

Why Market Strategies are Necessary, but not Sufficient: Lessons for Leaders of Sovereign States

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Abstract

Political behavior by sovereign states has often been argued in terms of market driven strategy. Political interaction between sovereign states, however, is often found in the non-market arena. In order to inform this interaction, institutional theory, political economy, relational theory, and cultural relativism are reviewed. Baron's integrated strategy model is then expanded to integrate value frameworks at a national level. Political behavior of sovereign states is shown to be dependent on non-market strategy, emergent from its institutionalized value framework as moderated by the market strategy of the nation.

The most serious challenge for the world economy in the years ahead lies in making globalization compatible with domestic social and political stability—or to put it even more directly, in ensuring that international economic integration does not contribute to domestic social *dis*integration [emphasis in original].(Rodrik 1997)Our daily news is filled with strife; the world is painted as a complex tangle of political positions, trade imbalances, corporate scandals, and terrorist resistance. The leaders of the world's sovereign nations face the daunting task of representing the interests of the people within their territorial boundaries while managing their nation's interests between nation states. The process of globalization has served as a catalyst to increase interaction between sovereign nations (Vernon, 1971; Hymer, 1976; Vernon, 1981); it is clear that the need to theoretically inform the interaction between nations is increasing. This paper is an effort to provide a novel approach to this gap – it asks what the leaders of a sovereign state can learn from management scholarship.

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Two sovereign governments interact when issues impact the welfare of people and institutions within each of their territorial jurisdictions. When a sovereign nation with high levels of international influence, such as the United States, interacts with a less internationally influential sovereign power, this process is often called nation building. The mission of nation building is change; this change can be achieved through several means. The problem with attempting to build change by any means within another sovereign nation, however, is a susceptibility to resistance.

Leaders of the government institutions that represent sovereign nations are initiating change and actively trying to prevent negative factors of resistance from other nations. If a sovereign nation attempts to enact change in another sovereign nation, however fails to prevent or neutralize significant resistance, it faces the dilemma of reverting back to pre-change alignment or having the change attempt fail. The better a government leader understands the methods available to enact change, and the resistance they may face when influencing change in another sovereign nation, the more likely their attempted change will be successful. This paper seeks to expand the international pie by exploring the addition of a non-market driven approach.

Purpose, Methodology and Significance

The purpose of this paper is to use institutional theory to connect concepts found within several streams of literature to develop an integrated interdisciplinary non-market theory of the sovereign nation. The following analysis borrows from international business, sociology, decision theory, and organization theory. Because of the extent of the literature found in each of these different disciplines, integration of all relevant factors, interactions, and implications is impossible. This analysis is put forth to introduce concepts from each of these fields, to challenge some of the underlying concepts that govern some of the assumptions made in political economy, and to suggest different avenues for future theoretical and empirical research concerning the non-market interaction between sovereign states.

A vast international business strategy literature exists that could inform state to state relations. International management researchers have explained the relationships between many components of multi-national enterprise (MNE) strategy including the pace, rhythm, scope, motivation and mode of entry using different theoretical lenses (Chung, 2001; Harzing, 2002; Vermeulen & Barkema, 2002).

Researchers have particularly concentrated on determinants of ownership, patterns, and scope of activity and the external factors that influence them (Dunning, 2001; Rugman & Verbeke, 2001). Some have focused on internalization of external risk, (Johanson & Vahlne, 1977; Anderson & Gatignon, 1986; Hennart, 1993; Hennart, 2001) while others have recognized that from an evolutionary perspective the MNE specializes in the creation and transfer of tacit knowledge across the borders of sovereign nations (Kogut & Zander, 1993). Formal structure design and strategy for maintaining control in organizations straddling multiple national borders has been considered from both the home country manager's viewpoint (Stopford & Wells, 1972; Wolf & Egelhoff, 2002) and the subsidiary manager's viewpoint (Birkinshaw, 2001). Premised on knowledge and expertise rather than exclusively capital or scale as the key strategic resource, efficiency, responsiveness, and transfer of knowledge have been rationalized into an ideal state formal organization of the 'transnational'—a formal organization that suggests a balance is needed when working across sovereign national borders between coordinating processes; the 'transnational' must be able to counter forces of diffusion and decentralization with equally powerful forces of integration and unification (Bartlett, 1983; Bartlett & Ghoshal, 1989; Bartlett & Ghoshal, 1993; Bartlett & Ghoshal, 1994; Moran & Ghoshal, 1996; Nahapiet & Ghoshal, 1998). This linkage between formal structure and subsidiary autonomy has subsequently been empirically validated (Vachani, 1999). Differing levels of ownership of the mode of production have been considered when managing interaction across sovereign borders (Yan, 1998; Inkpen, 2001; Rugman & Verbeke, 2001). Underlying each of these research streams are the sovereign nations themselves—the sources of barriers which create an asymmetry that MNEs with increased flows of information and pools of accelerated technological growth seek to globally arbitrage.

This paper focuses on the interaction of states—and in particular the non-market interactions between states. To do so, this paper will first review two classic sociological approaches to power, structure, and stratification; these approaches are relevant as they frame discussion surrounding the trade off between centralized control and diffusion in a sovereign state to state context. Next the paper will introduce the theoretical lens of institutional theory as a foundation for understanding the significance of non-market interactions. Political economy will be introduced with emphasis on hegemonic theory and distributive politics. Relational theory, a social behaviorist approach to decision theory, and cultural relativism will be reviewed.

Finally, the paper will integrate these streams of research into a broad strategy for developing sovereign nation competitive advantage. It should be noted that this paper uses an unusual method for proposition development: Propositions are suggested, then revised, in light of literature being introduced.

The Commonality of Power: Two Approaches

Uncertainty regarding what other sovereign nations will do often leads to less than optimal outcomes for all. Asymmetry between nations economically integrated with one another leads individual nations to differing relative concerns over the balance between rational efficiency and social harmony. These themes are not new; two different approaches to evaluating power within and between sovereign states are relevant even today.

Classical sociological theorist Karl Marx suggested that within a sovereign state, power is achieved strictly through class membership—the ownership of the mode of production is the defining element—and class influence on the formal organization of the sovereign state (Tucker, 1978). Expanded to a field of sovereign states in the global arena, power mediates the interaction between the development of economic means of production and the development of society. Simply put, the nation state that controls production (and the development of technology which may be applied to advance production) controls the formal structure that governs all nations. In this light, rationality driven economic expansion and global homogenization can only be punctuated by the overthrow of the leader (Gilpin, 2001).

Proposition 1a: Rationality driven economic expansion and global homogenization can only be punctuated by the overthrow of the leader of the nation state that controls production.

For a second classical stratification theorist, Max Weber, power is a relative measure by which members of a particular status group can achieve their shared goals. A nation's primary source of power shifts between class and status as mediated by technological and economic change. "With some over-simplification, one might say that 'classes' are stratified according to their relations to the production and acquisition of goods; whereas 'status groups' are stratified according to the principles of their consumption of goods as represented by special 'styles of life'" (Weber, 1946, p. 193).

Status stratification evolves out of distinctions provided by conventions, laws, and rituals. Occupation, ethnic and religious groups, and most importantly lifestyle is viewed with differing levels of prestige or esteem by members of a society. Dignity is garnered by possessing 'privilege;' privilege is generated by a combination of honor and wealth. A 'status order' between status groups is forged from the level of dignity possessed by the members of the status group. Once a status group has attained a position in the status order, it will use its position to erect barriers to entry as well as rules for removal from membership. A sovereign nation, with its unified code of laws and an institutionalized system of values, develops a social understanding of what an esteemed lifestyle is; what social actions are required to earn a position in the status order.

Economic based class and social-honor based status in modern nations are closely linked. Even with substantial linkages, status groups tend to defend their position in the status order by preventing membership through purely economic status.

When the "acquisition and distribution of goods are relatively stable, stratification by status is favored" (Weber, 1946, p. 194). However "technological repercussions and economic transformation threatens stratification by status and pushes the class situation into the foreground" (Weber, 1946, p. 193). The relative role of power as measured by difference in social-honor and the resulting status group stratification becomes predominately significant when the mode of production is stable.

Proposition 1b: Differences in perception of social-honor becomes significant when the mode of production is stable.

When considering the interaction between sovereign nations, one must consider all sources of power; both the status order and the economic. Gilpin recognizes this when he notes that claims of superiority between national economies are difficult to assess, as "an economic system strongly reflects the values of the society in which it is embedded and must be judged, at least to some extent, in terms of those values" (Gilpin, 2001, p. 176).

Recognizing that power relations between nations are asymmetrical, and these asymmetries are based on efficiency and honor based orders, the question becomes how to reduce the level of uncertainty of how another sovereign nation will respond to a particular type of political action. To inform this question this paper now turns to institutional theory.

The Commonality of Institutions: Two Approaches

Sovereign nations are formal structures in the sense that they represent rationally ordered instruments for the achievement of stated goals. In fact, any formal organization is the structural expression of rational action (Selznick, 1948). Formal organizations allow the systemic ordering of duties in within layers of bureaucracy. This in turn enables patterns of coordination between technical and managerial functions resulting in specialized functions. Formal structure becomes the subject of calculable manipulation; an instrument of rational action (Weber, 1946; Parsons, 1960).

A fundamental paradox arises, however, when one realizes that formal structure never truly conquers the non-rational dimensions of organizational behavior; in fact non-rational dimensions are both critical to the continued coordination of a formal structure in a changing environment, and at the same time a source of friction, dilemma, doubt and possible ruin. Nations delegate authority to individuals appointed to formal roles in the organization structure. The individuals that fill these roles are whole selves; they bring with them interests and goals that are personal, that do not always coincide with the stated goals of the nation. Personal interests and goals are shaped by the values of the individual; often these values are not in exact alignment with the rational goals of the formal organization to which they belong. An example is the expectation of a standard working day. What may be considered rational and normal to the organization, (i.e. a 12 hour workday) may be unacceptable to a whole individual occupying an organizational role; resistance may take the form of arriving late, leaving early, or taking long breaks. From the point of view of the sovereign nation, resistance to the demands of the formal conditions of role delegation results in unpredictable behavior.

In large organizations, such as the bureaucracy of sovereign nations, routine deviations from the formal system are transferred from the realm of the personality difference into a persistent structural aspect through a process called institutionalization. "Institutional rules and modes of informal cooperation are normally attempted by participants in the formal organization to control the group relations which form the environment of organizational decisions" (Selznick, 1948, p. 27). Deviations from the formal system tend to shift the basis for determination of organizational behavior towards either an informal pattern of action that reinforces or widens the formal, or towards an informal pattern that modifies the goal of the organization. This leads to the conclusion that a formal organization must be considered from not one but two empirically reciprocal standpoints; on one hand a sovereign nation is an economy, at the same time it is an adaptive social structure.

Considered as an economy, sovereign nations are bundles of heterogeneous resources that make specific political action choices based on differential resources (Penrose, 1959; Wernerfelt, 1984; Barney, 1991). A system of relationships defines the availability of scarce resources which may be manipulated in terms of efficiency and effectiveness. This viewpoint is necessarily conditioned by the "organic state of the concrete structure" (Selznick, 1948, p. 26). 'Organic state'—which is of particular interest to competing sovereign nations and multi-national enterprises alike—refers to the conditions required for stability of executive authority, or the extent to which the system of coordination can be manipulated through inducement to individual participants (Barnard, 1938). Control of a formal organization such as a sovereign nation's government is only at the consent of its members. Differences in social structure lead to institutional differences which affect the choice of political action (Granovetter, 1985; North, 1990; Scott, 1995).

If control and consent are not divisible, one must view sovereign governments as cooperative systems. Cooperative systems are constituted of individuals interacting as wholes in relation to a formal system of coordination. As formal systems vary from nation to nation, the adaptive social structure will vary even more widely. At the point of action, economics provides necessary however insufficient tools for controlling the sovereign nation's formal structure. The needs of the individual—the person delegated authority due to occupation of an appointed role—do not permit single-minded attention to the stated goals of the sovereign nation.

The concrete structure of a sovereign nation is a resultant of the reciprocal influences of the formal and informal aspects of the organization; the organizational structure of a sovereign nation is itself an adaptive organism reacting to influences from an external environment. Just as institutional arrangements vary by country, so will political actions when faced with external pressures.

Institutional rules are created and altered through a player's strategies (Aldrich & Fiol, 1994). Actions of individuals comprising the bureaucracy of a sovereign nation may range from passive acceptance to active resistance (Oliver, 1991). The routinized actions of individuals emerge as an aggregate strategic choice to deviate in the direction of either greater acceptance or resistance to the formal structure. To understand and manipulate interaction between sovereign nations, one must realize that institutional rules limit the range of viable strategies and choices open to actors (Jones, 2001). In the long run, organizational actors making rational decisions construct around themselves an environment that constrains their ability to change further in later years (Dimaggio & Powell, 1983).

A sovereign nation, when viewed as an organization, contributes to economic progress through its unique ability to create its own distinct context for its constituents. This institutional context enables the sovereign nation and its constituents to "defy market forces in order to create a social environment with a combination of its own unique mix of incentives and muted incentives that encourages the assimilating, sharing, and combining of local knowledge in ways that are difficult to do under the alternative institutional contexts of the market or of other [sovereign nations]. In short, organizations exist to do things that would be inefficient and, therefore, not rational if attempted in other institutions or markets" (Moran & Ghoshal, 1996, p. 63).

Revised Proposition 1a: Rationality driven economic expansion of a sovereign nation and its institutional context can only be punctuated by the overthrow of the leader of the nation state that controls production.

A sovereign nation, when viewed as an institutional organization, exists to defend the underlying values of its constituents (those commonly understood to generate status honor) which would be inefficient in a free market context. The mutual dependency on and between actors in a particular nation state creates opportunities for both the sovereign nation and its members.

Local knowledge, or more specifically the ratified value framework of the sovereign nation's decision-makers and their constituents for a particular situation, must in the long run provide opportunities that can be productively exploited through market-acceptable behavior. These opportunities can either conform to the market's continually evolving rules, or serve as the impetus for rule change. In essence, the sovereign nation can offer respite from market forces with the resulting potential of purposely changing these market forces that not only benefit the nation state and its members future, but possibly that of society in general (Moran & Ghoshal, 1996).

The institutionalized informal rules are deviations from market efficiency dictated actions created through routine deviation from rational structure. "Institutions alter the price paid for one's convictions and hence play a critical role in the extent to which non-wealth maximizing motivations influence choices" (North, 1990, p. 26).

Revised Proposition 1b: Differences between institutional contexts of sovereign nations become significant when the mode of production is stable.

Informal rules that deviate from rational market efficiency indicate a propensity to react to forces outside the scope of the market. The question of managing state to state interaction becomes how to use the strategic political action acceptable by the institutions of one's own nation to influence the institutions of another while continuing to preserve or enhance the efficiency of the resources and the traditions of social honor one's own nation possesses.

Strategic Political Behavior of Sovereign Nations

Gilpin writes that "states have a strong incentive to take actions that safeguard their own values and interests, especially their power and freedom of action, and they also attempt to manipulate market forces to increase power and influence over rival states or to factor friendly states" (2001, p. 77). He notes that international regimes, or "sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations" (2001, p. 83), influence the distribution of gains from the economic activities of individual sovereign nations.

Individual states therefore have strong incentive to use their power and influence on other states involved in international regimes or otherwise. The individual state is particularly interested in the distribution of economic gains that affect its own domestic welfare, wealth, and military power. "Modern nation-states are extremely concerned about the consequences of international economic activities for the distribution of economic gains. Over time, the unequal distribution of these gains will inevitably change the international balance of economic and military power, and will thus affect national security" (Gilpin, 2001, p. 80). Therein lies a now well known social paradox; increased interdependence between nations based on an international economy allows for increased individual nation economic growth and capital accumulation, however increased power and welfare of an individual nation comes with the cost of economic independence and political autonomy.

Gilpin suggests that that "what is really important for the functioning of the world economy are the rules themselves rather than the formal institutions in which they are usually embodied" (2001, p. 83). By making this assumption, one can aggregate the goals of an overarching formal organizational structure into efficiency-based utility-maximizing rules, thereby reducing national sovereignty in member nations, and likewise forcing isomorphism (Dimaggio & Powell, 1983) from other nations through competition. This assumption, however, overlooks a simple fact revealed through the lens of institutional theory; that all actors do not follow the rules. At least since the concept of the modern/sovereign nation-state organization emerged in the Treaty of Westphalia in 1648, individuals have, with varying degrees of success, chosen whether or not to follow the rules of their own nation's formal organization. The normative structures, both formal and informal, that influence the process of evolution in an individual actor's own sovereign nation strongly influence the evolution of both formal and informal structure found in an international regime.

It is clear that normative structures provide both the ideas for and the limits to national strategies. Communal or collective societies tend to have more intrusive, interventionist governments which focus on the pursuit of power. Liberal societies tend to have a minimal state role which focuses on consumer welfare though correction of market failures and provision of public goods such as education (Gilpin, 2001). This holds true whether the ideology of communal sharing, authoritarian ranking, equality matching, or market pricing (Fiske, 1991; Fiske, 1992) dominates the strategic logic of the international regime.

Gilpin proposes the essential leadership role of the fittest sovereign state if there is to be a liberal international economy. The lead nation imposes its “resources and influence to establish and manage an international economy based on free trade, monetary stability, and freedom of capital movement. The leader must also encourage other states to obey the rules and regimes governing international economic activities” (2001, pp 99-100).

The writings of classic sociology clarify how a sovereign nation attains and retains power. A nation, with its bundle of heterogeneous resources, a unified code of laws, and an informal normative system for individuals to maintain time-honored values, generates a social understanding of what an esteemed lifestyle is thereby earning a position in the international status order. Once a particular sovereign nation has attained a position in the status order, it will use its position to erect barriers to entry as well as rules for removal from national membership. The hegemon—or the nation highest in class order—uses its honor and wealth to attain status; other sovereign nations attain status through proximity or mimicry of qualities that gained honor and wealth for the hegemon. Sovereign nations lower in the status order, specifically those negatively privileged status groups such as third world countries, must rely on future hopes and dreams for their lifestyle to engender a sense of dignity.

Both history and common sense tell us that the national status order is not static; nations are interacting with each other and changing at various rates. How the nations interact is a more difficult question—interactions only rarely result in modification of territorial borders. The results of strategic competition are found in more subtle gains and losses in the status order based on relative changes in the welfare of the people that make up a nation; as territorial boundaries of nations do not often change, relative gains and losses are more often traded in the form of capital in the sphere of international business.

Measurement of relative gains and losses is critical to establishing the relative position of nations. The easy answer to the question of how to measure relative social status hinges on using physical capital. This requires imposition of a rational structure on the global environment; through this lens sovereign nations are simply formal structures which have the goal of maximizing utility for their constituents. The nation that can achieve and maintain the greatest control over the mode of production becomes the (hopefully) benevolent global hegemon.

Under this assumption, interactions between nations can be captured in contractual agreements between sovereign states. The choice between these contractual agreements, however, is hindered by uncertainty.

Uncertainty external to the institution of the sovereign nation is bounded, estimated and quantified in the form of probabilistic risk for a nation's member's way of life (March & Simon, 1958). Probabilistic risk may be internalized by a particular sovereign nation through direct interaction with other sovereign nations or indirect manipulation of MNEs in the global marketplace through the expenditure of national resources. According to the theory of comparative advantage, every nation has a comparative advantage in something and therefore can be a winner. From this point of view, free trade and international competition are therefore thought to benefit everyone.

By defining this asymmetric power differential as a nation's ability to renew itself through adjusting relative prices and modifying formal organizational structures (Eliasson, 1988), increasingly mobile firms will seek the most attractive sovereign nations—or those that mimic the hegemon. Convergence theorists believe that economic globalization necessarily forces convergence of the formal structural features of an economy and of private economic features.

Revised Proposition 1a: Rationality driven economic expansion of a hegemon and its institutional context can only be punctuated by the overthrow of the leader of the nation state that controls production.

When looking within the institutions of a sovereign nation, however, economics tells a slightly different story. The rules, norms, and other factors embedded in international regimes generally reflect the power and interests of the dominant power/s in the international system. Differences in the underlying purpose of political economics for a particular context results in asymmetric mutual dependence between the individual sovereign nation and the other members of the international regime. Exacerbated by there being no authoritarian supra-national government to coerce top-down compliance with international regime rules, and because the institutions of sovereign nations value their own relative gains and individual autonomy, significant distributive consequences between the borders of nations lead to compliance issues within the borders of individual regime members.

Study of distributive politics indicates that sovereign states move towards free market control of opportunities until reaching an efficient level of decentralization of the provision of a public good (Oates' decentralization theorem), where the additional benefit from less policy uniformity is balanced by loss due to less efficient internalization of externalities(Oates, 1972).

Lockwood confirmed Oates' decentralization theorem, however adds that "the conditions required for increased heterogeneity to imply increased efficiency of decentralization are strong, essentially because the cost of centralization is not policy uniformity, but inefficient choice of projects due to cost-sharing and lack of responsiveness of the legislative process to benefits" (Lockwood, 2002, p. 332). Herein we find tension between the global market and the institutions that generate social stability in an era of globalization. In each nation, at some point, desire to retain independent systems of values and time honored traditions through social structure creates a strong force that resists the decentralization required for increased market efficiency.

Revised Proposition 1b: Given a stable mode of production, a sovereign nation may become increasingly market oriented over time until its institutional context resists further decentralization.

Reduced barriers to trade and investment in market-embracing nations increases both outsourcing beyond national borders and migration, as moderated by institutional rules. This accentuates the asymmetry between groups that can cross borders and those that cannot. Those high in the class or social order—owners of capital, highly skilled workers, and many professionals—are free to take their resources where they are most in demand. Unskilled and semiskilled workers and most middle managers are not as able to give up their source of steady employment(Tucker, 1978).

Globalization makes the demand for the services of individuals in the unskilled, semi-skilled, and middle manager categories more elastic—services of large segments of the working population can be more easily substituted by the services of the other people across national boundaries(Rodrik, 1997). When demand for individual services changes and the rules of sovereign nations do not, institutional theory tells us this logically leads to individuals charged with labor roles deviating from what is formally delegated.

As the demand for labor becomes more elastic, globalization creates conflicts within and between nations over domestic norms and the social institutions that embody them. As the technology for manufactured goods becomes standardized and diffused internationally, nations with different sets of values, norms, institutions, and collective preferences begin to compete head on in markets for similar goods. Opportunities for trade between countries at very different levels of development are often loaded with institutionalized reasons for non-market like behavior based on cultural differences.

Relational Theory and Cultural Distance

According to relational theory, individuals use four elementary models to generate and give motivational and normative force to social relationships that comprise institutional norms (Fiske, 1991; Fiske, 1992). Within the cultural domains in which each of the four respective models operate, people can usually make trade-offs without great difficulty; between the domains of disparate models, comparisons are problematic and ambiguous. Table 1 lists relation theory's four models.

Table 1: Relational Theory Value Models

Model	Perspective
<i>Communal sharing (CS)</i>	Divides the world into distinct equivalence classes, permitting differentiation or contrast, but no numerical comparison.
<i>Authority ranking (AR)</i>	Constructs an ordinal ranking among personas or social goods, thus permitting lexical decision rules.
<i>Equality matching (EM)</i>	A relational structure that defines socially meaningful intervals that can be added or subtracted to make valid choices.
<i>Market pricing (MP)</i>	A social structure that makes ratios meaningful, so that it is possible to make decisions that combine quantities and values of diverse entities.

Source: (Fiske and Tetlock 1997:258)

These four principal schemas for organizing, coordinating, evaluating, and contesting all aspects of relationships, including group decision-making, ideology, and moral judgments describe the basic structures and operations that are socially meaningful (Fiske & Haslam, 1996).

These four models cannot be used to guide behavior or evaluation without the use of implementation rules that specify when they apply, to what and to whom, and how—rules provided by a nation's institutions. Cultures provide most of the broad implementation rules; but implementation rules change, and they are often ambiguous at the margins or in novel circumstances. Within a culture, there may be vigorous debate about some aspects of some implementation rules, while others are so taken for granted that they seem natural.

The four relational models respectively define four ideal grounds for value and moral judgment. They do not, however, provide any foundation for making judgments about their own implementations. Grounds or justification for implementation of a model is based on normative rules. Interactions between institutions such as nations are comprised of relational components drawn from more than one model.

Without an over-arching social system, conflict is inevitably going to emerge from choices between models. When models conflict—as when the institutions of sovereign nations interact—and it is necessary to compare and weigh alternatives, there is no ultimate criterion for making trade-offs. People regard such trade-offs between models as illegitimate, and may censure those who explicitly discuss or make trade-offs among the distinct models (Fiske & Tetlock, 1997).

A nation's "political ideologies can be modeled as preferences for particular relational models and/or preferences for particular implementation rules concerning how, when, and with regard to whom each of the models should apply in salient problematic domains. Ideologies may also specify precepts about how to combine the models" (Fiske & Tetlock, 1997, p. 261). Ideologies are frameworks for resolving implementation debates using a nation's ontology and norms. Viewed in this way, institutions are the historical evolution of an ideology for a particular sovereign nation.

Institutionalized use of a particular ideology allows organizational bureaucrats to make decisions without having to explicitly address trade-offs between different value models. "Each model is distinct and its operations are compartmentalized. People are more uncomfortable or outraged at explicit trade-offs that move in the CS→AR→EM→MP directions than by transformations in the opposite direction.

Trade-offs that move more than one 'step' tend to be especially taboo, and three step (i.e. CS→MP) trade-offs are the worst" (Fiske & Tetlock, 1997, p. 281).

Implementation rules become problematic and people confront problematic trade-offs among compartmentalized models "only when people cease to take for granted the cultural practices that are normally common sense... Cultures are meaningful, self-producing practices that organize the application of disparate relational models. When a culture is comparatively isolated and stable, people confront relatively few unthinkable trade-offs. When cultures mix and transform, people more frequently face confusing, anxiety-provoking, or taboo trade-offs" (Fiske & Tetlock, 1997, pp 284-285).

Effective strategies for dealing with an institution and its ideologies external to the territorial boundaries of the home nation at least in part depend on intercultural communication and cooperation for effective functioning. There is no normal position in cultural matters; culture is relative(Hofstede, 1983). As information flow increases between two countries, higher levels of migration, both in terms of physical resources and social ideology, will result. Even given favorable economic stimuli, individuals from one nation must share some kind of culture with the other to engage in negotiations (Bazerman, 2002). Cultural values drive national politics as moderated by economic efficiency(Hofstede, 2001).

The greater the cultural distance between the individuals comprising the bureaucracy of interacting nations, the greater the level of acculturate stress(Hofstede, 2001). Acculturate stress commonly arises when individuals from nations that have traditionally valued collectivity interact with individuals from nations that traditionally valued individualism, and when individuals from nations who traditionally valued centralized power interact with individuals from nations that traditionally value free-market laissez faire rule (Hofstede, 1983; Hofstede, Neuijen, et al., 1990; Hofstede, 2001).

The international regime organizations such as the IMF, (possibly to some lesser degree) the WTO (Stiglitz, 2002) and the General Agreement on Tariffs and Trade (GATT) moderate the multilateral trade policies through which global goods are produced, yet generally do not recognize the culturally-based institutional differences between nations.

They choose instead to treat differences in national practices like differences in factor endowments or any other determinant of comparative advantage—a particularly free-market, individualistic position. This sets up potential non-market conflict with nations that traditionally value collectivity and centralized sources of national power.

Shared practices lead to social efficiency; cultural distance can be seen as a barrier that affects both the political process and the selection of mutually relevant political issues. Barriers to shared processes are linked primarily with a nation's aggregate level of uncertainty avoidance, or the feeling that what is different is dangerous, and a nation's centrality of organization, where national cooperation may depend on the whims of a single or few powerful individuals. Barriers to selection of mutually relevant political issues have been linked primarily with whether or not a nation prefers individualism or collectivism, and whether a nation tends to modify informal institutional norms to fit new members from other nations, or whether it tends to force new members to acculturate into its traditional institutional standards. Member states with highly centralized power and a tendency to force others to fit into their institutionalized cultural value system have been found to be least inclined to obey the supranational directives of the WTO, IMF, or even the hegemon (Hofstede, 2001). Social efficiency has its limitations as well; only other cultures with different mental programs and institutions can help determine the limitations—or conversely the relative efficiency—of one's own institutions.

Strategy for Sovereign Nation Non-Market Interaction

Structure, performance, capabilities and competencies, and market segments are analyzed, most often using economics, to determine a nation's relative position in the global market. Once that position has been estimated, private multi-national enterprises may use models such as Porter's Value Chain, Five Forces, or Diamond (Porter, 1980; Porter, 1990; Porter, 1991) to formulate a competitive strategy and choose a specific course of action. Development of business research driven models for sovereign nation competition should be a high priority for students of international business.

Individuals with delegated decision-making authority within institutions representing sovereign nations should have the option of using business oriented models to formulate strategies used to develop a particular course of political action, as international interaction creates the playing field on which both domestic firms and MNEs compete. While competitive analysis focuses primarily on market advantage, it is critical that analysis for a political action plan include social structure as well.

Analysis of the non-market environment has already been pioneered for the firm by theorists such as Baron (Baron, 1995; Baron, 1995). Value may be obtained by simply shifting his model to a national level of analysis and including social structure. The social counterpart to competitive analysis is the analysis of individual or institutional interests. It is comprised of the potential benefits to the welfare of the constituents of the nations undertaking activities, the costs of taking political action, and the effectiveness of alternative actions. The focus of analysis centers on the distributive incentives for political action, the costs of collective action, and the constituent connection that links interests to the legitimacy of bureaucratic decision-makers. In its simplest form, the international strategic analysis must focus the amount of pressure interests are able to bring to bear on members of a sovereign nation's decision making body. The outcome of an issue depends on the pressure generated by parties advocating particular ideologies, and on the structure and procedures of the decision making body.

Markets are an institution used for the organization of economic exchange so that property rights are governed by consensus rules. The non-market environment consists of the "social, political, and legal arrangements that structure interactions" among nations and their constituents (Baron, 1995, p. 73). Non-market forces are found in the institutional arena based on cultural differences in values, therefore are external to markets but often work in conjunction with them (Baron, 1995, p. 73). An international strategy must provide a compass which allows a nation to navigate in both its market and non-market environments.

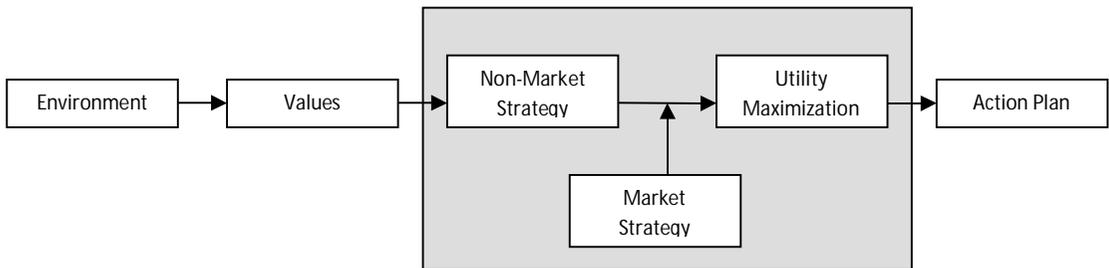
Entry into market exchange is voluntary and private in nature. Non-market exchange, on the other hand, is often generated by differences in institutional rules which are public in nature; they either formally or informally apply to all constituents in a sovereign nation—whether individuals lobbied for the change or not.

Where resource commitment is often the key factor in determining outcomes in market competition, numbers of constituents and their intensity of preference are often the key factor in determining outcomes in non-market competition. Collusion among states competing in the market is generally frowned upon, while collusion between states in the non-market environment is generally considered to be effective statesmanship. Performance in market based relationships is defined narrowly in terms of profit, whereas states competing in a non-market environment are evaluated on broader dimensions of performance including ethical principles and concepts of responsibility.

A non-market strategy is a concerted pattern of actions taken in the non-market environment to create value by improving its overall performance. When considering the non-market interaction between two different nations, or coalitions thereof (i.e. international regimes), one must consider the differences in political systems used. "The step from analysis to strategy [addressing non-market issues] focuses on the choice of actions given the anticipated actions of other interests. That is, the analysis that provides a basis for formulating non-market strategies is specific to the issue, the institutional arenas in which it is addressed, the interests likely to be active on the issue, and the information that the interests and the institutional officeholders have about the relationship between actions and outcomes" (Baron, 1995, p. 75).

In order to formulate an effective non-market strategy, a nation must view the non-market environment as endogenous both to market forces, such as technological change, and to the non-market activities of ideological parties and other interests (Baron, 1995). For each international decision, in each particular context, "rules are shaped by the strategies of interested parties and by the norms governing the actions of national institutions" (Baron, 1995, p. 75).

Baron's "rent chain" model, adapted for use by sovereign nations instead of MNEs, suggests that a conceptual framework comprised of the economic bundle of heterogeneous resources that are available for trade is derived from the nation's territorial environment. This adapted "rent chain" model provides a simplified view and understanding of Propositions 1a and 1b, as well as their revised versions.

Figure 1: Sovereign Nation Rent Chain Model

Simply put, a nation's values are directly related to its environment. These values result in a non-market strategy, which impacts utility maximization, as moderated by market strategy. The direct effect of the action of the whole people leading sovereign institutions in a nation is moderated by that nation's market (economic power). The perceived utility of the non-market strategy leads to the action plan that the nation uses in international relations. The shaded box in the model represents the propositions and their revisions as presented throughout the paper.

We tend to think of a nation's power as its market or economic power as moderated by the values of the nation (and the people in power). Our model, as supported by a vast and diverse literature, proposes exactly the opposite: that it is the nation's non-market strategies (values) that are moderated by the market (economic) strategies of the nation. Therefore, the nation's power resides in its values.

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