Do We Need to Bring the State Back In? Politics in the International Business Literature

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Framing Questions for the Panel

• Are there **blind spots** in the international business (IB) literature – does IB treat politics in host countries as exogenous to investor strategies?

• Is the **obsolescing bargain model** an appropriate starting point for analysis of the politics of FDI?

• Has research on the politics of FDI taken account of the “**dark side**” of the MNE (motivations that are not welfare enhancing)?

• What questions about FDI are **political scientists** best situated to answer? What questions have they overlooked?

• How does political science research inform the **panelists’ research**? Is there cross-disciplinary communication and/or collaboration between PS and IB? How can this be improved?
My Remarks Address Three Questions

- Are there blind spots in the international business (IB) literature – does IB treat politics in host countries as exogenous to investor strategies?

- Is the obsolescing bargain model an appropriate starting point for analysis of the politics of FDI?
  - Has research on the politics of FDI taken account of the “dark side” of the MNE (motivations that are not welfare enhancing)?
  - What questions about FDI are political scientists best situated to answer? What questions have they overlooked?

- How does political science research inform the panelists’ research?
  - Is there cross-disciplinary communication and/or collaboration between PS and IB? How can this be improved?
1. Politics – A Blind Spot in the IB Literature?

**Question:** Are there blind spots in the international business (IB) literature – does IB treat politics in host countries as exogenous to investor strategies?

**Answer:** Yes and No.
Typical Model in International Business Research

- **Home Country Characteristics**
  - Firm Characteristics
  - Industry Characteristics
  - Host Country Characteristics

- **Firm Strategies**
  - Location
  - Mode of entry
  - Int’l Diversification
  - Product Diversification

- **Performance**
  - Parent
  - Subsidiaries
Politics in International Business Research

Where is political science in IB research?

- **Home Country**
  - Gvt regulations
  - Institutions

- **Firm Characteristics**

- **Industry Characteristics**

- **Host Country**
  - Gvt regulations
  - Institutions

- **Firm Strategies**
  - Location
  - Mode of entry
  - Int’l Diversification
  - Product Diversification
  - Political strategies

- **Performance**
  - Parent
  - Subsidiaries
Domain of International Business Studies

- **MNE** activities, strategies, structures & decision-making processes
- **MNE interactions** with other actors, organizations & institutions
- **Cross-border activities of firms**
- Impact of the **international environment** on the activities, strategies, structures & decision-making processes of firms
- **Cross-country comparative studies** of businesses, business processes & organizational behavior
- **International dimensions** of organizational forms & activities
Domain of International Business Studies

Where is political science in the domain of IB?

- **MNE** activities, strategies, structures & decision-making processes *(how change in response to gvt policies)*
- **MNE interactions** with other actors *(gvt)*, organizations & institutions
- **Cross-border activities of firms** *(as affected by gvt)*
- Impact of the **international environment** on the activities, strategies, structures & decision-making processes of firms
- **Cross-country comparative studies** of businesses, business processes & organizational behavior *(national borders matter)*
- **International dimensions** of organizational forms & activities *(how borders & gvt make local different from international)*
| Who / What? | Unit of Analysis | MNE - organizational form (OLI, internalization)  
MNEs from different countries (US, Japan, Europe)  
Born globals (JIBS 1996) |
|---|---|---|
| Why? | Motivation /causes | Why go abroad?  
Market/resource/efficiency/SA seeking FDI |
| Where? | Location / distance | What affects FDI location? (ESP factors)  
Political risk & FDI  
Cultural distance & FDI |
| How? | Mode / process | Mode of entry (X vs L vs FDI) – what explains MOE  
The “swollen middle” (quasi-hierarchy) |
| With Whom? | Alone/with Partner | International joint ventures  
Parent-subsidiary relationships |
| When? | Timing / static vs dynamic | Internationalization (Johanson & Vahlne)  
Product life cycle |
| What happened? | Outcomes | Effects of FDI on host countries  
Location decisions |
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<thead>
<tr>
<th>Who / What?</th>
<th>Unit of Analysis</th>
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<tbody>
<tr>
<td></td>
<td>MNEs from different countries (emerging market MNEs, metanationals)</td>
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<td>State owned MNEs</td>
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<thead>
<tr>
<th>Why?</th>
<th>Motivation /causes</th>
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<tr>
<td></td>
<td>Exploration/Exploitation / Learning</td>
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<td></td>
<td>Awareness/Motivation/Capability (AMC)</td>
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<thead>
<tr>
<th>Where?</th>
<th>Location / distance</th>
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<tr>
<td></td>
<td>Geography and IB</td>
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<td>LOF and Institutional distance</td>
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<th>How?</th>
<th>Mode / process</th>
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<td></td>
<td>Multiple modes</td>
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<td></td>
<td>Intermediate modes (licensing, franchising, tech)</td>
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<th>With Whom?</th>
<th>Alone/with Partner</th>
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<td>International strategic alliances (&gt; 2 partners)</td>
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<td></td>
<td>Outsourcing/offshoring</td>
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<td>Intrafirm networks</td>
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<tr>
<th>When?</th>
<th>Timing / static vs dynamic</th>
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<td>Sequential FDI</td>
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<td>Endogenous vs exogenous uncertainty – real options</td>
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<td>Dynamic vs static – life cycle histories</td>
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<th>What happened?</th>
<th>Outcomes</th>
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<td>Performance/Survival</td>
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<td>Social impacts</td>
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POLITICAL SCIENCE IN IB RESEARCH: BLIND SPOTS?

OLD IB QUESTIONS

• Political risk and IB
• Sovereignty at Bay
• Obsolescing bargain model of MNE-state relations
• Government regulation of FDI

NEW IB QUESTIONS

• Political strategies of MNEs
• Impact of political violence on MNE strategies & performance
• How MNEs cope with public corruption/bribery
• State owned multinationals
• Regional multinationals
• Varieties of capitalism
• Institutional distance, MNE strategies & performance
Recent IB Papers examining political capability/connection/strategy


Recent IB Papers using an MNE-state bargaining perspective


Recent IB Papers on war/terrorism/corruption and FDI


Recent IB Papers using an institutional approach

Conclusion

Question 1: Are there blind spots in the international business (IB) literature – does IB treat politics in host countries as exogenous to investor strategies?

Conclusion/Answer:

- **Yes** – most IB researchers look at impact of gvt regulations on firm strategy – the state is exogenous to the model.

- **No** - some researchers “bring the state back in” – but not many.
2. Is the Obsolescing Bargain Model Obsolete?

Question: Is the obsolescing bargain model an appropriate starting point for analysis of the politics of FDI?

Answer: Yes and No.

Yes: The model can and has been updated to incorporate insights from institutional theory, transaction cost economics, and the resource based view.

No: The model still tends to treat the state as exogenous.
The Obsolescing Bargain Model

MNE
- Goals
  - Similarity of Goals
  - Salience of Issue
- Resources (FSAs)
- Constraints
  - Internal
  - External

Host Govt
- Goals
  - Similarity of Goals
  - Salience of Issue
- Resources (CSAs)
- Constraints
  - Internal
  - External

Relative Bargaining Power

Bargaining Outcome
### The Political Bargaining Model (Eden, Lenway, Schuler)

<table>
<thead>
<tr>
<th></th>
<th>MNE</th>
<th>Host Country Government</th>
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<tr>
<td><strong>Goals</strong></td>
<td>MNE-HC goals are conflictual but the bargain is potentially positive sum (both parties can gain).</td>
<td>Economic, social and political goals, focusing on national welfare.</td>
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<tr>
<td></td>
<td>Market or resource seeking goals.</td>
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<tr>
<td><strong>Resources</strong></td>
<td>FSAs of the MNE. FDI is a bundle of capital, technology and managerial skills.</td>
<td>CSAs of the host country (economic, social and political) that attract FDI.</td>
</tr>
<tr>
<td></td>
<td>FSAs of the MNE. FDI is a bundle of capital, technology and managerial skills.</td>
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<tr>
<td><strong>Constraints</strong></td>
<td>Economic and political constraints, both domestic and international.</td>
<td></td>
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<tr>
<td><strong>Bargaining</strong></td>
<td>Bargain over MNE entry. Subsequent bargains with same firm(s) over access to HC resources, contribution to HC and ability to repatriate profits.</td>
<td></td>
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<tr>
<td><strong>MNE Strategies</strong></td>
<td>Focus on preventing opportunistic behavior by the host government.</td>
<td></td>
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<tr>
<td><strong>Outcomes</strong></td>
<td>Outcomes measured by percent of ownership retained by the MNE. Outcome depends on relative goals, resources and constraints. Initial bargains favor MNE and then obsolesce over time.</td>
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3. How Does Political Science Inform My Research?

Question: How does political science inform the panelists’ research? (Subtext question: Is politics a blind spot in my research?)

Answer: Yes and No. Three examples:

1. CSR activities of MNEs in host countries as affected by the institutional distance between the home and host countries (yes – blind spot).

2. MNE strategies in war zones (mostly – but political strategies are a coping mechanism).

3. State owned MNEs (no blind spot – interaction between MNE and state owners/managers)
Institutional Distance and CSR Activities of MNEs in Host Countries (Campbell, Eden & Miller)

RQ: How does institutional distance between home and host countries affect CSR activities of MNEs in a host country?

- Culture Distance
- Administrative Distance
- Geographic Distance
- Economic Distance
RQ: How does war affect the strategies of MNEs?
State Owned Multinationals (He & Eden)

RQ: How does state ownership affect the strategies and performance of multinational enterprises? How is the hybrid organizational form – the SMNE -- different from its parents?

- Home Country
  - Econ development
  - Institutional quality

- Firm Characteristics
  - State ownership
  - Multinationality
  - Industry
  - Size

- Firm Strategies
  - Location
  - Mode of entry
  - Int’l Diversification
  - Product Diversification

- Performance
  - Parent
  - Subsidiaries

- Host Country
  - Econ development
  - Institutional quality
Conclusion

• Yes, there is a blind spot. IB researchers – for the most part -- do treat states as exogenous.

• The obsolescing bargain model has been updated, but is not regularly used by today’s IB researchers.

• My own research is a mix of blind and not-so-blind spots – which is disconcerting since I am an outlier among IB scholars (e.g., have taught IPE, read IO and ISQ, go to ISA meetings).

My conclusion is most IB scholars pay little attention to political science and treat it as exogenous.
Conclusion

It’s important to end by noting that:

• **IB research is interdisciplinary.** Many IB concepts came from other disciplines when IB scholars asked “How does this apply cross-border?” or “What happens when we increase the number of countries?” IB scholars know that interdisciplinary work matters.

• But, the **unit of analysis is the FIRM, not the STATE** so there is an unconscious bias to treat the state as exogenous.

• **Political scientists can help IB scholars bring the state back into IB research,** but it means crossing disciplinary boundaries and engaging the “other” in dialogue. Would this be another example of Susan Strange’s *dialogue of the deaf* or might the collaboration benefit both sides?