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THE IDEA OF THE STATE IN THE INTERNATIONAL BUSINESS LITERATURE

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ABSTRACT: THE IDEA OF THE STATE IN THE INTERNATIONAL BUSINESS LITERATURE

Contributions to the literature on international management rarely reveal any explicit, formal assumptions regarding the attributes and strategic capabilities of the state. This essay demonstrates that implicit assumptions about the state critically determine the prescriptions which recent contributions offer to managers as well as government officials. In demonstrating this, the essay brings these works into contact with antecedents in the international business literature, as well as contemporary institutionalist perspectives on the state from sociology, politics and economics.

The international management literature serves a multi-disciplinary constituency. Consequently, contributors face hazards of interpretation which may exceed the norm for the social sciences. Researchers based in differing academic disciplines and applied business fields bring their own assumptions to readings. These assumptions may conflict with those of authors, leading readers to ascribe meanings to works which miss or even oppose their intended messages. As a result, authors must sometimes defend themselves against objections to opinions which they do not hold. In seeking to avoid such misperceptions, authors may face a tradeoff between audience reach and ontological clarity. Occasionally, core concepts, key assumptions or even entire theories get caught in the bind and disappear.

Perhaps for these reasons, contributions to the literature rarely reveal any explicit, formal assumptions regarding the attributes and capabilities of the state. Indeed, authors sometimes rule such concerns outside the scope of their more general works, and leave them to more specialized "realms of political analysis, for which there are detailed treatises available" (Prahalad and Doz, 1987: 70). Authors who explicitly incorporate international relations concepts and assumptions in their work have often opened themselves up to misinterpretation. Widespread obfuscation of Vernon's message in *Sovereignty at Bay* (1971; see Vernon, 1981) provides the most famous case in point.[1]

In this essay, we argue that the state plays too important a role in international business for its study to be left entirely to specialists outside the field. More particularly, we demonstrate that assumptions about the state, whether vague or explicit, critically determine the prescriptions which general accounts of international management offer to managers as well as government officials.

In order to make these points, we analyze the implicit views of the state in recent major contributions to the international management literature by Prahalad and

Doz (1987), Bartlett and Ghoshal (1989), Porter (1990) and Ohmae (1990)[2]. In so doing, we bring these contributions into contact with antecedents in the international business literature, and with contemporary institutionalist perspectives on the state from sociology, politics and economics.

The essay has four sections, including this introduction. Section II briefly outlines contemporary institutionalist theories of the state's economic role, pointing out some instances in the international management literature where these have come explicitly into play. It also examines the historical basis of these theories in earlier, more general work, particularly that of Max Weber (1964). Section III compares and contrasts the role of the state in each of the four books, along the theoretical dimensions identified in Section II. Section IV concludes the essay with a discussion of the benefits for international management scholarship of drawing on its underlying disciplines to more explicitly specify assumptions concerning the state.

II

States may be defined as organizations which embody legal/institutional order within national territories (Benjamin and Duvall, 1985). As such, states constitute the central elements in domestic political structures, which March and Olsen (1984: 741) defined as

> . . . a collection of institutions, rules of behavior, norms, roles, physical arrangements, buildings and archives that are relatively invariant in the face of turnover of individuals, and relatively resilient to the idiosyncratic preferences and expectations of individuals.[3]

These definitions, like most contemporary views of the state, have roots in Weber's characterization of the structures and responsibilities of states (1964: 156; See Skocpol, 1985). In his view, these entailed

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> . . . an administrative and legal order subject to change by legislation, to which the organized corporate activity of the administrative staff [bureaucracy], which is also regulated by legislation, is oriented. This system of order claims binding authority, not only over the members of the states, the citizens, most of whom have obtained membership by birth, but also to a very large extent, over all action taking place in the area of its jurisdiction. It is thus a compulsory association with a territorial basis.

Clearly, states' jurisdictional boundaries present a primary source of "the variance in country environments" which, Kogut argues, distinguishes international strategy research questions from domestic issues (1989: 388). But an organizational perspective on the state implies that its economic role potentially encompasses far more than the cybernetic environment implied by domestic regulatory mechanisms. Harkening to earlier studies by Hintze (1975), Skocpol's influential work has rested on an understanding of states as potentially autonomous organizations whose actions intermediate between domestic sociopolitical order and changes in the international system (1979: 33; 1985: 8).

The idea of state autonomy pertains to states' abilities to make choices, and has domestic and international components. Domestic autonomy refers to central authorities' capabilities to develop and implement strategies according to national interest criteria which supersede narrow domestic social interests (Krasner, 1978; Nordlinger, 1981). International autonomy refers to states' capabilities to choose and achieve their objectives in international security and economic matters. Clearly, any examination of states as factors in international management should incorporate a theory of their domestic and international strategic capabilities, and the relationship between the two. The following two subsections examine the components of such a theory.

International Aspects of States' Strategic Capabilities

The existence of the state, in the classical view, requires a national territory and the "availability of physical force for its domination" (Weber, 1978: 902). This condition defines sovereignty, which theoretically precludes the existence of any authority superseding that of the state, within or outside of the territory. In practice, power asymmetry (Morgenthau, 1971), economic interdependence (Keohane and Nye, 1977) and common interest (Keohane, 1984) may create cooperative arrangements or *de facto* relationships of dominance and dependence among the states within the international system. But the sovereign monopoly of force distinguishes the state from other organizations in society, including multinational corporations.

The centrality of force in delineating and maintaining national sovereignty draws particular attention to the role of relative power in determining outcomes in the international system (Morgenthau, 1949; Krasner, 1978). Power defines the margin of states' discretion to make strategic choices, as it determines their capabilities to overcome resistance where they encounter it. Classical international relations theorists considered that states might encounter resistance either from other states, or from domestic groups within their jurisdictions. The rise of multinational corporations set one of many contemporary challenges to the classical theory, because these non-state international actors operate in multiple jurisdictions (Keohane and Nye, 1972). As a result, they can evade one state's authority by transferring their operations to another state's territory (Vernon, 1971).

Robinson (1983; 1987) crystalized the research question which this fundamental condition of international firm/state strategic interaction implies, by asking whether governments can force MNCs to take actions which violate criteria established by their international strategies. In effect, the question is "Can governments make multinational corporations do anything they don't want to do?" The literature on MNC-host state bargaining suggests that in most interactions involving MNC market entry or expansion in a country, a range of feasible mutual interest solutions exists. Firms and states bargain over terms, each seeking the outcome which is most favorable to their terests, given the feasible set (Vernon, 1971; Lall and Streeten, 1977; Kobrin, 1987; omes-Casseres, 1989; 1990).

Once firms establish facilities within states' jurisdictions, however, states may ıin a bargaining advantage due to sunk costs (See Vernon, 1971). Managers in obrin's study of political risk assessment (1982) suggested that MNCs organize their ıgoing operations to play by states' rules, provided they can ascertain the rules and at the rules will not change. Domestic politics as well as international security igencies, however, may lead states to exercise their sovereign rule-making erogatives in an unpredictable fashion (Lenway and Crawford, 1986; Jacobson, enway and Ring, forthcoming). Even where states enter direct agreements with other ates or with business, enforcement remains problematic. States make contract law, ıt no higher authorities exist to enforce either implied or explicit contracts to which ates make themselves parties (Yarbrough and Yarbrough, 1987). Consequently, states' ilities to influence MNCs' behavior may depend on their abilities to build self-ıforcing features into their policy initiatives or agreements (Robinson, 1987; Murtha, 91), or on their abilities to coordinate policies toward MNCs among themselves eohane and Ooms, 1975; Vernon, 1981; Kudrle, 1985).

Discussions of the state have always acknowledged that international power also epends on the happiness of the nation's people (Mienecke, 1957; Hegel, 1964). Since e 1930s and the diffusion of Keynesian doctrine (Keynes, 1957), responsibility for cial welfare has played an increasing role in legitimizing the state (Thomas and eyer, 1984; Weir and Skocpol, 1985). Efforts to equilibrate employment and inflation rough tools of macro-economic policy necessitate regulation of economic relations ith the outside world (Kindleberger, 1974). Since the 1970s, academic interest has also ımulated around state industrial strategies which seek to build national mpetitiveness through micro-economic policies aimed at sectors, industries, basic search, infrastructure, or other domestic targets. The next section discusses the domestic social and political institutional sources of state organizational capabilities to implement such strategies, and the implications of research in this area for the contemporary theory of the state.

Domestic Sources of States' Strategic Capabilities

Political scientists, sociologists and economists have recently made considerable progress in generalizing about the domestic sources of states' capabilities to implement international economic strategies. Countries' capabilities to implement such strategies rest on the legitimacy, means and degree of state intervention in their national economies. These factors follow, in part, from the relative weights given to market versus planning mechanisms in the governance of domestic resource allocation. The planned economy represents the taxonomic extreme of state intervention. Most moder economies mix elements of public planning and market governance. The particulars of the mixture arise from a variety of factors, including national history and ideology (Gerschenkron, 1962; Johnson, 1982; Lodge and Vogel, 1987). Chandler (1977) demonstrate that early in the history of industrialization in the United States, the expansion of business organizations' control over economic activity outpaced the growth of the state organization which later undertook to regulate them. Gerschenkror (1962) argued that for late industrializers, the process of catching up requires the leadership, financial resources, and sometimes direct economic participation of a strong state.

Johnson (1982: 19) based a general typology of states' economic roles on similar concerns. In countries governed by *regulatory* states, states set the rules of economic competition but do not actively cultivate specific industries. Foreign economic policies typically put international political objectives ahead of economic objectives. In contrast, *developmental* states' bureaucratic elites develop policies to promote national firms' international competitiveness. These states primarily aim their foreign policies at economic rather than political objectives. The ability of developmental states to meet their objectives depends on a societal consensus on the priority of high speed economic growth.

Katzenstein's edited volume (1977) anticipated Johnson and other contributors to the 1980s' debate on states' economic roles, pointing the way toward research which relies on cross-national comparison of economic "policy networks" of domestic political and social institutions. Many studies since have employed (with varying degrees of explicitness) frameworks which explain states' strategic capabilities as a function of various attributes of 1) state organization, 2) the organization of interests in society, and 3) differentiation of states' and private sectors' economic roles.

In general, studies have tended to associate strategic capabilities with either social cohesiveness and a high degree of public/private intersectoral collaboration, (Johnson, 1982; Katzenstein, 1984; 1985), state dominance (Gerschenkron, 1962) or some combination of the two (Evans, 1979; Reich, 1990; Doner, 1991). Lodge (1990) has synthesized much of this literature in his discussion of "individualistic" vs. "communitarian" political ideologies which respectively enable and inhibit states' capabilities to forge a domestic consensus around economic strategy implementation.

In Lodge's synthesis, an individualistic state corresponds almost precisely to Johnson's regulatory state, with the United States as prime example. In the U.S., majoritarian, winner-take-all politics and relatively adversarial public/private-sector relationships characterize the relationship of state to society. The separation of powers among executive, legislative and judicial branches corresponds to a decentralized state organization structure which hampers the ability of the U.S. government to formulate and implement economic strategy. Interest group intermediation occurs through a kind of political marketplace, where groups compete in lobbying for the attention of individual legislators and government bureaus.

Communitarianism has authoritarian and democratic variants. In authoritarian communitarianism, a relatively strong state leads economic development by imposing its view of the national interest on society. In democratic communitarianism, organized, often formalized structures of interest intermediation assume an enhanced role. Communitarian polities display key aspects of the three defining elements of Katzenstein's democratic corporatism (1984: 27), which are

> . . . an ideology of social partnership expressed at the national level; a relatively centralized and concentrated system of interest groups; and a voluntary and informal coordination of conflicting objectives through continuous political bargaining among interest groups, state bureaucracies, and political parties.

Relative centralization and concentration of interest groups implies that groups which organize (for example, labor unions, industry associations) encompass relatively large proportions of the population. The interests of encompassing groups more closely approximate the interests of nations as wholes (Olson, 1982). States may more readily forge a national consensus, to the degree that groups' interests and the national interest coincide.

Interest groups' involvement in the economic policy-making process also depends on the organizational structure of government, and the character of formal and informal ties, including political party intermediation, which link them to the state. In countries such as Mexico, single parties have historically internalized all processes of interest representation and controlled executive and legislative power almost continuously. In the European parliamentary democracies as well as Japan, proportional representation voting rules assure that most parties with any constituency will receive some seats in the legislatures. Many parties identify directly with interests (labor, for example). But as parliamentary systems form their executives from the legislative leadership of any party which can form a majority, the presence of multiple parties need not fragment the legislative process. Instead, it creates the necessity of government by coalition. Coalition governments are likely to incorporate representatives of multiple interests which recognize their interdependence with other groups which may be part of future coalitions. The result can be broad encompassing legislative collaboration.

The norm of collaboration extends to relationships which cross public-private sectoral boundaries, which in any case are often ambiguous by comparison to the U.S. Relationships between interest groups and state bureaucracies often take the form of formal or even mandated linkages. In some countries, such as Netherlands and Sweden, the state has sponsored annual tripartite talks with business and labor to set centralized wage agreements (Katzenstein, 1985). Johnson (1983) familiarized students of industrial policy with the collaborative relationship between the Japanese Ministry of International Trade and Industry (MITI) and the industry association *keidenren*.

The international business literature has touched upon the domestic organizational capabilities of the state chiefly in discussions of foreign market entry requirements, and state-owned enterprise. Encarnation and Wells (1985) suggest that centralization improves state organizational effectiveness in promoting and regulating foreign direct investors by enabling more expeditious, time-consistent dealings. State-owned enterprises (SOEs) have attracted interest for two reasons. First, SOEs often act as MNCs' competitors, suppliers or host country political intermediaries. Second, these enterprises mix institutional limitations and capabilities of firm and state. As such, they highlight a fundamental difference between states and firms as strategic actors. State organization structures, like the social values they embody, remain relatively inflexible in the short term, and invariant over time. Even where their structures incorporate ostensibly commercial enterprises, states generally can not behave as analogues of firms in strategy implementation. Politics may dictate that SOEs place goals such as full employment ahead of profits (See Evans, 1979; Vernon, 1985; Aharoni, 1986; Freeman, 1989). More generally, states can not recast their organization structures to implement strategic changes in response to changes in the international economic environment. Instead, state strategies follow from structurally-embodied state capabilities. State policy makers gain the legitimacy and power inherent in these capabilities, but can not easily change them.

This section has discussed general dimensions for the analysis of states' strategic capabilities, their international aspects and domestic sources. In the next section we review the four books mentioned in the introduction. Our main task will be to ascertain the implicit assumptions about the state in each, as these address (or fail to address) the major attributes of the state. These include:

1) The domestic basis of states' capabilities to make strategic choices, as derived from differentiation and legitimation of public and private sector roles in running the economy.

2) The international basis of states' capabilities to make strategic choices, as derived from their legal authority and monopolization of legitimate violence within their territories.

3) The institutional basis of social interest group representation, and the nature of the policy network linking interests and the executive, legislature and bureaucracy.

4) The broader basis of the state in both economic and non-economic values espoused by societies.

In this section, we demonstrate that assumptions about the state critically determine the prescriptions which these accounts offer to managers, as well as government officials.

III

In recent years, several influential management scholars have summarized their ongoing international research programs in books targeted at broad audiences of academics and practitioners. These ambitious contributions by Prahalad and Doz (1987), Bartlett and Ghoshal (1989), and Porter (1990) offer ideas, vocabulary and analytic frameworks which figure prominently in current international business research and teaching. Ideas from *The Borderless World* (Ohmae, 1990), a non-academic work, may also find their way into academe as a consequence of the author's penchant for appealing epigram and iconoclasm. The composite list of topics covered in these works approximates a broad subject outline of the contemporary international management field. Given the breadth of these undertakings, it seems almost reasonable to suggest that they sufficiently represent the field to permit us to infer the state of the state, in it.

The books' subject domains may be categorized along several continua, including firm vs. country prescriptive focus, and whether they invoke phenomenological or objectivist epistomologies and methods. Prahalad and Doz (1987) and Bartlett and Ghoshal (1989) have written firm-centric guides to international corporate management. In restricting their prescriptions to corporate management, these books take the state as given, implicitly acknowledging its enduring basis in non-econonomic values espoused by societies. The books base their findings on actual practice as discovered through face-to-face contact with managers in international firms operating in multiple countries. This multi-country approach carries the potential for a rich appreciation of the state's attributes, economic roles and strategic capabilities as these vary across countries. Their phenomenological orientations suggest a role for cross-national differences in the socially-constructed meaning of political institutions as part of the explanation for this variation.

In *The Borderless World* (Ohmae, 1990), the managing director of McKinsey Associates' Japanese affiliate mixes the international consulting firm's doctrine with his personal experiences. Ohmae's prescriptions fall equally on state and firm organizations. As the title implies, the book attacks one of the main institutional bases of the state. The author bases this attack on vaguely-articulated assumptions concerning states' roles, attributes, strategic capabilities, and sources of legitimacy.

These assumptions seem derived from an institutional basis reflecting the post-war Japanese domestic political experience.

Porter based his *Competitive Advantage of Nations* (1990) on comparative historical analysis of over 100 industries with participants based in 10 countries. The book sets an objective to replace the theory of comparative advantage with a multifaceted economic paradigm for understanding international commercial activity. Among its conclusions, the study urges governments to reassess their policy priorities. The new priorities are, however, consistent with an idealized, contemporary post-Keynesian conception of the state's economic role. This role balances the liberal economic criterion of promoting domestic adjustment to international economic change, with Keynesian criteria justifying domestic intervention in the name of economic stability and social welfare. The political and institutional bases of states' strategic capabilities to meet these criteria, however, do not receive much attention.

The next four subsections examine each of the books in more detail. The discussion begins with Ohmae (1990), as his assumptions concerning the state draw the starkest contrast with contemporary institutionalist perspectives in the social sciences. The discussion of Porter's economic arguments (1990) follows. The section concludes with a discussion of the phenomenological studies of Bartlett and Ghoshal and Prahalad and Doz.

Ohmae's *Borderless World*:
Consumer Sovereignty or Corporation as State?

Ohmae's The Borderless World presents a normative argument that, in some of its elements, resembles the widespread misinterpretation of Vernon's *Sovereignty at Bay* (1971; See Vernon, 1981). The book labels national sovereignty an anachronism which empowers entrenched bureaucracies to implement protectionist policies which favor domestic business interests. Furthermore, many "inefficient industries have been protected in the name of national security" (p. 13). By restricting domestic market access of some foreign goods and raising prices, these policies interfere with citizens' rights to consume the wide variety of inexpensive goods available in the contemporary global economy. But as international competition has increased,

> . . . national interest as an economic, as opposed to a political reality, has lost much of its meaning. And as information about products and services becomes more universally available, consumers everywhere will be able to make better-informed decisions about what they want. It will matter less and less where it all comes from. Governments -- and the national boundaries they represent -- become invisible in this kind of search. They have no direct role to play . . . the economic interests to be served are those of individual consumers (p. 183).

In the new, borderless world, Ohmae argues, a government's principal responsibility is: "...to ensure that its people have a good life by ensuring stable access to the best and the cheapest goods and services from anywhere in the world--not to protect certain industries and certain clusters of people" (p.12). Economic openness, by increasing economic interdependence, also reduces the need for military security arrangements, rendering irrelevant the national defense argument for protecting industries. According to Ohmae, "The capacity of . . . governments to generate wealth is no longer based on what lies beneath the soil, or on the legal ability to tax or on their military ability to stake a claim to colonial dependencies. It is based instead on the hard and dedicated work of well-trained and well-educated people" (p.194). The legitimate tasks left for government are "to protect the environment, to educate the work force, and to build a safe and comfortable social infrastructure" (p. *x*).

Ohmae's borderless world bears a deceptive resemblance to the open world economy of pre-Keynesian liberal economic theory. Like economics, Ohmae's theory needs a few assumptions to work. Unlike economics, some of these assumptions have a strong normative cast. These include the possibility of imperfect competition without abuse of market power; and the idea that markets and business institutions embody collective values which perfectly constrain corporate office holders to organize only socially-constructive undertakings.

The Borderless World implicitly defines the multinational corporation as a state-like organization, accountable to consumers who vote with their purchases. The "denationalized" MNCs will operate according to criteria which the national locations of headquarters or origins of managers play no role in formulating. Perlmutter's (1969) geocentric values will pervade these firms, displacing the ethnocentricity which remains a prevalent contemporary managerial mindset (p. 91). All people will increasingly become "nationalityless" and consume products from all over the world without thought about their country of origin. Social interests outside of international firms will atomize into geographic regions, cities, and individual consumers which have no power to make strategic choices except within the domaines dictated by corporate strategies. Under these circumstances corporations will remain the sole institutional repositories of social values.

States will also shed their coercive powers. Direct taxation of individuals by an ill-defined supranational development authority will replace states' current territorial monopoly of domestic taxation. Military capabilities will atrophy, because countries' interlinked economic interests will put aggression out of style. To make the latter point, Ohmae uses the example of authoritarian Singapore, which reserves state violence for domestic intimidation, while leaving its national borders essentially undefended.

Kenichi Ohmae's borderless world demonstrates how imprecise institutional assumptions (or perhaps a lack of modesty in qualifying the domain of one's theory) can detract from an author's ability to fashion an argument which delivers implications consistent with his intentions. The author declares a commitment to human rights and dignity, relieving the problems of developing nations, minimizing conflicts among nations arising from narrow interests, and many other humane principles. Free market institutions may prove effective in the service of such goals. But in collapsing all social value into goods consumption opportunities, Ohmae distorts the apparatus of economic analysis, and seeks to draw conclusions from it which lie outside of its purview. Furthermore, he overlooks market failures, including public goods, market power, and collective action (Olson, 1965), which require the intervention of a state to bring about welfare-optimizing outcomes.

Ohmae could more readily design a world which meets his criteria of valuing individual freedom and dignity, by incorporating a richer set of assumptions about the nature of political institutions, political life, and the state. As both citizens and consumers, individuals share collective interests which, due to the difficulties of enforcing burden-sharing, require powers of coercion to be vested in state institutions. Some of these interests require a resolution of conflicts between equity and efficiency which all market economies face, and must resolve in accordance with the non-economic values which citizens also vest in their state institutions. At times, narrow interests gain access to state power, and pervert it to disserve the greater good. But doing away with the state will not prevent such abuses. Indeed, militarily strong, sovereign states are needed to prevent the havoc which such self-serving groups or individuals might wreak on the international system. Singapore makes a silly example, as the U.S. liberated it in World War II, and has afforded it an umbrella of military protection ever since. Perhaps more to the point, Ohmae provides neither argument nor evidence to show that corporate institutional constraints control the behavior of officeholders any more effectively than do those of state offices. Why should captains of industry be given free reign while sovereignty withers?

Surely Ohmae would not have focused on consumption to the exclusion of other political concerns, if he had realized that his argument does not exclude the possibility of repressive regimes that ensure the right to consume at the expense of other rights. Nothing would prevent such states from turning to Stepan's exclusive corporatism, in which elites appeal to values of political order and economic efficiency to legitimize "coercive policies to deactivate and then restructure salient working-class groups" (1978: 74).

Kenichi Ohmae's vision, however appealing on its surface, does not really offer a borderless world. Instead, it substitutes the boundaries of corporate organizations for those of states' territories. Pfeffer and Salancik (1978) define organizational boundaries as margins of discretion for decision makers. In Ohmae's corporate world, what kind of discretion is left to individuals who do not have the resources to be consumers? In a world which votes with its money, they are the disenfranchised.

Porter's *Competitive Advantage of Nations*: The State as Context

In *The Competitive Advantage of Nations* Michael Porter presses for a paradigm shift in economic explanations of countries' potentials in international exchange. Comparative advantage-based theories regard differences in factor endowments as the basis of national advantages in production of particular goods which countries can gainfully trade in international markets. Porter's theory of national competitive advantage recasts the issue in a fundamentally institutionalist vein, in which factor endowments and trade provide only a partial explanation of countries' international economic profiles. Instead of asking why countries trade, or why some countries succeed while others fail in international competition, he asks (p. 1): "Why does a nation become the home base for successful international competitors in an industry?"

The book answers the question in detail, arguing that national competitiveness in specific industries can be exhaustively explained within a framework consisting of four determinants. These include: 1) the availability of factors of production necessary to compete in an industry; 2) the extent of home country demand for a product or service; 3) the presence of internationally competitive related and supporting industries, such as suppliers, and 4) firm strategies and structures and domestic rivalry within an industry (p. 71).

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Porter regards the nation, but not the state, as a critical factor underlying the determinants. "Differences in national economic structures, values, cultures, institutions, and histories contribute profoundly to competitive success . . ." he writes. "With fewer impediments to trade to shelter uncompetitive domestic firms and industries, the home nation takes on growing significance because it is the source of the skills and technology that underpin competitive advantage" (p.19). Further on, Porter writes, "National differences in character and culture, far from being threatened by global competition, prove integral to success in it" (p.30).[4]

Institutionalist theories generally accord the state primacy in a hierarchy of national institutions (Benjamin and Duvall, 1985; DiMaggio and Powell, 1983). Porter, however, makes ambiguous assumptions regarding state influence within and upon the national institutional order. Government's role in international competition, he argues, is "inevitably partial" (p.128). "Government, it seems can hasten or raise the odds of gaining competitive advantage (and vice versa) but lacks the power to create the advantage itself" (p.128).

Consistent with this view, Porter's model accords the state a role symmetrical with that of chance. The state does not exist in Porter's model as the organizing force within society's legal and institutional structure. Rather, the state exists as a probabilistically constituted network of officials, emitting policies based on ever-changing political demands and priorities. These policies influence the four determinants of national competitiveness. But the government itself does not have the status of a determinant.

The ambiguous conceptualization and causal standing of the state in Porter's model makes it difficult to see the connection between the book's rather extensive government policy prescriptions, their targets, and states' implementation capabilities. Porter contends that

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> The central goal of government policy toward the economy is to deploy a nation's resources (labor and capital) with high and rising levels of productivity. ... Government's aim should be to create an environment in which firms can upgrade competitive advantages in established industries by introducing more sophisticated technology and methods and penetrating more advanced segments (pp. 617-18).

Resource deployment implies a substantial role for the state. Yet the study counsels against government initiatives which target industries or technologies for investment. These initiatives are contra-indicated 1) because states lack competence to assess or outguess markets, and 2) because political pressures exerted by narrow interests, rather than economic rationality, could determine them.

States, Porter proposes, should undertake only economic policies that intensify the forces within the four determinants of competitive advantage. "Governments should play a direct role only in those areas where firms are unable to act (such as trade policy)," he writes, "or where externalities cause firms to underinvest" (p.618). These areas include provision of education, basic infrastructure, social research, capital at low real costs, and information about markets, technology, and competition.

The ability to remain aloof from political pressures to intervene in markets, while identifying and repairing market failures, requires governmental competence and consistency, conditioned either by social consensus, or relative state autonomy from domestic social interests. Countries' political structures vary in the degrees to which they exhibit these characteristics. Porter argues that politicians often face organized pressure to enact policies that provide firms with short-run cost advantages, such as import tariffs, export subsidies, or currency devaluations. Policies that foster continuous innovation, such as support for basic research and education, contribute to firms' competitiveness only in the long run. The constituency for such polices may be broader and less-well organized. Tough anti-trust policies enliven domestic rivalry and improve competitiveness, but make life difficult for firms. It is easy to see why firms in a variety of national circumstances would lobby against them.

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Often, however, Porter draws inaccurate generalities concerning the relationship of politics to policies, by mixing incompatible particulars of U.S. politics and institutions with those of other countries. The book would better serve its government policy diagnosis, prediction, and explanation objectives, if it incorporated theory to associate general dimensions of countries' political institutional attributes with the nature, specificity and consistency of the economic policy instruments available to their states (See Katzenstein, 1977; Bobrow and Kudrle, 1991). This approach would permit Porter's model to directly incorporate measures of states' strategic capabilities as causal environmental elements, rather than dealing with policies on a purely phenomenological basis. Inappropriate policy prescriptions can arise in the absence of clear assumptions about the state and its capabilities. For example, Porter counsels against "choosing policies based on unanimity of corporate or union support, as politicians under short-term pressure for reelection or reappointment are prone to do" (p.625). He then notes in a footnote that Japan has an advantage over the U.S. in such matters, as long-tenured government officials make most important policy decisions there, whereas U.S. officials turn over with elections and new administrations.

We submit that the factors which create governmental capacities to choose good policies are not much illuminated by an ad hoc U.S./Japan comparison, especially when the comparison does not correct for institutional differences in the substance and character of the elements being compared. It is by no means obvious that either the tenure of officials or the ascendance of bureaucracy over elected officialdom endows the Japanese state with the strategic capabilities which state autonomy confers to act in the national economic interest. The analysis would achieve a higher level of generality, if it considered the critical roles and differing characters of the policy networks which connect within and across countries' public/private sectoral boundaries. Like many countries, Japan may at times enjoy unanimity of corporate, labor and bureaucratic support for economic measures which arises rarely in the U.S. In countries where such unanimity arises with any frequency, formalized institutional arrangements such as peak associations often play a role through corporatist forms of interest representation.[5] Such formalized systems of interest representation may facilitate inter- as well as intra-sectoral consensus around economic strategies.[6]

Broad societal consensus can improve nations' strategic flexibility, and ease the painful domestic resource allocation adjustments which accompany exposure of a country's firms to international competition (Katzenstein, 1977; 1984; 1985; Johnson, 1982). Contrary to Porter's view, Katzenstein (1985) argues that U.S. policymakers have difficulty setting policies to meet long-term objectives, because of popular distrust of bureaucratic discretion. Furthermore, U.S. society lacks comprehensive organizations to represent labor, business, consumers, and the government in the forming a national consensus. The country also lacks a clearly defined "national standard" against which to evaluate the appropriateness of non-encompassing groups' interests.

This analysis could be elaborated further to include, for example, the impact on countries' strategic capabilities of differences in how political parties represent and intermediate interests, of differences between multiple and two-party systems, or of differences in the roles of state and private sector officials' career paths and school ties. Space does not permit this elaboration, nor is it necessary to show the relevance of the example to our main point: assumptions about the state matter to conclusions about policies. Ambiguous assumptions can lead to conclusions which do not hold up in practice.

Managing Across Borders by Bartlett and Ghoshal, and the *Multinational Mission* of Prahalad and Doz: States and MNCs as Interacting Authority Systems

We consider the recent works by Bartlett and Ghoshal (1989) and Prahalad and Doz (1987) together because of their common focus on the organizational *problematique* posed to corporate top management by the fact of multinationality. The authors have committed themselves to a multi-country, multi-organization, longitudinal program of research on multinational management process. Both books adopt the individual manager as the unit of analysis, and regard managers' cognitive orientations as critical elements of the multinational organizing process. Their treatment of multinational management characterizes it as a process of optimizing multiple, sometimes conflicting pressures. Prahalad and Doz have distilled these to dual demands for global integration driven by the economics of competition, and local responsiveness, in which a political imperative plays a heavy role.

Political imperatives represent frontiers of interaction between state authority and managerial discretion over resource allocation. Both sets of authors' firm-centric phenomenologies of the MNC implicitly acknowledge that cross-national and historical variations in this interaction articulate a fundamental basis for the complex structures and flexible processes which characterize the most advanced international organization forms. The authors recognize that MNCs face conflicting economic and political imperatives, in part because states vary in the institutional arrangements which they can make to deal with equity/efficiency tradeoffs and meet social welfare criteria in their domestic economies.

These arrangements have an historical basis in states' and firms' responses to past developments in the world economy. The years since World War II have seen increasing economic openness, in part as a reaction to the damage which the protectionism of the 1930s caused to global prosperity. The parallel development and diffusion of Keynesian economics also altered the weights which states place on domestic social welfare, including considerations of equity. The collision course between states' support of global openness and their concerns with domestic equity was set when rapid increases in imports were seen as "a threat by various national governments whose social and economic policies were upset" (Bartlett and Ghoshal, 1989: 10). The threat has emerged, in some countries, as social interest groups' demands that their states implement protectionist policies to spare them the discomfort of adjustment to international competition.

The increased international investment associated with the spread of multinational corporations brings another set of threats, as well as opportunities. Industry globalization increases interdependence among states, by linking countries together via firms' internal networks. But the networks reduce states' control over border-crossing activities, because managerial discretion over firms' internal activities, by definition, exceeds the discretion of outside agents (Pfeffer and Salancik, 1978). The networks also create the possibility for MNCs to act as instruments of home state foreign policy, threatening the host state's territorial prerogative. Finally, the firms carry the potential to directly threaten national political institutional arrangements, as Prahalad and Doz demonstrate in their chapter on industrial relations (1987: 101 - 121). Business internationalization dilutes corporatist political arrangements which rely for national consensus on tripartite arrangements among government, business and labor. Outgoing foreign direct investment may threaten the interests of labor, and reduce the government's redistributional capabilities by placing wealth outside the government's taxing jurisdiction (Freeman, 1989). Incoming MNCs place national resources under the discretion of actors outside the consensus. Their operations may also become subject to the extraterritorial reach of home country law or state policies (Lenway and Crawford, 1986; Kobrin, 1989).

Prahalad and Doz assert (1987) that the policies which governments implement to protect their domestic and international autonomy "distort competitive dynamics."

Yet both sets of authors' process models treat the cross-country variation of relatively time-invariant national institutions, cultures and social values not as distortions, but rather as conditions on the calculus of profit maximization. The books' prescriptions for taking account of these conditions fall into two interrelated categories: MNC intra-organizational approaches, and MNC/firm bargaining. Bartlett and Ghoshal concern themselves almost exclusively with the former approach. Prahalad and Doz address both.

As Bartlett and Ghoshal emphasize, intra-organizational approaches suggest that MNCs should not seek to establish consistent structures in all affiliates of their organizations. Their capabilities of getting the highest contributions from each of their national operations depends on their abilities to integrate global-scale activities into efficient international networks. Yet functions and businesses within a given MNC may also vary in their degrees of centralization and coordination. The resulting differentiated structures broadly distribute some activities across country affiliates. At the same time, these structures allow scope to assign worldwide responsibility for particular elements of an MNC's operations to individual affiliates. The interdependent networks that knit together these national operations permit MNCs to achieve economies of scale while distributing activities vital to firm operations across many countries. As Bartlett and Ghoshal imply, the combination of decentralized production with global networking provides MNCs with the means to satisfy the demands of multiple governments for value-adding operations, while making up some of the coordination and responsiveness costs through learning and local information-cost economizing. As Kogut (1985) points out, multiple siting of critical activities may also provide MNCs with organizational flexibility to hedge against state actions which interfere with operations at any one national operation.

Global-scale manufacturing capabilities, plus access to a worldwide network to absorb output, present an attractive prize to states seeking to promote domestic economic prosperity. It may be primarily for this reason that Prahalad and Doz assume that in bargaining over terms of entry or local expansion, "host governments . . . take positions vis a vis MNCs in an increasingly pragmatic, rather than ideological way" (1987: 75). States' efforts to achieve national first mover advantages may result in collaborative arrangements with an MNC, in order to preemptively exploit a technological advantage. These authors regard the post-entry bargaining positions of MNCs and host governments as a subtle interplay of political and economic realities and preferences. They argue:

> The value of a stand-alone, specialized, world-scale plant cut off from its worldwide distribution channels, or even geared to produce highly specialized components only is quite low [to the host-government]. Conversely, to the MNC...it becomes a missing link in the network and in some cases an awkward precedent (p.90).

It should be noted, however, that Prahalad and Doz seem implicitly to conceive of the state as a primarily bureaucratic actor with substantial autonomy to decide how to manage the economy. The dilemma of distributing the costs of economic adjustment while balancing equity and efficiency appears as a primarily technical rather than a political problem. The goal of the state is to maximize economic growth, except in strategic sectors where national security benefits are valued more highly than the economic costs of independence.

The Prahalad and Doz approach does not take into account the state's role of balancing the often conflicting demands of social interests, which may interfere with the bureaucracy's economic pragmatism. The historical context which Bartlett and Ghoshal provide for their analysis gives implicit standing to propensities for economic closure which may emerge from interest groups' demands for protection from the costs of adjustment. Both books demonstrate considerable sensitivity to the principle of cross-national institutional differences as a basis for variation in the nature of states' demands and MNCs' responses to government policies.

The State

Both books, nevertheless, treat the state as a mysterious, albeit powerful black box. Consequently, they lose the nuance that governments' policies and firm/state bargains have their basis in national strategies. These, in turn, have an organizational basis in national political structures. These structures affect states' capabilities to implement bargains and policies, and the likelihood and extent to which these implementation outcomes will persist in time.

Uncertainty about the state's organizational ability to implement policies or to meet the terms of bargains in the face of political demands may affect the substance and durability of its arrangements with firms. The combination of sovereignty with uncertainty may mean that bargaining and situations are more often indeterminate than any of these authors suggest. Network flexibility and multiple siting also result in organizational indeterminacy, as firms maintain costly sets of options to insure against cascading international strategic disruptions resulting from the intervention of any one government. These costs can be relatively minimized, to the extent that analysis of state organizational capabilities lets firms identify best-bet locations for siting key activities.

Conclusion

Many recent contributions to the literatures on sociology and political science have reflected a concern with "bringing the state back in" to positive models of social and political phenomena (Skocpol, 1985). International business scholarship, as an applied, normative social science, places a benchmark value on efficient international markets and tends to regard the state as a cause of deviation from this ideal. But the international economy links together national economies in which a varied range of institutional arrangements govern exchange. The international economic adjustment process, in which MNCs play a critical role, has a counterpart in domestic economic adjustment processes. The pragmatic state seeks either to accommodate or shape these processes, in accordance with the national interest.

International managers' evaluations of state policy objectives should not assume that because MNCs bring opportunities for innovation or growth, that pragmatic states can ignore the distributional consequences of economic change. Just as effective MNCs optimize competing, interdependent values of efficiency, responsiveness and learning, states must optimize efficiency, equity and growth. Institutional arrangements whereby countries manage or fail to manage the distributional (equity) consequences of economic growth makes a difference for states' strategies, the management of MNCs' relations with host and home states, and the internal management of the MNC.

The organization of politics acts as an antecedent to the organization of the economy (Lindblom, 1977; Freeman, 1989), as the political economic transition taking place in Eastern Europe makes evident. Countries, therefore, vary in their capabilities to implement economic policies, without first implementing significant changes in social and political organization structures. Porter implicitly acknowledges this, in his chapter on evolutionary stages of national economic development.[7] Yet even Porter's book, with its strong orientation toward the external environment of international business, does not really contain the parallel theory of political development necessary for complete explanation of national economic development and international competitiveness.

National social and political structural evolution generally takes place slowly and incrementally, barring cataclysmic social revolution. Consequently, theory concerning the attributes and elements of such structures provides a powerful tool for organizing, predicting and explaining countries' economic strategies and policies, and their implementation capabilities. Incorporating such institutional attributes and elements into models which guide international business research would raise the discussion of government and state to a level of abstraction symmetrical with that of management and firm. Failure to do so reduces the generality of international management research, minimizes an area of distinction for the international research orientation in management studies, and rules out opportunities for international business and its underlying disciplines to contribute to each others' development.

ENDNOTES

1. The core hypothesis of Vernon's classic (1971) book held that the existence of multinational corporations compromises national sovereignty because the firms can serve as transmission belts of home country influence to host national societies. But the title quickly became the rubric for a variety of academic and popular notions characterizing MNCs as direct political rivals of states.

2. Although this choice of books may not be inclusive, it reflects an attempt to cover some of the major recent publications in international business by both academics and practitioners.

3. Contemporary scholarship on the state (Skocpol, 1985) has shifted from pluralist models which assume that competing social interest groups determine policy outcomes. Contemporary institutionalist models take greater account of cross-national differences in social and political organizational factors which may afford states scope for autonomous action. Skocpol (1985:4) argues that "when pluralists focused on the determinants of particular public policy decisions, they often found that governmental leaders took initiatives well beyond the demands of social groups or electorates; or they found that government agencies were the most prominent participants in the making of particular policy decisions."

4. Porter's reference to nation rather than state emphasizes a distinction between the role of private sector competitive dynamics, and government's diminishing contribution to competitiveness, as development proceeds. Weber (1978) describes a nation as an emotional attachment towards a culture or identity that differentiates one group from another. He argues, (1978:922) "In ordinary

language, nation is, first of all, not identical with the people of a state, that is, with the membership of a given polity. Numerous polities comprise groups who emphatically assert the independence of their nation in the face of other groups; or they comprise merely parts of a group whose members declare themselves to be one homogeneous nation." This distinction between nation and state permits Porter to contend that nations remain important in the face of industry globalization, even if governments do not.

5. Stepan (1978: 46) describes corporatism as a "particular set of policies and institutional arrangements for structuring interest representation. Where such arrangements predominate, the state often charters or even creates interest groups, attempts to regulate their number and gives them the appearance of a quasi-representational monopoly along with special prerogatives. In return for such prerogatives and monopolies the state claims the right to monitor representational groups by a variety of mechanisms so as to discourage the expression of "narrow" class based, conflictual demands."

6. Porter's prescriptions seem to require a state bureaucracy insulated from politics, a legislature that plays a marginal role in economic policy, or for a national consensus for economic growth. Katzenstein provides examples of such polities in Small States in World Markets (1985). States, such as Austria and Switzerland, for whom it was too expensive to resist adjustment to international competitive pressures, developed "corporatist" arrangements to ensure both flexible adjustment to international competition and compensation for those displaced by economic change. Katzenstein argues (1985:49), "Most prominent among policies of domestic compensation are the restraint on wage and price increases imposed or agreed upon in the name of a national incomes policy. ...What is

distinctive of the small European state is wage control through centralized bargaining and even more far-reaching stabilization agreements, with or without quasi-government or government-imposed price controls, legal sanctions, and direct restraints on the public sector."

7. Porter describes four stages of national competitive development. In the first stage, industry competitiveness is driven by factor prices, and local firms compete on price in international industries with mature technology. In the second stage, the state channels investment to firms that invest in modern, efficient facilities to produce goods for price-sensitive segments of the market. In the third, innovation-driven stage, the state takes a much more restricted role.

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