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Journal of Management 2000 26: 85
DOI: 10.1177/014920630002600108

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Journal of Management
2000, Vol. 26, No. 1, 85–117

MNC-Host Government Bargaining Power Relationship: A Critique and Extension Within the Resource-Based View

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In this paper, we critique the literature on MNC-Host government bargaining power relationship, and propose an integrative theoretical model within the resource-based view of the firm. Recognizing that a firm's bargaining power is directly related to rent generation, we analyze how firm-specific resources provide the basis of a sustainable bargaining power for the MNC vis-à-vis the host government. Furthermore, we identify several industry and country characteristics as moderators of the relationship between MNC resources and bargaining power. In the last section of the paper, we offer directions for future research and theory development in this area. *© 2000 Elsevier Science Inc. All rights reserved.*

An important issue in international business concerns the interaction between multinational corporations (MNCs) and host governments. A host government's intervention policy imposes severe constraints on an MNC's strategies and operations within the host country. Despite this general fact, it has also been noted that the *actual* amount of government intervention does vary markedly from one MNC to another within the same host country or even within the same industry. For example, Poynter (1985: 53) reported that "... the amount of intervention variation *within* each industry type exceeds the difference *between* the means of each type."

A theoretical perspective explaining how firms differ in their approaches to coping with the political forces from host governments has been developed. This perspective builds on the concept of *bargaining power*, referring to the notion that

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MNCs experience varying degrees of host government intervention, reflecting differences in their ability to influence host governments. Accordingly, research efforts have been directed at investigating the antecedents and strategic outcomes of MNCs' bargaining power relative to host governments (e.g., Doz & Prahalad, 1980; Fagre & Wells, 1982; Gladwin & Walter, 1980a, 1980b; Kim, 1988; Lecraw, 1984; Moran, 1974; Poynter, 1982, 1985; Vernon, 1971). Notwithstanding, the empirical findings on the sources of MNC bargaining power are often inconsistent, and the theoretical views on this topic remain divergent. Given this non-cumulative nature of the literature, it is difficult for one to discern how a particular source of bargaining power affects MNCs' bargaining power.

Therefore, to achieve progress in this research area, there is a need to conduct a systematic review of the literature, critically examining the reasons for the discrepancies with a view to developing a research agenda for the future. First, we briefly describe a general model of bargaining power relationship between an MNC and a host government. Then, we critically review the underlying theoretical rationales and empirical findings regarding various sources of MNC bargaining power at the firm, industry, and country levels of analysis. Finally, we propose an integrative model, grounded in the resource-based model, to provide a framework for directing future research on this topic in new avenues.

The resource-based view places at center stage idiosyncratic, hard-to-copy resources as the drivers of firm strategy and performance. Resource-based scholars contend that firm-level factors account for a greater variance in firm performance than industry or country factors (Hansen & Wernerfelt, 1989; Rumelt, 1991), suggesting that MNC bargaining power will primarily be a function of hard-to-copy, firm-specific resources and capabilities. In contrast, industrial organization economics and "political risk" perspectives tend to emphasize industry- and country-level characteristics as the determinants of MNC bargaining power (e.g., Caves, 1982; Kobrin, 1982). Therefore, in the context of the resource-based view, we suggest that firm-specific resources (managerial, technological, reputational, etc.) will directly determine MNC-Host government bargaining power relationship and that industry-level and country-level factors may serve as *moderators* of this relationship.

Furthermore, the existing bargaining power literature has not explicitly addressed the link between MNC bargaining power and performance. Although the extant literature has addressed how an MNC bargaining power is associated with such outcomes as ownership level, it has not adequately explained how the bargaining power enables the MNC to generate economic rents and achieve superior performance within a particular host country. In our view, the resource-based theory can rectify this deficiency in the literature by explicitly and rigorously analyzing the link between MNC bargaining power and economic rent.

The Bargaining Power Framework

Many studies adopted the bargaining power framework in analyzing the relationship between MNCs and host governments (e.g., Doz & Prahalad, 1980; Fagre & Wells, 1982; Gladwin & Walter, 1980a, 1980b; Kim, 1988; Lecraw,

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1984; Moran, 1974; Poynter, 1982, 1985; Vernon, 1971). The overall logic of this framework has been that the outcomes of MNC-host government interactions (e.g., subsidiary ownership level and the extent of host government interference in an MNC's operations) reflect the relative bargaining power of the MNC over the host government. Thus, according to this framework, MNCs with *greater* bargaining power are likely to obtain *more favorable* terms in negotiations with host governments, and are less likely to face the sting of host government interventions.

The Measurement of Bargaining Outcomes

A common research design in the literature has been linking the *sources* of bargaining power to the different measures of bargaining *outcomes*. Generally, the concept of bargaining outcome has been defined broadly and operationalized in a multidimensional way. Accordingly, as noted by Fagre and Wells (1982) and Kim (1988), no single measure of bargaining outcome developed so far seems to capture all the terms in the bargaining relationship. In this section, we critically review and compare the three types of measures of bargaining outcomes: categorical measures (Bradley, 1977; Cracco, 1972), intervention experience measures (Kim, 1988; Poynter, 1982, 1985), and ownership level measure (Fagre & Wells, 1982; Lecraw, 1984).

Categorical Measures. One approach to measuring the outcome of bargaining relationships has been to focus on the incidents of government intervention. For example, Cracco (1972) developed a categorical measure based on whether or not the type of government is critical to the MNC's operations. His measure starts with "red tape" and escalates through "domestic content requirements" to "expropriation." Focusing only on the measure of "expropriation," Bradley (1977) and Hawkins, Mintz and Provissiero (1976) used a dichotomous measure of "whether the assets of MNC subsidiaries are expropriated or not" as an indicator of an MNC's bargaining power relative to the host government. Although the categorical measures have the merits of operational simplicity and objectivity, they fail to adequately differentiate between various types and levels of intervention *within* a particular category.

Intervention Experience Measures. Poynter (1982) criticized Cracco's categorical measure of bargaining outcome on the ground that an extreme government action in one category could easily overlap and surpass another category in the amount of damage caused to MNCs. Hence, he argued that, researchers should focus on measuring the *corporate changes* that result from such intervention rather than focusing on measuring specific government acts *per se*. Specifically, Poynter (1982, 1985) and Kim (1988) viewed "managers' *ex post* perception of intervention-linked changes in their subsidiaries" as adequately reflecting bargaining outcome, and operationalized this using a six-scale measure ranging from "no change" to "no longer operating in the host country due to actual or anticipated intervention." Further, in their studies, the measure was used in combination with a comparative index assessing the firm's intervention experience relative to the average level of intervention experience of other foreign companies in the same host country.

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Poynter (1982) identified several advantages of the intervention experience measure. The first advantage is the availability of a common base from which the informant can supply estimates of changes, namely, the structure and characteristics of the subsidiary. Second, the intervention experience measure permits the inclusion of an important aspect of political risk (i.e., changes initiated by the subsidiary in anticipation of host government intervention). Third, the measure reflects the conceptual difference between government policies or pressures for change and the actual amount of change, which the company feels is adequate in view of its ability to defend itself. Construct validity and reliability tests performed by Poynter (1982) generally supported the adequacy of this measure in capturing true intervention-induced changes.

Despite these advantages, the intervention experience measure seems to have some drawbacks as a subjective measure based on managers' judgment. For instance, since significant changes in subsidiary structure and characteristics tend to involve decisions based on complex and multiple criteria, it is likely that in some situations, it is difficult to clearly differentiate between the changes caused by actual or percived intervention, and the changes caused by some other factors. And in those situations, managers would tend to rely on subjective judgments concerning the choice of a particular decision.

Ownership Level Measure. Another type of bargaining outcome studied was "the percentage of MNC's equity ownership struck from the negotiation between an MNC and a host government" (Fagre & Wells, 1982; Lecraw, 1984). The rationale was that ownership split resulting from negotiations is one of the important reflections of relative bargaining power positions (i.e., high ownership represents high bargaining power). In addition to having the advantage of an objective measure, the ownership level measure seems to have face validity since ownership level choice is usually one of the most significant and visible areas of bargaining from both the MNCs' and host governments' perspectives (Gomes-Casseres, 1989).

The weaknesses of the ownership measure are noted as follows. First, an assumption implicit in the measure is that MNCs always prefer full ownership to partial ownership, and that they bargain for a higher ownership level. However, this assumption is contrary to the overall findings in the entry-mode choice literature, which suggests that MNCs' preference for ownership level varies depending on: (1) the nature and type of transactions involved (Gatignon & Anderson, 1988; Gomes-Casseres, 1989; Hennart, 1991); (2) cultural distance between home and host countries (Kogut & Singh, 1988); and (3) strategic benefits sought, such as acquisition of technological and marketing capabilities (Gomes-Casseres, 1989; Stopford & Wells, 1972). Given these considerations, therefore, the ownership measure of bargaining outcome can be criticized on the basis that it suffers from a "contamination" problem. Schwab (1980) defined the contamination of a measure as the degree to which variance in the measure is not present in the corresponding theoretical construct. With respect to the ownership measure, "the relative bargaining power" might be contaminated by "the internally desired level of ownership," although the two are known to be theoretically independent constructs (Gomes-Casseres, 1989).

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Secondly, measuring ownership only at the time of entry, as reflected in studies by Fagre and Wells (1982) and Lecraw (1984), represents a static view of the MNC-host government bargaining power relationship. As Poynter (1985) noted, however, the relative bargaining power is not constant, but keeps changing over time for such reasons as industrialization and technology progress of the host country, and the extent to which MNC's investments represent a sunk cost. Therefore, the ownership level resulting from the initial negotiation provides only a partial view since it fails to capture potential and actual changes in relative bargaining positions in the future. In future research, this deficiency needs to be overcome by longitudinal research designs (Fagre & Wells, 1982).

Another theoretical issue related to the ownership measure stems from the difference between ownership and control of a subsidiary. As noted by both Killing (1980) and Lecraw (1984), the percentage of ownership and the relative amount of control over subsidiary activities do not necessarily correspond to each other. Further, Poynter (1982, 1985) asserted that MNCs may find it advantageous to bargain *not* for increased equity ownership, *but* for greater control over the variables critical to the success of the subsidiary. Thus, the ownership measure may be deficient in capturing what MNCs truly bargain for.

Finally, the causal direction between ownership and bargaining power is not clearly specified. For example, the argument that ownership is a determinant of bargaining power, which, in turn, affects the expropriation rate (i.e., bargaining outcome, Bradley, 1977) is directly opposite to the causal direction suggested by Fagre and Wells (1982) and Lecraw (1984), who argue that ownership (as a bargaining outcome) is affected by relative bargaining power. Hence, even though Bradley (1977) found a negative relationship between ownership and expropriation, the result may not be interpreted as supporting the causal direction he proposed, since the two variables could co-vary as the measures of the same construct (i.e., bargaining outcome) without necessarily having a causal relationship between them. In sum, given that the causal direction of ownership in the bargaining power model is not clearly established in the literature, future research needs to be directed at resolving this issue.

From the above discussion, it is noted that the three types of bargaining outcome measures differ along three key dimensions. First, there can be a distinction between *ex ante* type measures (i.e., focusing on the negotiation stage prior to the actual launch of subsidiariesm, e.g., ownership) and *ex post* type measures (e.g., intervention experience or expropriation). Second, the measures can also be categorized into *objective* measures (e.g., ownership, expropriation) and *subjective* measures (e.g., intervention experience perceived by managers). Also, some measures focus on specific *acts* of government intervention, such as forced contract renegotiation and red-tapes, whereas other measures capture *the impact* of such interventions on firms' operations. We suggest that the choice of bargaining outcome measure should be made after a careful consideration of the relevance of the above dimensions to the research question being investigated.

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Sources of MNC Bargaining Power

In this section, we critically review the sources of MNC bargaining power at the firm, industry and country levels. Table 1 presents a summary of the research findings on key sources of MNC bargaining power identified in the literature.

Firm-level Sources of MNC Bargaining Power

Size. The effect of the size of subsidiary on MNC bargaining power has been frequently discussed in the literature. However, in both theoretical arguments and empirical findings, the effect of subsidiary size remains ambiguous. At the theoretical level, two contrasting explanations coexist. On the one hand, it has been argued that larger subsidiaries might be associated with a weak bargaining power position because they might attract greater host government attention and interventions because of their greater economic significance and higher visibility, combined with their inadvertent role of representing a foreign, wealthy nation (Bradley, 1977; Hawkins, Mintz & Provissiero, 1976; Knudsen, 1972; Poynter, 1982, 1985). On the other hand, it has been argued that host countries perceive large subsidiaries as being too difficult to digest, manage, and compensate (Gasser & Rossier, 1974; Truitt, 1970). In addition, a large subsidiary was viewed to increase the bargaining power of an MNC because of the financial resources it brings to a developing country (Fagre & Wells, 1982).

The empirical findings on the subsidiary size effect have been mixed as well. Poynter (1982, 1985) found that intervention level was positively related to the size of subsidiary, when size was measured by the number of employees. Similarly, Bradley (1977) reported that expropriation rate was positively correlated with subsidiary asset size. Thus, both results suggest that MNCs tend to have weaker bargaining power over host governments when their subsidiaries are larger. In contrast, in other studies, subsidiary size was found to be associated with enhancing the bargaining position of MNCs. For example, Lecraw (1984) found in his sample that subsidiary size (based on assets) was positively related to such bargaining outcomes as actual ownership, bargaining success, and control over subsidiary. Similarly, in the Fagre and Wells (1982) study, both subsidiary sales and assets were positively related to the level of actual ownership held by MNCs.

In addition to subsidiary size, the size of the *parent firm* was also considered as an important determinant of bargaining power. Lecraw (1984) reasoned that, for smaller parents, the capital and managerial resources are binding constraints, thus their bargaining positions will be relatively weaker, compared to larger parents. An empirical support for this hypothesis was found in his sample.

From the above empirical results, it is interesting to note that the impact of subsidiary size on the bargaining outcome for MNCs was positive when the outcome was measured by ownership, whereas it was negative when bargaining outcome was measured by intervention experiences (including expropriations). As Kimberly (1976) aptly pointed out, because size is related to many organizational variables, it runs the risk of explaining everything and nothing. This observation suggests the possibility that ownership and intervention experience might indeed

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Table 1. Sources of MNC Bargaining Power

Sources	*Research*	*Measurement*	*Findings*
1. Firm Level Sources			
Size of subsidiary	(1) Poynter (1982, 1985)	number of employees in subsidiary	intervention was significantly higher when the number of employees exceeds 75 ($p < .05$)
	(2) Fagre and Wells (1982)	subsidiary sales and assets	no systematic relationship found between assets and ownership for assets level below \$100 million. assets over \$100 mil was significantly associated with high ownership
	(3) Lecraw (1984)	subsidiary assets/ output and assets	assets was positively correlated with ownership, bargaining success and control ($p < .10$)
	(4) Bradley (1977)	subsidiary assets	expropriation rate increased as assets increased, and was highest at assets range greater than \$100 million
Parent size	Lecraw (1984)	industry-corrected parent's assets size	significant positive correlation with ownership ($p < .01$), control ($p < .05$), not significantly correlated with bargaining success ($p < .10$)
Technology intensity	(1) Poynter (1982, 1985)	operational and managerial complexity judged by the author and two independent researchers	negatively correlated with intervention (not significant at $p < .10$)
	(2) Fagre and Wells (1982)	R & D/sales	no systematic relationship found in middle and low level technology; high level (>5%) technology was positively correlated with high ownership

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Table 1. Continued

Sources	*Research*	*Measurement*	*Findings*
Technology intensity (continued)	(3) Lecraw (1984)	1–10 scale of MNC parent's technological leadership perceived by managers	positive significant correlation with actual ownership, bargaining success and effective control
	(4) Bradley (1977)	% highly skilled technicians	firms with high and low level technology faced less expropriation than firms with medium level technology
Advertising intensity	(1) Fagre and Wells (1982)	advertising/sales	a consistent positive relationship was found between advertising intensity and ownership level
	(2) Lecraw (1984)	relative advertising/ sales (industry- and country-corrected)	relative advertising intensity was positively correlated with owner-ship, bargaining success, and control ($p < .05$)
Intra-MNC sourcing	(1) Poynter (1982, 1985)	% of intra-MNC purchases and sales (average)	negative significant ($p < .10$) correlation between sourcing and intervention
	(2) Fagre and Wells (1982)	% of intra-MNC transfer from total output	positive significant correlation between sourcing and ownership
	(3) Lecraw (1984)	parent-subsidiary linkage effect measured by flow of resources/sales	negative significant ($p < .05$) correlation with ownership, positive significant ($p < .01$) correlation with control, and insignificant relationship with bargaining success
	(4) Bradley (1977)	% export to the parent	found no expropriations of plants that sell more than 10% of their finished goods to the parent companies

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Table 1. Continued

Sources	*Research*	*Measurement*	*Findings*
Export intensity	(1) Poynter (1982, 1985)	exports/domestic sales	non-linear relationship was found. intervention was lessened only after export ratio exceeds 40%. intervention increased at the low level of export (10–40%)
	(2) Lecraw (1984)	exports/sales	export was positively correlated with actual ownership, bargaining success and effective control ($p < .01$)
Product diversity	Fagre and Wells (1982)	3-digit product count at subsidiary level	a strong positive relationship found between product diversity and ownership level
Staffing policy	Poynter (1982, 1985)	% foreign nationals in management positions	a non-linear relationship found; high intervention for both high (>50%) and low (<10%) foreign nationals %, but low intervention for medium level
Political behavior	(1) Poynter (1982, 1985)	a composite measure consisting of 6 items (not weighted)	only the firm's policy toward initiating contact with government had a significant negative relationship with intervention level ($p < .01$)
	(2) Kim (1988)	corporate political responsiveness measure consisting of 5 items (weighted)	relationship with intervention was moderated by the level of industry competition; insignificant in the mild stage of competition, significant in turbulent and intensive competition stages

(continued)

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Table 1. Continued

Sources	*Research*	*Measurement*	*Findings*
Ownership	Bradley (1977)	ownership % by MNC	partially owned subsidiaries (joint ventures with government) faced significantly higher expropriation than wholly owned subsidiaries did
2. Industry Level Sources			
Industry competition	(1) Fagre and Wells (1982)	number of competing U.S. MNCs in 3-digit industries in Latin America	in general, high competition was correlated with low level of ownership, except for oil refining, office machinery and pharmaceutical industries
	(2) Lecraw (1984)	threat of entry was measured by number of MNCs that already have undertaken FDIs in the ASEAN countries in the firm's industry control	negative significant correlations with ownership ($p < .01$), bargaining success and ($p < .05$)
	(3) Kim (1988)	a 10 point scale indicating the degree of other firms' encroachment felt by subsidiary upon its market position	competition has a positive significant ($p < .01$) effect on intervention level
Strategic importance of industry	(1) Poynter (1982, 1985)	a 3-point scale of strategic importance of the industry	negative significant correlation with intervention level ($p < .01$)
	(2) Bradley (1977)	number of expropriations by industry groups	extractive and infrastructure industries accounted for the largest proportion of expropriation

be affected by different theoretical factors, rather than by a common factor of bargaining power.

Technological Intensity. The level of technology an MNC possesses has often been hypothesized to increase the MNC's bargaining power, *ceteris paribus* (Bradley, 1977; Fagre & Wells, 1982; Lecraw, 1984; Poynter, 1982, 1985). The

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main rationale has been that a high level of technological and managerial complexity makes the subsidiary a more difficult target for host governments to intervene or expropriate since host governments of developing countries often lack the technological competence or knowledge to run the subsidiary's operations independently (Poynter, 1982, 1985). Also, host governments may prefer to have continuing access to MNCs' technologies when they are critical to their countries' economic development.

However, the empirical results were not necessarily consistent with the hypothesized relationship (i.e., technology enhances MNC bargaining power). In the Fagre and Wells (1982) study, while the impact of technology on MNC's ownership level was not significant when technology level was either low or medium, a high level of technology was positively related with the ownership level. In contrast, Poynter (1982) found no statistically significant support for the relationship. Interestingly, Bradley (1977) found that a medium level of technology intensity was associated with a higher expropriation rate than either a high or a low level of technology intensity was, thus suggesting a curvilinear relationship between technology and bargaining power. And this result may have been due to the perceived unattractiveness of low-technology MNCs for expropriation from a host country's perspective. Overall, it is concluded that the empirical support for the proposed relationship has not been strong.

Advertising Intensity. MNCs which have products with world-wide brand recognition, combined with intensive and unique marketing activities (e.g., Parker Pens, Coca Cola), have also been expected to have strong bargaining power over host countries (Fagre & Wells, 1982; Lecraw, 1984). Strong local demand for those differentiated global brands may not be matched by local products even if they contain identical technology and product features. MNCs with high advertising intensity are viewed to be less vulnerable to host government interventions also because brand loyalty and unique marketing techniques, due to their intangible nature, cannot easily be digested or subject to host government intervention. Further, given that these types of firms are usually widely known and visible to the international business community, interventions by local governments often run the risk of degrading their reputation as a potential host to investments from other foreign MNCs (Poynter, 1985).

The positive impact of advertising intensity on bargaining position of MNCs was empirically supported in both Fagre and Wells (1982) and Lecraw (1984). They found that an MNC's advertising intensity (measured by the ratio of advertising expenditure to total sales) had a significant positive relationship with the ownership measure. It is noted, however, that the effect of advertising intensity was not studied in conjunction with the intervention measures of bargaining outcome.

Intra-MNC Sourcing. The degree of a focal subsidiary's involvement in intra-MNC sourcing (i.e., input sourcing from or output sales to other subsidiaries or parent) was hypothesized in general to increase the bargaining power of the MNC (Bradley, 1977; Poynter, 1982, 1985; Fagre & Wells, 1982; Lecraw, 1984). The general rationale was that the existence of MNC's control over external sourcing acts as a deterrent to intervention when host governments have only a

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limited access to the input factors (e.g., raw materials) and output markets. The contrasting experiences of Chrysler's assembly operations and W. R. Grace's sugar estates in the Velasco regime of Peru illustrate this point (Bradley, 1977). Chrysler, with its Peruvian assembly operations characterized by a high level of external sourcing—many important components (e.g., engines and transmissions) were imported from Detroit or other nearby plants in South America—was able to weather the expropriation moves of the Velasco regime. In contrast, Grace's sugar estates were nationalized immediately after the Peruvian government had secured direct access to foreign markets in the late 1960s when worldwide sugar commodity exchange heightened the demand for Peruvian sugar.

Empirically, the posited relationship that intra-MNC sourcing will enhance MNC bargaining power was supported in general by Poynter (1982), Bradley (1977), Lecraw (1984), and Fagre and Wells (1982). In contrast, Lecraw (1984) found that, when the ownership measure was used as the bargaining outcome, intra-MNC sourcing had the effect of decreasing the ownership level of MNCs. This result was directly opposite to the finding of Fagre and Wells (1982) who used the same ownership measure. This discrepancy in findings may have been caused by the inherent differences between the two studies. First, different measurements were used in operationalizing the construct of intra-MNC sourcing (see Table 1 for details). Also, the two studies employ different research designs. A careful empirical effort in this area seems necessary to investigate the nature of the discrepancy.

Export Intensity. Distinct from intra-MNC sourcing, the amount of subsidiary's export was generally viewed to increase the bargaining power of MNC in the literature (Lecraw, 1984; Poynter, 1982, 1985). Empirically, Poynter (1982) has found that the relationship between exports and intervention was not, however, a linear one. First, as firms started to export, intervention also increased. He pointed out that this is due to the host government regulations and bureaucratic processes at the initial stage of exporting, also, in part, rising host government aspirations for more exports to secure hard currency. Second, intervention level decreased when the amount of exports became significant to the host country. Specifically, for most firms in his sample, only after exports exceeded 40 percent of sales did a firm enjoy significantly less intervention than a firm serving only the local market. Lecraw (1984) also found that export intensity was positively related to such bargaining outcome measures as actual ownership, bargaining success and control over subsidiary. In Lecraw (1984), bargaining success was defined as the degree of an MNC's success in obtaining the desired level of ownership. Specifically, bargaining success was operationalized by the ratio between two values, (actual ownership—desired level of ownership by host country) and (desired level of ownership by the MNC—actual ownership).

Staffing Policy. The number of foreign nationals in a subsidiary's senior management positions was anticipated to influence the bargaining power of the MNC (Poynter, 1982, 1985). However, the direction of the influence has been controversial in both theory and empirical findings. One perspective is that a large proportion of host nationals would reduce host government harassment and provide various benefits because it represents "good corporate citizenship." Con-

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versely, it has also been viewed that a larger proportion of foreigners in an MNC subsidiary would imply to host government a greater need for foreign skills in order to operate the subsidiary successfully, hence the subsidiary is a more difficult target to digest and intervene (Poynter, 1982, 1985).

In Poynter's (1982) study, a U-shaped relationship was found. The intervention level was high for both high (>50%) and low (<10%) proportions of foreign nationals. On the other hand, intervention level was relatively lower for the medium level of foreign nationals' proportion. Poynter's conjecture was that the unexpected high intervention associated with high proportion of foreign nationals may have been caused by the negative host government attitudes towards foreign firms with a dearth of local managers. Future research efforts seem necessary to complement and confirm this finding.

Product Diversity. Another firm level characteristic studied was the product diversity of an MNC subsidiary. Fagre and Wells (1982) found a relationship that the number of product lines of a subsidiary was positively associated with the ownership level of the subsidiary. Further, they observed that MNCs tend to make a deliberate corporate level strategic choice along the continuum of creating one subsidiary producing many products on the one end, and establishing several subsidiaries, and each of which produces only a few products within a host country, on the other end. Importantly, this difference in product-subsidiary combination strategies was systematically associated with different levels of ownership in each subsidiary in their findings. Specifically, MNCs tended to have higher ownership positions in multi-product subsidiaries than in single-product subsidiaries (Fagre & Wells, 1972). They also argued that host governments are in relatively weak bargaining positions when they face multi-product subsidiaries for such reasons as high managerial skills involved in the operations, import substitution effects, and host governments' needs for developing particular industries. Further, they expected that MNCs would prefer to create a single product subsidiary in such industries where the government will insist upon some measure of local control. A recent study by Hitt, Hoskisson, and Kim (1997) found that product diversity is more difficult/complex to manage than geographic diversity, suggesting that product diversity can enhance an MNC's bargaining power vis-à-vis host government.

Ownership. At odds with the view that ownership is an outcome of bargaining (Fagre & Wells, 1982; Lecraw, 1984), Bradley (1977) viewed ownership as a source of bargaining power instead, thus influencing the expropriation rate of subsidiaries. Contradictory to the common belief that joint ventures with local governments or other foreign MNCs would safeguard MNC's operations from expropriation, he reported that expropriation was significantly more frequent for joint ventures with either the host government or other foreign MNCs than for 100% U.S.-owned subsidiaries (Bradley, 1977: 80).

It is viewed here that, given the limited data base of his study, an empirical test of this relationship with a more extensive sample is necessary to confirm Bradley's result. Additionally, as discussed in the previous section, there is a clear research need to resolve the causal directions between ownership and other bargaining outcomes.

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MNC Political Behavior. It is noted that the concept of MNC political behavior has been defined rather broadly in the literature, including not only direct political activities *per se* such as lobbying activities to prevent or cope with particular interventions (Poynter, 1982), but also social responsiveness to various local needs such as local employment and job-related education for host nationals (Brooke & Remmers, 1978; Doz, 1979; Doz, Bartlett, & Prahalad, 1981; Kim, 1988).

In the Poynter (1982) study, intervention level was only weakly associated with the measures of subsidiary political behavior. Kim (1988) found that the relationship was not direct, rather moderated by the level of industry competition (i.e., while political behavior was not effective in reducing intervention in the mild stage of competition, it played a significant role in turbulent and intensive competition stages).

Despite measurement differences (i.e., Poynter's measure focuses mainly on direct political activities such as lobbying, whereas Kim's measure captures the social responsiveness aspects as well), a combined implication of the findings of the two studies is that political behavior alone cannot substantially reduce interventions. In addition, in future research, it seems useful to separately examine the impact of MNCs' social responsiveness from that of direct political activities on bargaining outcomes. Compared to the relatively well established social-responsiveness studies in the domestic settings, such studies have been rare in the international contexts (a few exceptional works are Blake, 1980 and Gladwin & Walter, 1980a, 1980b).

Industry-level Sources of MNC Bargaining Power

In addition to the firm-level factors, the industry characteristics have also been studied in relation to MNC bargaining power. In the following, key findings are briefly reviewed and the issue of relative importance between industry-level and firm-level factors in explaining MNC bargaining power is addressed.

Industry Competition. Intense industry competition has been viewed as reducing the bargaining power of an MNC operating in the industry (Fagre & Wells, 1982; Kim, 1988; Lecraw, 1984). Although the level of industry competition was measured differently (e.g., the number of competing U.S. MNCs in the same 3-digit industry in Latin American countries (Fagre & Wells, 1982), the threat of entry measured by the number of MNCs in the industry that have already undertaken foreign direct investments in ASEAN region (Lecraw, 1984), and the degree of other firms' encroachment felt by the subsidiary upon its market position (Kim, 1988), the empirical findings of the studies were consistent in supporting the prediction that a low level of industry competition would increase the bargaining power of MNCs.

Strategic Importance of Industry. MNCs operating in industries which are of strategic importance to a host country were expected to be in relatively weak bargaining positions. Poynter (1982: 18) argued that host government interference with MNCs in such industries seem to be motivated mainly by the expectation of political benefits to the host government rather than economic benefits. He found that MNCs operating in high importance industries (including cement, steel, oil

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refineries, infrastructure and natural resources) were strongly associated with higher intervention levels than MNCs operating in the other industries. A similar result was found in Bradley (1977), where extractive industries and infrastructure industries alone accounted for a significant portion of the total expropriation cases in his sample.

One of the key research issues in this field seems to be the question of how relatively important industry-level versus firm-level factors are in explaining the variations of MNCs' bargaining power. Poynter, for instance, argued that firm-level factors are the major determinant of MNC bargaining power, whereas industry type plays a less significant role. He observed that, even though there exists a considerable divergence in intervention levels among different types of industries, the amount of intervention variation *within* each industry-type exceeds the difference *between* the means of each type (Poynter, 1985: 53).

On the other hand, the results of some other studies suggest that industry characteristics have more significant influences on bargaining power than firm-level factors (Bradley, 1977; Fagre & Wells, 1982; Kim, 1988; Lecraw, 1984). Fagre and Wells (1982: 13) found that, in their sample, almost all of the 202 subsidiaries that were in the highest advertising intensity category were concentrated in only two 3-digit industries; pharmaceutical and cosmetic industry (SIC 283, 284), indicating that firm-level advertising intensity was in fact largely bounded by industry types. Since there has been no empirical test that explicitly examines the relative importance of industry- and firm-level factors, future research to resolve this issue seems imperative.

Country-level Sources of MNC Bargaining Power

Country-level sources of MNC bargaining power is an area to which the literature has not paid sufficient attention, thus far. Since most of the bargaining power research has been skewed toward the U.S. MNCs dealing with non-U.S. host governments (an exception was Lecraw, 1984), a systematic analysis of "nation-of-origin" effect on bargaining power is lacking in the literature. It stands to reason that different country origins of MNCs may affect bargaining power differently in a particular host country. For instance, the bargaining positions between U.S. MNCs and Japanese MNCs in South East Asian countries can be systematically different given the historical, cultural, and political backgrounds. Similar to the study by Poynter (1985) where *host* country bargaining power was analyzed, identifying *home* country factors that influence MNC bargaining power seems to be an important area for future research.

Toward a Resource-Based Theory of MNC-Host Government Bargaining Power Relationship

Bacharach (1989) argued that, for a theoretical relationship to be falsifiable, it should answer why, how and when the relationship holds. From our review of the literature, the theoretical relationships between the sources of bargaining power and bargaining power outcomes have not been adequately specified, making it difficult for researchers to subject them to the muster of falsification.

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The choices of the sources of bargaining power and bargaining outcomes appear to have been motivated by researchers' idiosyncracies, rather than being grounded in a more coherent theoretical framework. Therefore, there is a need for a more encompassing theory that rigorously specifies the relationships among the antecedent, intervening, and outcome variables of the MNC-host government bargaining power relationship.

One theoretical avenue would be to extend the issue of MNC-host government bargaining power to the broader context of MNC's strategy and competitive advantage. Ultimately, an MNC seeks greater bargaining power in order to improve its odds for competitive success within the host country's market. Given the importance of firm-level variables, as sources of MNCs' bargaining power, there is a need to draw on the insights of the "resource-based view" of the firm (Barney, 1991; Wernerfelt, 1984) to examine the conditions under which firm-specific resources and capabilities can enhance the firm's bargaining power vis-à-vis host government, and the extent to which such bargaining power, in turn, enables the firm to earn and appropriate economic rents and achieve a sustainable competitive advantage. We introduce a conceptual model of MNC-host government bargaining power that is grounded in the resource-based view to: (a) integrate the extant literature within a more coherent theoretical framework; and (b) suggest avenues for future theory development and empirical investigation.

Overview of the Resource-Based View

The resource-based view begins with the basic strategic management premise that the *raison d'etre* of the firm is the ongoing search for and sustainability of economic rents (Bowman, 1974; Mahoney, 1995). Although the notion of "rent" can be clouded by definitional ambiguities, within the resource-based view, it is generally used to mean returns accruing to hard-to-copy, firm-specific resources and capabilities (Castanias & Helfat, 1991; Peteraf, 1993, 1994; Rumelt, 1987).[2] In order to form the basis of sustainable competitive advantage, such resources and capabilities must be valuable, rare, imperfectly imitable, and nonsubstitutable (Barney, 1991). Firm resources and capabilities that have been examined within the resource-based view are generally grouped under: (a) physical resources, including the firm's physical technology, plant and equipment, geographic location, and access to raw materials and components (Barney, 1991); (b) human resources, including knowledge, skills, abilities of the firm's work force; (c) organizational resources, including routines, reporting relationships, and other integrating and differentiating mechanisms; and (d) financial resources, including the firm's credit rating, debt/equity ratio, ratio of net cash to capital expenditure, and retained earnings (Grant, 1995).

Firms generally gain access to such resources through a combination of: (a) internal development and deployment (when the resources and capabilities, because of their tacit, socially complex, and specialized nature, cannot be traded in the strategic factor market; Dierickx & Cool, 1989; Reed & DeFillippi, 1990); (b) market-based transacting (when the resources can be bought and sold in the factor market, and when a firm can purchase the resources at below-market prices relative to competitors or when it possesses superior knowledge/skill at evaluating

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the present value of future cash flows from those resources (Barney, 1986); and (c) relational exchanges (when a firm possesses a particular resource or capability that generates economic rents only when it is used jointly with the resource of another firm via a joint venture or strategic alliance; Black & Boal, 1994; Borys & Jemison, 1989; Sanchez, 1995).

The resource-based view has evolved into a distinctive body of knowledge that constitutes a "strategic theory of the firm" (Rumelt, 1984). It draws on well-established scholarly traditions in industrial organizational economics (Conner, 1991), institutional (and institutionalization) theory (North, 1990; Oliver, 1997), and the sociological theory of "embeddedness" (Granovetter, 1985; Uzzi, 1996). Arguably, resource-based theory provides a more robust theoretical foundation for explaining strategic phenomena. Among other things, this perspective "contributes to explaining firm diversity; provides a theoretical foundation for endogenous growth models; has all the requisite building blocks and attributes of a phylogenetic, non-consummatory, evolutionary theory; accommodates path dependencies, incorporates the predictive successes of neoclassical theory; and preserves the cumulativity of economic science" (Hunt, 1997: 433).

Within the area of international business, the logic of the resource-based view has been employed to analyze the formation, management, and control of international strategic alliances (Hamel, 1991), global strategy-performance (Collis, 1991), and MNC political behavior (Boddewyn & Brewer, 1994). In the area of MNC-Host government relationship, however, research incorporating the insights of the resource-based view has been lacking. We address this void by proposing a model (Figure 1) of the MNC-host bargaining power relationship within the resource-based view.

The Model

As shown in Figure 1, firm-specific resources and capabilities are proposed to be the key determinants of an MNC bargaining power vis-à-vis a host gov-

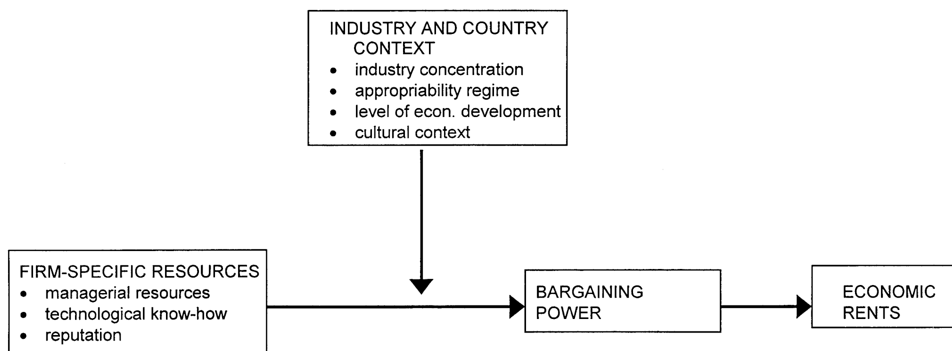

Figure 1. Resource-Based Determinants of MNC-Host Government Bargaining Power Relationship

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ernment. In turn, bargaining power is posited to generate economic rents. In the context of the resource-based view, in order for the MNC's bargaining power to generate rents that are sustainable, the bargaining power must be based on idiosyncratic firm resources and capabilities that are valuable, rare, imperfectly imitable, and lack strategically equivalent substitutes (Barney, 1991). Additionally, we suggest that the relationship between these firm-specific resources and capabilities and bargaining power is moderated by two sets of contextual factors: (a) industry factors (such as concentration); and (b) country-specific factors (such as appropriability regime, level of economic development, and cultural distance). Our rationale for suggesting these factors to be moderators of the relationship between firm resources and bargaining power is based on literature in the contingency approach that recognizes the external environment as an important moderator of the relationship between firm resources and performance (Amit & Schoemaker, 1993; Keats &Hitt, 1988; Miller & Shamsie, 1996). As noted by Miller and Shamsie (1996: 520) "[j]ust as contingency theory attempts to relate structures and strategies to the contexts in which they are most appropriate, . . . so too must the resource-based view begin to consider the contexts within which various kinds of resources will have the best influence on performance."

Finally, as depicted in Figure 1, bargaining power is proposed to be a mediator variable, suggesting that it facilitates the linkage between firm-specific resources and economic rents. Resource-based scholars have theorized about the links between firm-specific resources and capabilities and economic rent primarily within a "domestic" context (e.g., Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). We argue, however, that what distinguishes domestic firms from MNCs is the unique ability (or *power*) of the latter to effectively manage the "political imperative" (Ring, Lenway, & Govekar, 1990) resulting from the policies and actions governments of sovereign nations (Boddewyn & Brewer, 1994). Thus, the effectiveness of an MNC's strategy will depend crucially upon how well the MNC deploys its unique resources and capabilities to achieve greater bargaining power vis-à-vis a paricular host government. As Boddewyn and Brewer (1994: 125) aptly noted: "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."

MNC Bargaining Power and Economic Rent

As reviewed previously, an MNC's bargaining power is indicated by the nature and size of the "bargaining outcomes" that the MNC achieves through its interactions with the host government. These bargaining outcomes include the MNC's ownership level (Fagre & Wells, 1982, Gomes-Casseres, 1989; Lecraw, 1984), the likelihood of expropriation of subsidiary operations by the host government (Bradley, 1977; Hawkins et al., 1976), and the ability of the MNC to obtain favorable concessions from the host government (Cracco, 1972; Kim, 1988, Poynter, 1982).

While these bargaining outcomes are important in facilitating an MNC's operations in a host country, they may not directly translate into a position of

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sustainable competitive advantage and superior performance for the MNC relative to other firms. To more rigorously address the second-order question of sustainability of competitive advantage, we must analyze the extent to which an MNC's bargaining power leads to the creation and appropriability of economic rents. In the context of the bargaining power model, three types of economic rents may accrue from an MNC bargaining power over host governments: *Ricardian* rents, *Monopolistic* rents, *and Composite Quasi-rents* (Alchian & Woodward, 1988; Castanias & Helfat, 1991; Peteraf, 1993; Rumelt, 1987). Ricardian rents refer to excess returns to firm-specific resources that are in fixed or quasi-fixed supply (Peteraf, 1993; Schoemaker, 1990). Ricardian rents indicate relative efficiency in resource development and deployment. Monopoly rents "result from a deliberate restriction of output rather than an inherent scarcity of resource supply" (Peteraf, 1993: 182). Governments create monopoly rents through the use of a wide range of policies, such as quantitative trade restrictions (tariffs and quotas), imposition of local content requirements, and requiring MNCs to form joint ventures with local firms or government agencies. When an MNC expends resources to capture artificially contrived rents through manipulating such government policies, it is engaging in monopolistic rent-seeking behavior (Tollison, 1982). Finally, composite quasi-rents accrue to "a [firm's] resource that depends on continued association with the resources of others" (Hill, 1990: 500). In other words, composite quasi-rents are generated from resource deployments in team situations or in collaborative ventures (Alchian & Demsetz, 1972), and are associated with what Teece (1987) referred to as "co-specialized assets."

Thus, when an MNC's bargaining power is largely based on its possession and/or control of scarce resources that are in limited supply, and when those resources are critical to the realization of a host country's economic development policy, the MNC's bargaining power can engender greater Ricardian rents, and thus, be the source of sustained competitive advantage. On the other hand, when an MNC's bargaining power results primarily from the manipulation of government policy to gain access to artificially contrived rents, it can at best, achieve "temporary rents" (Schoemaker, 1990), as such advantages can evaporate with changes in political regimes. (Witness the losses sustained by Western firms following the overthrow of the Shah of Iran). Finally, if an MNC can seek out and exploit opportunities for effective collaboration with the host government to realize mutually beneficial goals (e.g., Wright, 1984), it might be able to generate greater composite quasi-rents, which, when combined with Ricardian rents, can bolster the MNC's position of sustained competitive advantage.

Firm-Specific Resources and MNC Bargaining Power

Poynter's (1982, 1985) early work provided an impetus to a resource-based perspective on MNC-host government bargaining power relationship. While identifying firm-specific resources (such as technological intensity, advertising intensity, staffing policies, and intra-MNC sourcing) as determinants of bargaining power provides an important first step, the second-order question of whether such resources can yield a "sustainable" bargaining power which, in turn, generates durable economic rents has not been systematically addressed in the litera-

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ture. From a resource-based view, such resources must exhibit important isolating mechanisms, such as unique, historically based, path dependencies (Arthur, 1989), tacitness, socially complex relationships, and causal ambiguity (Reed & DeFillippi, 1990; Rumelt, 1984). The latter refers to the relative difficulty for one (including the firm's own managers) to accurately discern the causal relationship between resources and economic outcomes or returns (Lippman & Rumelt, 1982). Resources such as technological know-how, firm reputation, and managerial know-how, insofar as they exhibit these isolating mechanisms, may be potent sources of an MNC's bargaining power that yields sustainable economic rents.

Managerial Resources. From the resource-based view, the "resource of management" (Mahoney, 1995) is critical to shaping and/or constraining the scope and direction for the growth of the firm (Amit & Schoemaker, 1993; Lado, Boyd, & Wright, 1992; Penrose, 1959). Managerial knowledge that is firm specific, is tacitly acquired through learning by doing, and is embedded in team settings (such as top management teams) can be a potent source of sustained competitive advantage (Barney, 1991; Reed & DeFillippi, 1990).

Top managers articulate a strategic vision/focus, communicate that vision throughout the organization, identify and deploy critical input and human resources needed for implementing organizational strategies, and proactively enact beneficial relationships with their organization's internal and external stakeholders (Cyert & March, 1963; Smircich & Stubbard, 1985; Weick, 1979). Furthermore, managers are responsible for designing organizational capabilities, such as organizational culture (Fiol, 1991), learning systems (Senge, 1990), innovation and entrepreneurial systems (Nelson, 1991), and incentive systems (Kerr, 1975) that reflect a good fit with organizational strategies.

In the context of the bargaining power model, Poynter (1982) identified "operational and managerial complexity" as a key determinant of an MNC's bargaining power. Accordingly, MNC subsidiaries that are characterized by a more sophisticated configuration of technical, operational and managerial systems might be "out of reach of the abilities of host nation groups" (with "host nations" reflecting the less developed countries), and, therefore, would have greater bargaining power relative to the host governments. When managerial complexity is combined with human "asset specificity" and "tacitness" it might be a source of bargaining power that leads to sustained competitive advantage insofar as it heightens "causal ambiguity" (Lippman & Rumelt, 1982; Reed & Defillippi, 1990).

Furthermore, managers of MNC subsidiaries employ a wide range of mechanisms for coping with the "political imperative" (Ring et al., 1990). Such coping behaviors have a direct impact on the MNC-host government bargaining power relationship. Using the typology for managing inter-firm strategic interdependence (Pennings, 1981), Ring and colleagues argued that an MNC's ability to manage the political imperative within a host country would depend, among other things, on its managers' abilities or strategic behaviors to *forestall* or *absorb* the political risk arising from host government actions. When they discussed forestalling strategies in the context of MNCs, these authors refer to the set of managerial behaviors and decisions pertaining to "configuration and coordination

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of the firm's activities" in such a way as to "minimize transfer risk arising from the actions of a single government, or from the concerted actions of a state-sponsored cartel or customs union" (Ring et al., 1990: 146). "Absorption strategies" refer to managerial coping behaviors and actions that mitigate the negative consequences of nation-states (Ring et al., 1990). Such behaviors are "designed to minimize adverse effects of political imperatives by internalizing sources of political risk within the firm" (Ring et al., 1990: 146–147) through actions, such as hiring of a key political actor (Boddewyn, 1988). Thus, the resource of management may be a distinctive competence that engenders greater bargaining power for MNCs through the managers' ability to enact (via forestalling and/or absorption) beneficial firm-environment relationships (Boddewyn, 1988; Boddewyn & Brewer, 1994).

Technological Know-How. An MNC's technology includes the basic knowledge system (or scientific subsystem), comprising the existing and future stock of theoretical and applied knowledge; the technical support systems ("software"), consisting of production methods, techniques and technical and administrative support systems; and the capital-embodied subsystem ("hardware"), which includes finished goods and services, raw materials and goods-in-process, and machinery and components (Afriyie, 1988). Kogut and Zander (1992) distinguish between "information" and "know-how." *Information* refers to "knowledge which can be transmitted without loss of integrity once the syntactical rules required for deciphering it are known," whereas *know-how* is understood as "the accumulated practical skill or expertise that allows one to do something smoothly and efficiently" (Kogut & Zander, 1992: 386). When an MNC's technological capability is embodied in people or firm-specific processes, it may be "considerably more difficult to transfer across nations because cultural and strategic management factors play larger roles in such transfers," compared to product-embodied technology (Kedia & Bhagat, 1988: 562). The upshot is when an MNC's bargaining power (vis-à-vis host government) is founded on technological "know-how" (i.e., person embodied and/or process embodied), it is likely to provide a more durable basis for generating and appropriating economic rents compared to an information-based, technological capability embodied in products and/or physical capital. Alternatively stated, when an MNC's bargaining power is based on a technological capability that is product- and/or capital-embodied, it may become an "obsolescing bargain" (Vernon, 1980) since a host government might over the years "absorb" such technology through learning/imitation or even expropriation/nationalization of foreign operations. More generally, in the context of resource-based theory, to the extent that an MNC's technology that is transferred to a host country is valuable, rare, difficult to imitate, and lacks close substitutes, it may enhance the bargaining power position of the MNC relative to the host government and provide a more durable basis for sustained competitive advantage.

Reputation. Economists and strategy scholars have long recognized the strategic importance of "invisible assets" such as corporate reputation, image, and brand name (Fombrun & Shanley, 1990; Wiegelt & Camerer, 1988; Wilson, 1985). A firm's reputation is developed over a long period of time through top management vision and commitment to producing and delivering high-quality

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products and services to the firm's stakeholders consistently and on time. Additionally, reputations are developed through the deployments of substantial amounts of "irreversible investments" (Ghemawat, 1991). Such investments establish a unique path in history (Arthur, 1989), and, because the reputation so acquired cannot be traded in the strategic factor market, it can be a source of sustainable competitive advantage (Dierickx & Cool, 1989).

Reputation serves as a signal of a firm's "type," referring to "the set of privately known information" about the firm to its stakeholders (Wiegelt & Camerer, 1988: 443). Such a signal might indicate, among other things, the firm's trustworthiness in exchanges with other firms (Barney & Hansen, 1994), the firm's quality and levels of its human and organizational capital investments (Spence, 1973), the soundness of the firm's financial investment strategy (Fombrun & Shanley, 1990; Ross, 1977), and the effectiveness of its social responsibility program (McGuire, Sundgren, & Schneeweiss, 1988).

Despite the strategic importance of corporate reputation as a rent-yielding asset, we know of no work that has explicitly incorporated this variable as a determinant of MNC bargaining power vis-à-vis the host government. We believe that positive reputation can enhance an MNC's bargaining power in at least two ways. Positive reputations can convey a signal about an MNC's "sociopolitical legitimacy" (Aldrich & Fiol, 1994) in dealing with the various publics (including the host government). Sociopolitical legitimation, refers to "the process by which key stakeholders, the general public, key opinion leaders, or government officials accept a venture as appropriate and right, given existing norms and laws" (Aldrich & Fiol, 1994: 648). In turn, the host government (especially of the less developed countries) may use high-reputation MNCs already operating in the host country as a signal to the international investment community that it provides an attractive climate for foreign direct investments (Weiss, 1990). Thus, an MNC that has a good international reputation may command greater bargaining power insofar as it can leverage its social network ties with other MNCs operating in the host country and achieve favorable terms in its negotiations with the host government (Ghoshal & Bartlett, 1990). For example, when IBM proposed to establish a wholly-owned personal computer plant in Mexico, President Miguel de la Madrid "praised the plan as an expression of faith in the country's economic progress and a most significant milestone on Mexico's road to self-sufficiency in electronic technology" (Weiss, 1990: 565). Clearly, empirical research is needed to systematically investigate the specific nature and strength of the relationship between reputation and MNC bargaining power/outcomes.

Other firm-specific phenomena, such as organizational culture, organizational learning systems, and networks of intra- and inter-organizational relationships (e.g., supplier and distributor networks) might also determine the nature and magnitude of MNC bargaining power vis-à-vis the host government.

Industry and Country Contexts as Moderators of Firm Resources-Bargaining Power Relationship

In the following paragraphs, we identify several industry-level and country-level factors and highlight their moderating effects on the relationship between

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firm-specific resources and MNC's bargaining power. These factors also serve to delineate the boundary conditions for our resource-based model of the MNC-host government bargaining relationship. Our discussion, we believe, sets the stage for further theoretical development and empirical testing to determine the specific form and/or strength of the moderation effects of these contextual variables.

Industry Concentration. Traditional industrial organization economists have suggested that an industry's level of profitability should decrease as its concentration level (i.e., the degree to which a few large sellers dominate an industry in terms of relative market share) decreases (Bain, 1951; Porter, 1980). Ever since the pioneering work of Bain (1951, 1956), considerable research efforts have been directed at testing this hypothesis and most studies have been corroborative (Scherer & Ross, 1990). Concentration reflects the level and intensity of industry competition, which directly affects an industry's resource carrying capacity (Aldrich, 1979; Dess & Beard, 1984), such that as competition intensifies, the industry's resource base diminishes over time. In such a context (i.e., low-concentration industry), firms have to battle more fiercely against each other for such things as customer support, the best inputs, or the latest technology. The end result of these battles is heightened environmental uncertainty for individual firms (Dess & Beard, 1984).

As Miller and Shamsie (1996: 524–528) noted, in industries characterized by high uncertainty (resulting from heightened competition), firms that have "systemic, knowledge-based resources" (such as firm reputation, innovative culture), which are more robust and expandable, might hold better prospects for achieving a sustainable competitive advantage, compared to firms with "discrete, property-based resources" (such as a specialized technology, a key input, facility or location), which are less fungible and are relatively fixed in supply. Therefore, it seems reasonable to suggest that the effect of firm-specific resources on MNC bargaining power would be moderated by industry concentration. Specifically, MNCs with systemic, knowledge-based resources will likely achieve stronger bargaining power over host governments (and a sustainable competitive advantage) in industries characterized by low concentration. In contrast, we expect that MNCs with discrete, property-based resources will likely gain an enhanced bargaining power position (vis-à-vis host government) in industries characterized by high concentration.

Country Appropriability Regime. Countries differ in their capacity to grant legal protection of intellectual property rights. The risk of expropriation of technological know-how is an important factor in determining the extent to which firm-specific resources can generate bargaining power for the MNC over the host government (Hill, 1997; Hill, Hwang, & Kim, 1990; Teece, 1987). The risk of expropriation of an MNC's technological and knowledge-based assets depends, among other things, on the host country's "appropriability regime" (Teece, 1987). This concept refers to "the environmental factors, excluding firm and market structure, that govern an innovator's ability to capture the profits generated by an innovation" (Teece, 1987). According to Teece, the appropriability of a technological innovation is a function of the nature of the technology itself, as well as the efficacy of a country's legal systems for protecting and enforcing intellectual

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property rights. Generally, process innovation is less vulnerable to imitation by local firms and/or host government agencies, since, by definition, it exists in the form of organizational routines, histories, culture, and the like, and is embodied in people and systems. In contrast, product innovations are codifiable and are more easily transferrable between organizations, but this also makes them susceptible to competitor imitation.

The appropriability of an MNC's technological and knowledge-based assets may be enhanced through the types of legal instruments (such as patents, copyrights, and trade secrets) available for protecting property rights. These instruments may confer short-term exclusive rights to a technology and, thus, permit the MNC to extract returns from their unique resources. Additionally, the protection that these legal instruments confer to innovators depends on how vigorously property-rights laws are enforced by the legal system.

While many countries have stringent intellectual property regulations on their books, the enforcement of these regulations does vary widely (Hill, 1997: 42). Since legal protection tends to be more difficult with tacit (i.e., hard-to-articulate) knowledge than "articulable" knowledge (Winter, 1987), we would expect that the MNC bargaining power and rent generation will also be moderated by the appropriability regime of the host country (Teece, 1987). Specifically, other things being equal, MNCs with a high content of tacit knowledge-based resources will likely have a stronger bargaining power position (vis-à-vis the host governments) in host countries with weaker appropriability regimes than in host countries with strong appropriability regimes. However, such an effect will be weaker for MNCs whose knowledge-based resources are largely of an articulable kind.

Host Country Level of Economic Development. The level of economic development of a host country can influence the appropriation of knowledge-based assets of an MNC and, consequently, erode the MNC's bargaining power. The understanding and absorption of key knowledge of an MNC by a host country's firms and governments presupposes the existence of a certain level of related knowledge fields (Cohen & Levinthal, 1990). A host country's "absorptive capacity," referring to the capacity of its local firms and government agencies "to recognize the value of new external information, assimilate it, and apply it to commercial ends" (Cohen & Levinthal, 1990: 128), is directly reflective of its level of economic development (Baranson, 1969; Kedia & Bhagat, 1988).

Rostow (1967) developed a five-stage model indicating the stages through which a country advances. Accordingly, countries advance from the "traditional society," reflecting heavy reliance on agriculture, utilizing poorly developed production methods and techniques, through the "preconditions for takeoff and takeoff stages", where emphasis is placed on developing a modern infrastructure, scientific knowledge, and technical and managerial support systems (for industrialization), to the "maturity stage," representing full utilization of resources by employing complex technologies, and, finally, to the "age of high mass consumption," reflecting an emphasis on the production of consumer goods and services. Although Rostow's model engendered considerable research efforts in the decade of the 1970s, it was subsequently criticized for its failure to incorporate certain

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critical parameters of development, its lack of conceptual rigor, and its "ad hoc" specification of the development stages, among other things (Stoever, 1985).

Stoever (1985) suggested an alternative model that has direct implications for foreign direct investment. Stoever, like Rostow, proposed a five-stage model, with stage I representing low attractiveness to foreign investment, and stage V indicating high attractiveness. Among the criteria used for assessing attractiveness of foreign investment are the country's existing industrial structure, its wage and employment level, its level of infrastructure, the availability of local suppliers and support systems, and the availability of local financing. Accordingly, countries at stage I of the economic development scale are "too poor, too small, too distant, or too underdeveloped to attract any foreign investment" (Stoever, 1985: 6). As these countries move toward stage V of the development scale, their governments tend to emphasize investment in industrial and communication infrastructure, human capital formation through investment in educational and research institutions, and privatization of business enterprises, among other things.

An important implication of this model is that as countries move toward level V of the development scale, they will increasingly emphasize investments in technologies designed to increase the stock of general (basic) knowledge and applied knowledge in specific industrial sectors of national and strategic interest (Wallender, 1979). Thus, a movement toward this stage of economic development will be associated with an increasing bargaining power of the host governments and local firms as their capacities to learn and absorb foreign firms' technology and other knowledge based assets become expanded. Conversely, for countries that are at lower levels of economic development (and that, correspondingly, have a low absorptive capacity) an MNC would exercise greater bargaining power through its hard-to-copy knowledge-based resources.

Host Country Cultural Context. Finally, a host country's culture may have an effect on resource transfer and appropriability. That is, in some cultures, opportunistic practices may be more easily tolerated than in others. For example, Shane (1992) argued that the tolerance for opportunistic behavior may be higher in cultures in which subordinates perceive themselves and their bosses to be socially more distant rather than as equals (Hofstede, 1991). Opportunistic behavior might also be prevalent in highly individualistic (as opposed to collectivist) cultures where people are presumed to pursue their own self-interests (Hofstede, 1980). Additionally, in countries in which "the dominant values in society emphasize assertiveness, acquisition of money and status, achievement of visible and symbolic organizational rewards" (Kedia & Bhagat, 1988: 564), the risk of opportunism, reflected by involuntary and unlawful transfer of an MNC's key knowledge assets by local partners/firms, may be high.

Based on the ideas of Glenn and Glenn (1981), Kedia and Bhagat (1988) further suggested that the transfer and diffusion of MNC technology might depend on the extent to which a host country's culture predominantly reflects "abstractive" versus "associative" values. In abstractive cultures, emphasis is placed on cause-effect relationships, and information is transmitted through mass media and related technological systems. In contrast, in associative cultures, emphasis is placed on face-to-face interactions "among individuals who share a large body of

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information that is based both on historical and contextual modes" (Kedia & Bhagat, 1988: 566). Further, Hill (1995) observed that, due to its unique history and institutional structures, Japanese culture promotes trustworthy behavior and fosters cooperation and specialization among firms. These cultural attributes enable Japanese firms to economize on the cost of transacting business, thus contributing to their enhanced competitiveness in the global market place. Overall, given that there are no convergent research findings that would support how systematic differences in cultural tendencies affect the degree of resource transfer and appropriability, it may be premature to specify the nature of such moderation effect at the present state of knowledge. Therefore, future research should further investigate the cultural effects on the relationship between firm-specific resources and MNC bargaining power.

Conclusion and Discussion

A critical review of the research on MNC-host government bargaining power relationship indicated that empirical findings on the specific determinants of MNC bargaining power are too divergent, and sometimes incomparable to draw systematic conclusions and provide meaningful managerial implications. We also noted that different theoretical perspectives for predicting and explaining particular sources of bargaining power provide only partial slices of reality. Thus, there is a need for a more integrative theoretical framework within which the MNC bargaining power phenomenon can be understood. Furthermore, our literature review indicated that MNC bargaining power has not been systematically linked to MNC performance within the host country operations. On both theoretical and empirical fronts, the linkage between bargaining power and firm performance was not systematically investigated. We believe this gap constitutes a critical error of omission since MNCs seek a stronger bargaining power position in order to gain a competitive advantage in the host country.

Both aforementioned gaps—lack of a broader theoretical framework and lack of connection between bargaining power and firm performance—motivated us to propose a new theoretical model grounded in the resource-based view of the firm. With its explicit focus on firm's internal resources as sources of rent generation (i.e., performance), the resource-based view not only makes a theoretical connection between bargaining power and performance, but also provides a coherent theory for understanding bargaining power relationship within a broader theoretical framework. Rather than treating firm-, industry-, and country-level factors as directly affecting bargaining power, the resource-based model specifies that firm-specific resources that are hard-to-copy are the main determinants of MNCs' sustainable bargaining position over time. Further, building on the resource-environment contingency approach (e.g., Miller & Shamsie, 1996), in our resource-based model, we reconceptualized industry and country contexts as moderators of the relationship between firm-specific resources and bargaining power. We believe this is an important theoretical specification that should be empirically investigated in future research.

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Clearly, we are not arguing for replacing the existing perspectives with the resource-based model. Rather, our position is that the resource-based model can complement the existing perspectives and extend the research in important and interesting directions. Our proposed model is complementary in that it fills the need for focusing on the firm-specific sources of bargaining power expressed by researchers, such as Poynter (1985: 53), who observed that "... the amount of intervention variation *within* each industry-type exceeds the difference *between* the means of each type."

Secondly, the resource-based model further extends the implications of the "obsolescing bargain" hypothesis (Vernon, 1980) in new ways. The gist of this hypothesis is that even if some firm-specific resources provide an MNC with a strong bargaining position initially, they may not do so in the future because the value of such resources may eventually diminish as they are absorbed and/or replicated by host country partners, personnel, and government agencies. Accordingly, MNC investments and any advantages from such investments can be duplicated by host government agencies and local firms, leading to the erosion of MNC bargaining power. While the resource-based model converges with the obsolescing bargain hypothesis in recognizing the dynamic nature of bargaining power, it also sheds additional light by specifying conditions under which an MNC bargaining power is likely to diminish over time. Within the resource-based model, an MNC's bargaining power will likely erode to the extent that the initial bargaining power was a function of resources that can be easily imitated and for which strategically equivalent substitutes are available within the host country. In contrast, to the extent that an MNC's resource is valuable, rare, difficult to imitate, and lacks close substitutes, it can provide a sustainable bargaining power position. Thus, because the resource-based model is capable of not only explaining when bargaining power erodes over time, but also when bargaining power is enhanced/ maintained over time, it provides a more robust theoretical framework for further examining the bargaining power phenomenon.

We believe that the resource-based model provides a framework for conceptualizing bargaining relationship as a positive-sum game, as opposed to only a zero-sum game that has implicitly been assumed in the literature thus far. While the need for analyzing the positive sum aspect of bargaining has been reflected in the literature (e.g., Boddewyn & Brewer, 1994), there has not been any systematic theoretical development in this important area. An important point of departure for analyzing the bargaining relationship as a positive-sum game is that, by striking an agreement through bargaining, both an MNC and host government embark on a new bilateral relationship, regardless of whether it was the MNC or the host government who gained the most in the negotiation process. Such a relationship serves as a starting point for the further development of social assets that can be beneficial to both parties in any subsequent bargaining and/or transaction occasions. Resource-based scholars recognize that such relationship-based resources can produce sustainable competitive advantages to both parties by increasing the absolute size of benefits available to them, when such relationship-based resources can be specific only to the bilateral relationship in question (Black & Boal, 1994; Hunt, 1997; Ring & Van de Ven, 1994).

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In addition to social relationships, the positive-sum benefits can also be created through the development of co-specialized assets by both the MNC and the host government. For instance, an MNC can contribute a particular type of technology to a host country, and the host government can develop its complementary industries (e.g., components) built around the technology. According to the transaction cost economics (e.g., Williamson, 1985), with its behavioral assumption of opportunism of the involved parties, such specialized resource commitment may increase asset-specificity, and can potentially lead to transactional hazards such as hold-up vulnerabilities by the MNC against the host government and vice versa. In contrast, because resource-based scholars see the firm as a "creator of a positive" (Conner, 1991: 139), specialized resources can be a potent source for creating composite quasi-rents for both parties in the future (Hill, 1990). An important benefit of co-specialization recognized by the resource-based view is that it opens the window for a newer conceptualization and mental model that enable the involved parties to see enlarged and enriched productive opportunity sets which would not otherwise be foreseen through unilateral action (Penrose, 1959). Thus, by explicitly recognizing relationship-specific resources as an important source of bargaining power, the resource-based model provides a basis for interesting theory building and empirical investigation of the positive sum benefits accruing from the development of co-specialized assets in the MNC-host government relationship.

The discussion of positive sum benefits also points to the need for a 'dynamic' theory of bargaining power relationship in future research. Arguably, the bargaining behavior of MNCs and host governments may be construed as an inter-temporal optimization between short-term and long-term benefits associated with current and future bargaining positions. As an example of such optimizing behavior, an MNC may decide to yield to the demands of a host government initially even if that means settling for a weaker bargaining power position, because it might want to induce the host government to commit itself to the initiation of the bilateral relationship, with a view to building and cultivating the relationship for the long haul. We believe that future research effort to look into this dynamic aspect of bargaining behavior should be an important value-addition to the current literature.

Finally, we suggest that a "network perspective" (Powell, 1990) on the bargaining power relationship could provide an important extension of the resource-based model. To date, the focus of analysis has been on the dyadic relationship between an MNC and a host government. However, we believe that it is necessary to understand such bargaining relationship within the broader network of relationships involving other MNCs, local firms, and other host governments. From the network perspective, the bargaining power of an MNC over a host government may not only be a function of the value of the direct relationship it has built with the host government, but it may also be indirectly influenced by the nature and degree of "embeddedness" (Granovetter, 1985; Uzzi, 1996) of the MNC in the network of key participants (i.e., other MNCs, local firms, and other host governments) who, in turn, have their own bargaining relationships with the focal host government. For example, when Ford has to deal

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with the German government for certain local operations, its relative bargaining power may in part be influenced not only by its network of suppliers and distributors in Germany, but also by its on-going joint venture relationship with Volkswagen (a German firm) in Brazil. We believe such network perspective will increase in importance in the future. Both strategically and operationally, firms are becoming increasingly interrelated with each other through various types of joint ventures, strategic alliances, and consortia, thus blurring the traditional hierarchical boundary of the firm (Badaracco, 1991). Given the increasing importance of strategic networks in determining firm's competitive success (see e.g., Nohria & Eccles, 1992 for a comprehensive review), future research investigating the "network effects" of the MNC-host government relationship will considerably enhance our understanding of this important subject.

Acknowledgment: We thank Anil Gupta and Lee Preston for their helpful feedback on earlier versions of this manuscript.

Notes

1. We offer the discussion of bargaining outcome measurements before the discussion of individual determinants of bargaining power. This rather unusual choice of order was largely caused by the unique nature of our critique that will be conducted in the following section (i.e., an important part of our criticism will be on the incomparability of the findings across different bargaining outcome measures used in different studies). Since the issues of measurement and construct validity are of great concern in such discussions, a rather early introduction of the measurement issues seems in order.
2. For a lexicographic definition of "rent," we refer the reader to Peteraf (1994).

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