of responses).

Political behavior is attractive for a variety of reasons (see Etzioni [1988: Chapter 13] and Wood [1986] for reviews). First, acts of government create individual winners and losers in the marketplace (Leone, 1986: 6). Second, political behavior does not necessarily require wealth, but it can also result from other resources such as a person's time, organizing ability, legitimacy, privileged information, and access (Alt & Chrystal, 1983: 8, 36–37). Third, collusion (as a form of collective action) is legal in political behavior, whereas it is usually not allowed in the marketplace. Fourth, political power may be retained longer than economic power, although it takes more time to gain the former; hence, it may provide more sustainable competitive advantages (Hayes, 1981: 56; Kindleberger, 1970: 13). Fifth, in politically constructed environments, actors do not always experience directly the consequences of their actions. In other words, they can benefit from "political externalities," as in the case of protectionism that benefits a few at the expense of the many (Perrow, 1986: 234; Tollison, 1982: 589).

However, political behavior does not constitute an end in itself for business organizations, but rather it is a means for people to achieve strategic objectives. Political behavior complements economic behavior, although it may predominate over economic means, as when beleaguered U.S. automobile manufacturers requested and obtained government protection to reduce the Japanese competition that threatened their survival and profits. Besides, political behavior does not develop in a vacuum; it is conditioned by firm, industry, and environmental factors—particularly, those found in the nonmarket environment that includes government.

Therefore, Figure 1 presents an integrated model where business political behavior is treated as both a dependent and an independent variable. It depicts our central argument that achieving *strategic objectives* (linked to efficiency, market power, or legitimacy) requires varying

FIGURE 1
An Integrated Model of Business Political Behavior

Interactive conditioning factors	◄----►	**Business political behavior**	◄----►	**Strategic objectives related to**
In the firm		Forms		Efficiency
In the industry		Nonbargaining		Market power
In the nonmarket environment		Compliance		Legitimacy
		Avoidance		
		Circumvention		
		Bargaining		
		Conflict		
		Partnership		
		Intensity		

political behavior intensities and forms of the bargaining and nonbargaining types. Political behavior, in turn, is affected by *conditioning factors* that reflect firm and industry characteristics, whose impacts vary because of nonmarket variables, in an interactive manner (Yoffie, 1993). In addition, Figure 1 indicates that conditioning factors, political-behavior variables, and strategic objectives also interact. That is, a firm's political behavior can affect exogenous conditioning factors, even as it is affected by those strategic objectives that it helps achieve. Furthermore, different types and intensities of political behavior are appropriate for securing efficiency, market power, or legitimacy.

In the following sections, we develop the contents of the three categories of variables represented by the vertical columns in Figure 1 as well as their interactions, in the context of international business. We conclude with implications for strategic theorizing.

CONDITIONING FACTORS

Business political behavior covaries with three types of conditioning factors. First, political behavior is influenced by *firm* type. In the case of international firms, for example, exporters and importers confront a set of tasks, threats, and opportunities requiring political responses that differ from those facing multinational enterprises (MNEs) that invest abroad or use other forms (e.g., licensing) of generating goods and services in various countries. Even the MNE has been decomposed into various types—international, multidomestic, global, transnational, and so forth (Bartlett & Ghoshal, 1992; Behrman, 1974; Morrison, 1990; Perlmutter, 1969)—that must develop differentiated economic, political, and social responses toward competitors, customers, suppliers, governments, and other nonmarket stakeholders. Thus, Salorio (1990, 1992) has analyzed how domestic firms, exporters, and foreign direct investors use government import protection for competitive purpose differently, because of crucial but distinct links in the international configuration of their value-added chains.

Second, political behavior differs among *industries* because the latter vary in terms of profitability and structure. In the international field, for example, Porter (1986, 1990) distinguished between multidomestic and global industries, depending on whether competition is localized on a country-by-country basis (e.g., retail banking) or is affected by what is happening in other countries (e.g., electronics). The political behaviors of "national responsiveness" to government demands (Doz, 1986), of "defending domestic dominance" (Hamel & Prahalad, 1988: 13), and of "promoting trade interests" (Milner & Yoffie, 1989; see also Yoffie, 1993: 447) reflect such differences among industries.

Finally, political behavior is affected by *nonmarket environments* that exhibit great diversity in terms of structures and capabilities. Governments typically include several branches (legislative, executive, judiciary) and multiple levels (ministries, departments, agencies, etc.), which are involved in complex and often conflicting interorganizational relations. Moreover, modern states differ in their capacities to pursue autonomous goals vis-à-vis domestic and foreign firms (Alt & Chrystal, 1983; Krasner, 1987; North, 1985; Stopford & Strange, 1991; Yoffie, 1993). Internationally, they are embedded in changing transnational relations related to interstate alliances or balances of power, to market flows and the international economic division of labor, and to patterns of communication across national boundaries (Evans, Rueschmeyer, & Skocpol, 1985: 350). Besides, governments interact not only with business firms but also with other political stakeholders such as opposition parties, trade unions, activist groups, public opinion segments, and opinion makers. Altogether, these various conditioning factors lead to our first proposition.

> *Proposition 1: The political behavior of international firms is affected simultaneously by differences in (a) the task-based nature of these firms, (b) the industries to which they belong, and (c) the nonmarket environments in which these firms operate.*

The key word in this proposition is *simultaneously*. This is why authors of studies of foreign political risks have often been criticized for assuming that these risks apply uniformly across all industries and firms. Besides, it is insufficient to apply constructs and variables developed in the context of domestic political behavior to international situations in a mechanical manner that does not sufficiently consider the variety of nonmarket environments found in international business. Instead, firm, industry, and nonmarket environment factors *interact* in conditioning political behavior which, in turn, affects these factors.

NEW ASSUMPTIONS ABOUT IB POLITICAL BEHAVIOR

References to international dimensions have already been provided in the analysis of conditioning factors. However, a fuller treatment of *international*-business political behavior requires that scholars challenge two assumptions that underlie *domestic* analyses of political behavior and strategy management, namely, that (a) political behavior is "universal" rather than affected by "space" (i.e., by the crossing of borders) and (b) that governments and other political actors constitute constraints or givens rather than a factor of production or a set of agents that international firms may want to control or create for strategic purposes.

Challenging the Space Assumption

If there are significant differences between the political behaviors of domestic and international firms, due to distinct nonmarket environments, are these differences of "degree" or of "kind/nature" (Sundaram & Black, 1992)? After all, there is a nonmarket environment in every country, which affects the forms and intensities of business political activity there.

Studies of international-business behavior are built around the fact that crossing borders through trade and investment brings a firm into different environments that require various types of adaptations (Rosenzweig & Singh, 1991). Consequently, when people study IB political behavior, they usually begin with the notion that the greater variety of national governments—the key political actors considered here—will require more diverse political responses than in domestic settings.

However, this conceptualization of the spatial difference between domestic and international business is too elementary because it fails to distinguish qualitatively among the components of the *nation-state* concept. It assumes no fundamental difference between entering a foreign *sovereignty* (political space), compared to entering a foreign *market* (economic space). Thus, in Porter's recent study of international competitiveness (1990), there is apparently no difference between a *nation* and a *state* (Lenway & Murtha, 1991).

In reality, country borders contain various resources and institutions usually labeled as physical, economic, social, cultural, and political. The first four characteristics coincide with the concept of *nation,* whereas the political one is associated with the existence of *states.*[1] The theories commonly used to explain international business deal principally with the *nation* phenomenon, that is, with the fact that countries exhibit what Clark (1991) called *differentials.* They have different endowments (natural and human resources), market potentials, value systems, and social structures that international firms attempt to bridge and, ultimately, homogenize—as is well expressed by Levitt's (1983) *globalizing markets* and Ohmae's (1990) *borderless world* evocations as well as by the advertising slogan, "The United Colors of Benetton."

These physical, economic, and sociocultural differentials, however, also exist *within* each country (witness market segmentation), so that macrotheories based on such differentials (e.g., trade and location theories) apply to *both* domestic and international-business situations. Similarly, theories related to the microbehavior of firms (e.g., resource dependence, transaction cost, and agency theories) were developed to explain domestic phenomena and then applied to international ones, but without altering fundamentally their *generic or universal nature.* Therefore, the existence of nations provides a weak reed on which to develop a unique field of inquiry for international business.

The existence of *states,* however, is what creates the significant borders crossed by international-business actors and activities. States draw

[1] The *states* discussed here are at the national or federal level. The sovereignty of subnational governments (states, provinces, cantons, etc.) is more limited, and it is subordinated to that of national or federal governments. Only the latter are represented at the United Nations, have embassies, are admitted to the GATT and World Bank, and so on.

finite boundaries around their national segments of world economic activity, and these more or less *permeable* borders interfere with the free movement of factors of production, intermediate products, and final goods and services (Carroll et al., 1990; Clark, 1991).

Imagine a world in which all nations have merged into a single political unit with a common central government that allows absolutely free markets for all factors and products. In such a world, there would be no *inter*national business, and business activities would not be influenced by those *unnatural market imperfections* created by governmental interventions. (*Market imperfections* are created—that is why they are labeled as *unnatural,* whereas *market failures* reflect *natural* uncertainty, bounded rationality, monopolies based on unique competences, unintended externalities, and the like.) In fact, nearly 200 sovereignties confront international firms with as many *political economies* that exhibit numerous market imperfections generated by their governments.

Thus, what kept Albania out of world trade and investment during the Cold War period was not primarily its climate, natural resources, purchasing power, languages, religions, or cultures, but a government that imposed an autarkic policy. Conversely, there will be more market-based international trade and investment in the foreseeable future, simply because the break up of the former Soviet Union and Czechoslovakia has created new states that now have chosen to participate in these activities.

Therefore, the existence, volume, and forms of international business depend primarily on the *permeabilities* of states that decide to accept, reject, or modify IB activities *by fiat*. It is precisely the existence of sovereignties (states, governments), which rule distinct political economies, together with the concomitant assertion of governmental controls and of business devices to avoid or exploit them, that distinguishes "international" from "domestic" business (Supple, 1989: 3; Grosse & Berhman, 1992: 119).

One could object that there also is a sovereign ruling over domestic business as well as business-government relations within all market-based political economies, so that a political emphasis is not limited to international business. However, in an international setting, there are multiple sovereigns, and this situation has both negative and positive consequences which are fundamentally distinct from those found in a uninational setting. Negatively put, an economic agent from one sovereignty cannot necessarily enforce its property rights in another sovereignty because there is no readily applicable international law, while it can normally do so under national law within its own borders (Schmidtchen & Schmidt-Trenz, 1990; Sundaram & Black, 1992). Positively put, international firms have more political options, not only because of the variety of political economies that may allow abroad what is impossible at home, but also because IB firms can enlist one government against another, thereby mitigating the latter's sovereign power. Such arbitrage and leverage options[2] are not present to the same extent and in the same forms within a uninational political setting (Kogut, 1985).

The implication of this revised space assumption is not trivial. It means that political behavior is not merely an alternative or a complement to economic behavior, but that it constitutes an intrinsic part of international-business behavior because political processes interfere everywhere with the allocation of scarce economic resources. Access to foreign markets is controlled by political actors at home and abroad, so that *the initial IB behavior has to be a political one* because, without these actors' explicit or implicit permission, no subsequent economic behavior is normally possible. Once involved in foreign trade and investment, *this political imperative remains present* because governments can rescind such permission at any time (witness on-and-off U.S. embargoes on exporting to the former USSR or on supplying it from overseas plants).

Such a perspective contrasts with Fayerweather's analysis of political behavior. He referred to "handling nationalism and national interests [as] *an implementing goal [that] does not in itself contain substantive contributions to the overseas units,* but is necessary to the successful achievement of the other objectives and to the welfare of the multinational firm" (1969: 172, emphasis added). In this perspective, firms *prefer* to focus on economic behavior and to compete in the market through market means (such as Porter's generic strategies), but they *sometimes may* have to enter the political arena in order to compensate for various natural and unnatural market distortions—with much reluctance in most cases, unless they have some higher purpose in mind, such as fighting apartheid in South Africa. Not only is this view of IB political behavior a passive or reactive one, it also ignores the fact that crossing national borders generates additional strategic options.

Challenging the Sovereignty Assumption

Governments play the central role in analyses of political behavior because, unlike other political actors (including business firms) that exercise power, the State upholds a special claim to the exclusive regulation of the legitimate use of physical force in enforcing its rules within a given territorial area (Dahl, 1963: 12, paraphrasing Max Weber). It can substitute acts of authority ("government fiat") for private acts of exchange ("markets and hierarchies"). As the definer and enforcer of property rights, the State controls territorial access to its resources (including markets) in return for revenue and other benefits (Yarborough & Yarborough, 1990: 248). Of course, this sovereign power may be more virtual than

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[2] *Arbitrage* focuses on taking advantage of *existing* differences in national regulations, taxes, incentives, and other instruments of public policy, whereas *leverage* emphasizes the creation of *new* government-originated advantages or the removal of old disadvantages for international firms (Kogut, 1985).

actual and effective because (a) governments may choose not to exercise it in particular circumstances, (b) they may be paralyzed on account of internal wranglings (Hayes, 1981; Moe, 1990), and (c) their actions may be constrained by those of other states (Evans et al., 1985; Krasner, 1987; Stopford & Strange, 1991).

It is common to view government as a superordinate institution embodying the national interest and the public good, above all other societal institutions. Therefore, the use of business power vis-à-vis government has been viewed with some trepidation (Epstein, 1980: 3–4; Pfeffer & Salancik, 1978: 213), and even more so in foreign sovereignties (Fayerweather, 1969: 114; Robinson, 1964: passim). Social accountability scholars accept political behavior in terms of "speech power" or "voice" in order to "do the right thing," but without any "capture" of government. For them, there is no market—nor should there be any—for its beneficial decisions even though, in democratic societies, firms are allowed to inform and even pressure government, as in the public-issues-management approach (Buchholz, Evans, & Wagley, 1985: 12). Even proponents of institutionalization theory tend to emphasize adherence to rules and norms, many of which emanate from the sovereign state (Oliver, 1991: 25).

The alternative assumption adopted here is to view *government as another factor of production* (Kindleberger, 1970) or *set of agents* (Mitnick, 1993) that international firms often need in the management of their chain of economic value-adding activities that cross borders. Under this assumption, the political intermediate products generated by governments do not necessarily constitute a *given*—instead, they are often a *taken* or a *kept* that requires political action. These intermediate products do not just *exist;* they are created in the context of an *enacted environment* (Weick, 1979) because government officials can provide such essential political intermediate products as permission to trade and invest, protection against sovereign risk, and competitive advantages against rivals (e.g., subsidies, protectionism, monopolies, government purchases), in return for various economic and noneconomic contributions from international firms.

Furthermore, the intermediate products generated by governments and other political actors are often for sale and can be bought. In other words, there is a *market* for them (Pfeffer & Salancik, 1978: 203), and *contracting* (Williamson, 1985) can take place in their regard, even though the normative conception of the State is that government officials are impartial, incorruptible, in sole pursuit of the public interest, and have nothing to *sell*—they only *grant* the necessary permissions and other benefits. This view is obviously unrealistic in the light of countless accounts of the capture of politicians and officials in all countries and at all levels of government. In fact, there is always a political market for facilitating services and beneficial decisions because the monopoly of power exercised by governments invites corruption (Banfield, 1975). Therefore, it is more realistic to assume that the sovereignty of states is variable and that international firms manage it as a factor of production or set of agents in the pursuit of their strategic objectives.

FORMS AND INTENSITY OF POLITICAL BEHAVIOR

Forms of Political Behavior

Managing government as a factor of production or set of agents can assume various forms, namely, compliance, avoidance, circumvention, conflict, and partnership, which can be subsumed under the categories of nonbargaining and bargaining political behavior (see previous Figure 1).

Compliance and avoidance may be viewed as two sides of the same coin. Sovereign governments present obstacles and incentives to cost-efficient and market-effective strategies and operations. This situation reflects a *hierarchical-authority* view of business-government relations by emphasizing the formal source of governmental power as something that is inherent in official positions (Astley & Sachdeva, 1984). The government as sovereign has the monopoly of legitimate power, whereas international companies have only delegated power as an institutionalized privilege resulting from permission to enter and operate in a country.

Many international trading and investing firms are satisfied with the requirements imposed or the incentives offered by home and host governments, and they simply *comply* with them because (a) they do not unduly constrain business strategies and operations, (b) they provide attractive benefits (e.g., tax deferrals and holidays), or (c) they are uncontrollable by a particular firm.

Some IB firms, however, choose to "leave it" rather than "take it" by exercising the "no-go" (Wells, 1977) and "exit" (Hirschman, 1970) options—essentially what Kobrin (1982) called an *avoidance* strategy—although insurance against changes in favorable government policies also can be bought. *Circumvention* through illegal activities (e.g., trade smuggling [Stephens, Boddewyn, & Sproul, 1991] and using local "front men" to disguise real investment control) provides another nonbargaining form of political response, although there may be legitimacy costs to bear if government detects such behaviors. The compliance, avoidance, and circumvention forms of IB political behavior lead to the following propositions:

> *Proposition 2: International firms comply when governmental actions have low strategic salience and are favorable to them, or these firms lack adequate resources to challenge such actions.*

> *Proposition 3: International firms avoid or circumvent government policies when the benefits of such behaviors exceed their legitimacy costs.*

Compliance implies that IB firms and governments need each other under the rules imposed by the State, whereas avoidance and circumvention assume that these firms can operate independently of governmental constraints and incentives. However, these three types do not engage firms and governments in the *explicit bargaining* associated with conflict and partnership.

Conflictual and partnership bargaining behaviors are based on the recognition that (a) IB firms want to export, invest abroad, and enter into alliances with foreign firms in order to increase total revenues and global market shares, to diversify geographic risk, to gain access to crucial foreign resources, and so forth; (b) governments have their own agendas, which are often expressed in terms of minimizing dependence on other countries and foreign firms and of improving national growth and competitiveness; and (c) governments cannot always impose their will on IB firms because the latter cannot be forced to trade and invest when they come from abroad. Attempts to exclude these foreign firms through trade embargoes and investment expropriations often require negotiating about compensation. In such situations, governments are only *partial sovereigns* that can no longer impose their fiats but must negotiate their wills. At this point, governments must bargain with IB firms, and the latter face the same necessity or even welcome it as an opportunity to enact their nonmarket environments.

In a conflictual context, governments attempt to appropriate the rents resulting from IB operations, whereas international firms try to reappropriate these gains (= reaction) or to generate new ones (= proaction), almost as in a zero-sum game. The *resource-control* view of such transactions puts both governments and firms on the same (although not necessarily equal) footing by viewing them as autonomous *gamespersons* gaining less or more power (dominance) over one another, as a result of their imbalanced control over external resources (Astley & Sachdeva, 1984; Astley & Zajac, 1990). Hence, governments and IB firms bargain, with the latter either trying to prevent or mitigate governmental gains at their expense or striving to make gains at the expense of governments. According to a rent-seeking perspective (Dnes, 1989), international firms devote resources to that conflict in their relationships with governments in order to capture and protect private gains, whereas according to industrial organization theory, political expenditures are treated as transaction costs incurred to convert structural attributes, such as size, into effective influence (Esty & Caves, 1983: 26). This situation leads to the following proposition:

> *Proposition 4: Conflictual political behavior prevails when (a) the actions of international firms and governments have high strategic salience for the other party, (b) both sides perceive the situation as a zero-sum game, and (c) they have sufficient power to affect the uncertain outcomes of their bargaining over who wins and who loses.*

In contrast, *the partnership type of bargaining behavior* rests on a positive-sum-game view of business-government interactions. Besides, it is characterized by a shift (a) from spot transactions to futures relationships, (b) from conflict to cooperation—*collaborative governance* in Boisot's (1986) and Ouchi's (1980) terminology, (c) from dependence to interdependence, and (d) from opportunism to trust (Gambetta, 1988).

Partnership reflects Astley and Sachdeva's (1984) *power-in* perspective, whereby international firms derive power from their immersion and position in social exchange networks. Their power does not depend on controlling the external resources that they bring to their relationships with governments, nor is their power subordinated to that of governments. Instead, it is the product of their location and task performance within a system of functional interdependence with governments and other political actors, through linkages and exchanges. Neither servants nor *gamespersons,* IB firms act as *statespersons,* whose systemic power is the outcome of their pivotal roles in society's processes of production, distribution, and consumption (Astley & Zajac, 1990).

According to this perspective, IB firms must negotiate and maintain a viable domain in their nonmarket environment in order to survive and prosper in a positive-sum-game manner. Hence, besides transactions, there are also *relationships* among firms and interdependent individuals, organizations, groups, and communities (Forsgren, 1989; Toyne, 1989). The management of these interdependences usually blends competition on the basis of superior resources and effectiveness, with cooperation through contracting, co-opting, absorption, coalescing, and other practices (Benson, 1975; Moran, 1985; Ring et al., 1990; Thompson, 1967). Besides, these interorganizational links are embedded in concrete and ongoing systems of social relations (Ekeh, 1974; Granovetter, 1985) rather than being dyadic and purely economic.

As in conflictual bargaining, the partnership approach does not take the political environment as a given. It focuses instead on reshaping or enacting both that environment and the firm, as well as their interaction through "the creative utilization of symbiotic potential" (Hedlund & Rolander, 1990: 30)—as noted in the presentation of Figure 1. The purpose of partnership with government is to secure competitive advantages against actors in the market and nonmarket environments, on the basis of a rationality that does not aim exclusively at production efficiency or market effectiveness (Perrow, 1981, 1986). The point is for the firm to arbitrage and leverage its economic and political positions against rivals at home and abroad, with the assistance of governments that can alleviate natural market failures and generate unnatural market imperfections (Boddewyn, 1986, 1988, 1993; Dunning, 1988; Rugman & Verbeke, 1990).

Partnership can involve other economic and noneconomic actors in collective action. Thus, Yoffie (1987) distinguished between (a) the passive strategies of free riding and following and (b) the activist strategies of leadership (i.e., organizing followers), private goods (i.e., seeking benefits unique to a company), and entrepreneurship (i.e., leveraging other organizations' resources to represent a broader collective interest, besides private corporate interests).

The maximal form of partnering involves internalizing the market for political intermediate products—that is, turning politicians and government officials into agents of the IB firm by incorporating them into its internal hierarchy—as with former "banana republics" in Central America and sovereign corporations of the East India and Hudson's Bay Corporations type. However, such cases of full internalization are rare because they are legally restricted, costly in terms of efficiency and legitimacy, relatively inflexible, and even unneeded if dependences are only occasional or can be stabilized through other means such as trust (Pfeffer & Salancik, 1978: 144). Hence, alternative forms of contracting the services of government agents (providing "facilitating services" or "beneficial decisions") have to be considered (Keim & Baysinger, 1988; Mitnick, 1993).

Short of outright monetary corruption, there are many ways of interesting government officials in the welfare of the international firm by providing them with what they want (technology, jobs, exports, capital formation, political contributions, personal consideration, etc.) and with valuable information for government decision making. These are means of harmonizing the contractual interface that joins governments and firms in order to construct adaptability, promote continuity, and ensure joint profitability—all of which are sources of real economic value to both sides (Williamson, 1985). Internalization theory (as related to transaction and agency costs) thus helps explain why government officials may be considered as a factor of production that international firms try to incorporate into their governance structures as agents by turning them into "partners." This situation leads to the following proposition:

> *Proposition 5: Political partnership between IB firms and governments prevails when (a) states are willing to correct for natural market failures or to generate unnatural market imperfections, (b) both sides perceive the situation as a positive-sum game, and (c) they have sufficient power to affect the uncertain outcomes of their bargaining over the division of the resulting mutual gains.*

Intensity of Political Behavior

If political behavior is intrinsic to international business, researchers must still explain why some IB firms are more politically active than others. The dominant explanations of the intensity of political behavior have been grounded in resource dependence and industrial organization theory. Thus, Pfeffer and Salancik (1987: 214) predicted higher intensity when the political environment is a greater source of interdependence for some organizations, whereas Milner and Yoffie (1989: 247) hypothesized that "the speed and intensity of corporate demands for strategic trade action [that is, protectionism] will be . . . affected by the structure of competition within an industry, especially the level of industry segmentation into strategic groups." Salorio (1991, 1992) added that particular firms and strategic groups are not interested exclusively in the impact of protectionism on the industry or group as a whole, but rather on protectionism's effect on their own relative position vis-à-vis particular domestic and foreign rivals.

Such higher stakes translate into greater intensity of political behavior only when (a) they are backed by organizational competences for political action (Behrman, Boddewyn, & Kapoor, 1975; Business International, 1975; Mahini, 1988) and (b) the relative activism of home and host governments (Doz, 1979, 1986; Gilpin, 1975), their policy changes (Brewer, 1992a; Dunning, 1988; Moran, 1985), and their policy-implementation capabilities (Fagre & Wells, 1982) generate more threats or opportunities for IB firms.

These interacting firm, industry, and nonmarket factors led Gomes-Casseres (1990: 2; following Kobrin, 1987: 624) to frame the problem in terms of preferences and bargaining power, that is, some IB firms "want more" and "can get more." This situation leads to the following proposition:

> *Proposition 6: The intensity of political behavior on the part of IB firms is greater when (a) the stakes are higher, (b) opportunities to leverage and arbitrage government policies are more abundant, and (c) these firms' political competences are more developed or can be enhanced.*

STRATEGIC OBJECTIVES

The forms and intensities of IB political behavior affect and are affected by the firm's strategic choices of resources, competitive methods, and geographic operating areas (Morrison & Roth, 1989)—but to what ends? The strategy literature stresses profitability; population ecology, resource dependence, and transaction cost analysis emphasize survival; and various strands of resource dependence, industrial organization, and political economy theory are associated with what has variously been labeled as dominance, monopoly, or hegemony (Perrow, 1981). Profitability will be emphasized here because survival and hegemony can be conceived as the lower and upper extremes of the profitability range.

Profits have three major sources: efficiency, market power, and legitimacy. In the basic equation of (Profits = Revenues − Costs), efficiency works mainly on the cost side, whereas market power enhances revenues. Legitimacy also can be a source of profits because some firms trade on their nativeness (e.g., "buy American"), adherence to social norms, social-responsibility image, or overall reputation in order to obtain an acknowledged claim on societal resources (Pfeffer & Salancik, 1978: Chapter 8) as well as to line up customers, suppliers, and supporters on preferential terms (Williamson, 1985: 395–396).

These three sources of profit are often related. Thus, Miles (1982), in his study of the U.S. tobacco industry, asked whether firms either react more to threats to their efficiency than to threats to their legitimacy. Similarly, does market power result from efficiency, or does such power allow firms to achieve efficiency (Francis, Turk, & Willman, 1983; Perrow, 1981)? In answering this question, Teece and his colleagues (1990: 31) pointed out that market power may result from greater efficiency based on distinctive competences, rather than from being only the product of entry and mobility barriers as well as of other restrictive practices.

Either arbitraging or leveraging the power of governments to gain savings (efficiency), rents (derived from market power), or legitimacy is related to the modern states' ability to generate political intermediate products of interest to business firms—particularly, the elimination of natural market failures such as monopolies and the creation of unnatural market imperfections such as subsidies for firms, entry and mobility barriers against competitors, and support against nonmarket opponents.

This strategic perspective can be extended beyond government to include other political stakeholders and constituencies (interest groups, public opinion, the intelligentsia, etc.) in both a resource dependence and interorganizational manner. In this view, firms can achieve efficiency, market power, and legitimacy gains against economic competitors as well as noneconomic opponents in the context of linkages and exchanges with a variety of political stakeholders.

Political Behavior and Efficiency

Firms can act politically to reduce their own production and transaction costs in order to improve their ability to provide cheaper, better, or unique products to their customers (e.g., through government subsidies), while raising the costs of their rivals at home and abroad (e.g., through government protection). Such "sheltering" behavior (Rugman & Verbeke, 1990: 8, 1992: 206) is not restricted to economic competitors but also encompasses raising the cost of intervention by governments and other stakeholders in the nonmarket environment.

In an efficiency perspective, this use of political behavior makes sense only when benefits exceed costs, as is generally assumed in the literature on rent-seeking behavior (Banfield, 1975; Tollison, 1982). It is also related to the resource-based model of strategy management because it assumes that some firms either have weak firm-specific advantages (Rugman & Verbeke, 1990: 14ff) or want to develop new resources obtainable through action in the nonmarket environment, or both.

Political Behavior and Market Power

There is an enduring controversy, based on both ideological and empirical grounds, regarding whether profitability is more readily secured through efficiency and competitiveness than through anticompetitive market power. Thus, Perrow (1986: 247) has argued against the efficiency bias of transaction cost theory: "The historical evidence on the growth of large firms is striking and attests to various forms of market power and government support that have little to do with organizational efficiency." Being able to raise prices, to eliminate competitors or collude with them, to obtain favorable regulations, and to deny such benefits to others by raising barriers of entry and mobility is a real source of competitive advantage in domestic and international markets (Cantwell, 1991; Teece, 1981; Yamin, 1991). Securing such advantages, which is not limited to large firms, requires political competences, and it is not always feasible and advantageous (Perrow, 1986: 253; Pfeffer & Salancik, 1978: 215ff). Still, it constitutes an attractive option for firms to grow, relative to their competitors, and the ability of international firms to "close" markets through political behavior can contribute to their earning rents.

One way of obtaining market power is by focusing on competitive barriers because all strategies are ultimately aimed at creating barriers to competition through such means as proprietary knowledge, brand loyalty, control over sources of supply, economies of common governance, scale and scope, and so on. These means are essentially based on "natural" market failures, namely, that some firms have more or better resources and capabilities than others, which allow them to generate rents (Mahoney & Pandian, 1992).

However, as was discussed before, governments can also generate "unnatural" market imperfections through the granting of monopoly privileges, preferential access to scarce resources, involvement in public policy making, and other means. This is what Jolly (1989: 84) called "competition *for* barriers." Still, obtaining such market-closing advantages is not costless because governments usually require quid pro quos, and such partnership with governments may reduce strategic flexibility (Doz, 1986).

Political Behavior and Legitimacy

Organizations are said to be legitimate to the extent that their activities are congruent with the values dominant in their nonmarket environments (Miles, 1982: 22). It is a political resource that firms want to secure because it facilitates the acquisition of economic resources in their value-added chains as well as access to policy makers, influence in public policy making, and reduction in opposition from other stakeholders.

IB firms encounter special problems in securing legitimacy because there are no international rights and supranational organizations under which they can claim to exercise their powers. Instead, the rights of the parent company and of its subsidiaries stem from national laws. Incorporation in any one country grants some legitimacy to a foreign-owned subsidiary, but few host governments see themselves as granting the parent company the power that it does, in fact, exercise in the host country. Besides, whatever legitimacy is acquired in one country cannot automatically be extended to other countries (Behrman et al., 1975: 2–3), and "stateless" corporations are suspect in any case. In fact, most governments, at home and abroad, expect international firms to treat local political imperatives as goals and private economic imperatives (such as flexibility and profitability) as constraints (Doz, 1986).

The legitimacy of IB firms is enhanced by their contributions to national goals (employment, technological development, balance-of-payments surplus, etc.); by their respect of local laws, customs, and symbols; and by their recognition of local sovereignty in interstate conflicts (Kindleberger, 1969). Whether exploiting existing regulatory systems or seeking regulation to achieve either efficiency or market power,[3] the IB firm may either conform its goals and methods to societal values, try to shape these values toward acceptance of its behavior, or ally itself with those values and institutions that generate greater power than those enlisted by its opponents (Miles, 1982: 23; Oliver, 1991: 152).[4] At the limit, the goal is to change and manage the rules of the game within which IB firms operate (Bigelow, Fahey, & Mahon, 1990; McDonald, 1969).

In this context, partnership with governments is more likely to generate legitimacy than avoidance, circumvention, and conflictual bargaining, because partnering conveys a derivative "seal of approval" of what international firms are doing. However, the "costs of citizenship" must not exceed its benefits (Doz, 1986: 39)—a point which implies that legitimacy is an instrumental goal rather than an end in itself.

IMPLICATIONS FOR STRATEGIC THEORIZING

This analysis of IB political behavior has implications for recent discussions of the relationships among strategy, organizational resources, and environment. First, our analysis is compatible with a resource-based model of the firm to the extent that we accept its premise that the strategic choice of organizational competences affects the firm's performance in its domestic and foreign markets. However, we expand and enrich resource-based models of strategy by adding a political component that is largely missing in that literature, which ignores political resources and competitive methods, and which does not recognize political markets.

Second, the present analysis adopts the current characterization of distinctive competences in terms of resources and their deployment through capabilities. Thus, political competences can be expressed in

[3] This perspective incorporates (a) the "capture of government," whereby industry *exploits* existing regulatory systems; (b) the "economic theory of regulation," which treats the power of government as a resource, so that industry *seeks* regulation to foster its interests; and (c) the "strategic use of public policy," which stresses how *particular* firms use regulation to achieve competitive advantages (Mitnick, 1980; Wood, 1986: 26–30).

[4] These various political behaviors are usually associated with domain defense, although they can also be used in connection with domain management, domain maintenance, and domain selection (Baysinger, 1984; Miles, 1982; Mitnick, 1993).

terms of better intelligence and cognitive maps (Porac & Thomas, 1990) about nonmarket environments, better access to decision makers and opinion makers, and better bargaining or nonbargaining skills. As in resource-based models, such competences have to remain nonimitable and nonsubstitutable in order to generate sustainable rents.

Actually, political competences and their deployment fit the latter requirements quite well because the most effective political behaviors are often covert in nature, whether legal or not, notwithstanding the undue attention given to the more visible and measurable forms of political activities and expenditures such as PACs and number of lobbyists. Like the CIA, the politically savvy IB firm has many hidden budgets, and its political competences permeate the entire firm (Business International, 1975; McDonald, 1969; Mahini, 1988; Mitnick, 1993). Hence, barriers to imitation (Reed & DeFillipi, 1990) may be higher in the case of political competences because of their lower visibility (Etzioni, 1988: 220).

Third, political competences extend well beyond the intelligence, access, and bargaining skills mentioned before. Kindleberger (1970: 14) observed that "in economics, there is one tool: money . . . [In] political science, on the other hand, the armory of weapons is infinitely complex, with reason, argument, persuasion, diplomacy at one end and force at the other. Politics, of course, includes money as a weapon: consider bribery." He could have added reputation, coalition-building ability, political entrepreneurship (Yoffie, 1987), and many other tools.

Again, resource-based models can benefit from such an expansion because, as Jeremy Turk (in Francis et al., 1983: 196) put it: "The sources of power are much broader than the sources of efficiency" [the main focus of resource-based models]. Of course, it remains to be seen if scholars associated with the latter models will be willing to accept these political sources of efficiency and market power in view of their economic preference for "being better" over "being stronger," and of a more general preference for economic behavior over political behavior because "power corrupts" people, organizations, and society.

Fourth, political competences can be developed internally or acquired externally, but external acquisition also relies on the existence of *political markets,* whereas users of resource-based models recognize only imperfect economic markets when the tradeability of resources is brought up (e.g., Barney, 1986). Again, users of resource-based models can benefit from extending the sources of organizational resources beyond internal development and economic markets.

Fifth, as Rugman and Verbeke (1992) have argued, one must distinguish in the international context between political competences that are specific to a particular locale (the country-specific meaning of "national responsiveness") and those amenable to "learning" by subsidiaries located in other locales and by the MNE's central executives who can develop and coordinate the political linkages among countries. As Doz (1986) pointed out, each nonmarket environment generates distinct political problems and responses—in other words, different shares of political markets may be needed and only obtainable through differentiated means (circumvention, conflictual bargaining, partnership, etc.). Still, savvy IB firms develop better repertoires and coordinate them more effectively (Business International, 1975; Mahini, 1988).

Finally, as Pfeffer and Salancik (1978: 221) observed, one cannot assume too much monolithic political behavior on the part of organizations when, in fact, large diversified firms as well as governments seldom have a unified position on issues because they are coalitions of interests focusing on a variety of often conflicting goals. Hence, more attention must be paid to (a) the process of political-strategy formation in international firms (Bower & Doz, 1979; Child, 1979; MacMillan, 1979) and (b) how political behavior, in turn, affects the organizational structures and processes of politically engaged IB firms. Therefore, the analysis of IB political behavior requires a consideration of what may be called *organizational strategies* (Bartlett & Ghoshal, 1992; Hedlund & Rolander, 1990) regarding the effective development and use of actors, structures, and processes toward the nonmarket environment.

CONCLUSION

Political behavior can be a source of efficiency, market power, and legitimacy—particularly so in international contexts where political arbitrage and leverage opportunities are more variegated and abundant. Besides, political behavior is intrinsic to international business because crossing borders introduces firms into other sovereignties. However, we do not mean that firms are exclusively driven by political imperatives—only that political behavior belongs necessarily to the study of international strategy management.

It is fashionable nowadays to argue that many international competitors share the same economies of scale and scope so that the emphasis should shift to their organizational resources by enhancing the quality of management, by balancing global and local interests through the proper structures and processes, by developing distinct core competences while stressing resourcefulness over resources, by improving learning, and so on (e.g., Bartlett & Ghoshal, 1992; Bhide, 1986; Doz & Prahalad, 1988). However valid these arguments may be, competitive advantages do have an unavoidable political dimension that must be factored theoretically into strategy research, and particularly so in international-business studies.

To be sure, no comprehensive theory of international-business political behavior can readily be developed because too many factors are involved, and because its temporal and spatial variations are almost infinite. Still, progress can be achieved by reformulating and ameliorating the assumptions, constructs, and variables currently used in its study.

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