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MANAGEMENT OF THE POLITICAL IMPERATIVE IN INTERNATIONAL BUSINESS

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In this paper we develop a framework for analyzing the political imperative. We argue that the effects of the political imperative on the firm will be a function of industry structure. Strategies that management employs in coping with the political imperative are a function of its impact on the firm and the firm's strategic predisposition. We also speculate on why strategic predisposition may lead firms to employ strategies that are not responsive to the demands of the political imperative.

Models of management in international business have tended to be based on two perspectives of the interdependencies between a firm and its economic environments. Relatively less attention has been paid to theories that might explain interdependencies between the firm and its political environments.

Theories providing strategies for coping with firm–economic environment interdependencies tend to be grounded in industrial organization (I/O) economics (see e.g. Caves, 1982) or in theories of transaction cost economics (TCE) (see e.g. Rugman *et al.*, 1985; Teece, 1985). Explicit in I/O-based approaches (see e.g. Daniels *et al.*, 1985; Egelhoff, 1988; Porter, 1986) is the assumption that 'extra-organizational constraints are . . . seen as the determinants of a firm's success' (Jemison, 1981: 604). Thus the general paradigm is that industry structure determines firm conduct (strategy) which, in turn, determines performance. In transaction cost economics the driving force governing a firm's behavior is the principle of economic efficiency. Firms seek to minimize the combined effects of neo-classical production costs and transaction costs (Williamson, 1985: 61). For example, in response to market imperfections such as the failure of markets to price information, firms must create internal markets to be competitive across national boundaries (see e.g. Buckley and Casson, 1976; Hennart, 1982; Kogut, 1988). In both I/O- and TCE-based approaches, strategies are presumed to be a function of responses to economic environments.

In this paper we focus on the impact of political environments on the firm and its choices of strategy. We begin with a description of the kinds of government intervention that firms confront in the course of conducting international business. We go on to identify the types of risk associated with firm/state interdependencies (see e.g. Johansson, 1982) that result from government intervention, and argue that they will vary systematically according to industry structure. Next we investigate strategies designed to manage the firm/state interdependencies that result from industry structure, and address the impact that strategic predisposition can have on the choice of strategies that a firm employs in dealing with these interdependencies. We conclude with a brief discussion of the managerial and research implications of our analysis.

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THE CONCEPTUAL FRAMEWORK

In Figure 1 the conceptual framework around which our argument is developed is set forth. Our point of departure is that managers of firms doing business in international markets confront two fundamental sets of threats and opportunities: economic and political. The economic set relates to the firm's need to determine what goods and services it can produce most competitively within and across national borders. Hamel and Prahalad (1983) describe these as 'the forces of integration'. In addition they identify a political set that stems from a corresponding need to cope with the economic policy objectives of nation-states, and describe these as 'the forces of responsiveness'. Chakravarthy and Perlmutter (1985) describe these two sets respectively as the economic and the political imperative.[1]

[1] The economic and political imperatives also encompass, more parsimoniously, the four kinds of risk Ghoshal (1987) describes as being encountered by MNCs: macroeconomic risk, political (or policy) risk, competitive risk and resource risk. In addition, focusing on the imperatives permits managers to consider opportunities as well as risks in both political and economic imperatives.

Building on the work of Porter (1986) and Root (1972), we argue that the firm-level effects of the political imperative will vary with industry structure. In contrast to the more deterministic arguments implicit in much of the literature on the strategic management of MNCs, we do not assume that the current structure of the firm is determined by industry structure. To the contrary, we argue that a firm's strategic predisposition (Miles, 1982), i.e. the pattern reflected in a firm's strategic choices, may be a greater determinant of a firm's structure and current strategies than economic or political imperatives. We further suggest that, within specific industries, some strategies may be more effective than others because they help to insulate the most vulnerable aspects of the firm from government intervention.

INDUSTRY STRUCTURE AND POLITICAL IMPERATIVES

The political imperative

In their explication of the political imperative, Prahalad and Doz (1987) tend to focus on host

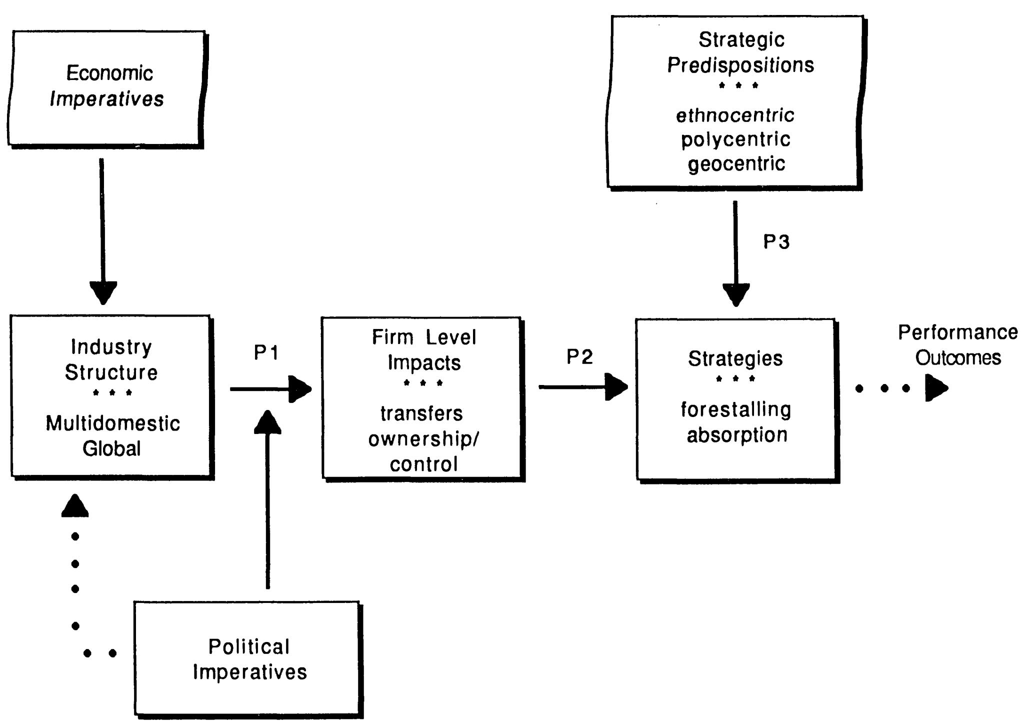

Figure 1. A framework for strategically managing political imperatives. Note: Solid lines reflect primary foci of this analysis. Dotted lines reflect secondary foci. P1, P2, P3 refer to propositions set forth in the paper.

government intervention aimed at (1) the creation of new industries, (2) changes in competitive conditions within established industries and (3) the creation or protection of industries seen as vital to defense interests. In each of these cases the host government appears to be responding to changes in industry conditions caused by global changes in economic imperatives. Because their primary concern is with government intervention motivated by economic pressures, Prahalad and Doz's approach does not fully take account of government intervention in response to changes in political imperatives (e.g. for the imposition in the U.S. of import restraints in response to management and/or union demands for protection in the steel or auto industry). Interventions of this type typically have been described as creating political risk for firms.

A comprehensive review of the literature on the concept of political risk is beyond the scope of this paper (see e.g. Kobrin, 1979, 1982; Simon, 1984). Briefly, political risk is generally defined as home or host government intervention in international business activities. Its various forms are illustrated in Table 1.

The model outlined in Figure 1 is based on the premise that political risk (as one manifestation of the political imperative) is, and will remain, a strategic issue for firms engaged in international markets.[2] Relatively recent examples include: the 1978 American grain embargo protesting the Soviet invasion of Afghanistan, Canada's Foreign Investment Review Act (FIRA), the U.S. embargo of American and Western European equipment for construction of the trans-Siberian pipeline, the freezing of Libyan assets in the United States, or the imposition of limited sanctions against South Africa by Congress in 1986.

Industry structure

In our analysis it is essential to distinguish between firms which are engaged in sectors of the economy which Porter (1986) describes as global from those which he describes as multi-domestic because they are subject to different political imperatives. In Figure 1 this distinction is reflected in the concept of industry structure. Our analysis is based on the assumption that industry structure is a consequence of economic imperatives, an assumption that underlines most of the dominant theories of MNC behavior in the strategic management literature (whether I/O-based—see e.g. Davidson and Haspeslagh, 1982) or transaction cost-based—see e.g. Hennart, 1988; Hill and Kim, 1988), although we will explore the way in which the political imperative can have an impact on industry structure.

Global industries present the managers of firms with the opportunity to benefit from differences in the comparative advantages of the countries in which they are located, and to derive a significant competitive advantage from worldwide volume.[3] In global industries, greater investment in R&D is likely to be essential to a firm's success. The firm's competitive advantage may be based on the low cost or high quality of the factors used in producing a product. The economies of scale which lead to these kinds of competitive advantage can be achieved if integration is possible between larger plants with longer production runs, or within channels of distribution designed to move high volumes. The costs of, and threats to, transfers (moving goods from country to country or plant to plant) should be low.

In contrast, in multi-domestic industries R&D spending is closely tied to particular markets, economies of scale are more modest, products differ significantly across national markets, or distribution, installation or other localized activity is emphasized. In addition, lead times may be short and transportation costs high. Distribution is frequently fragmented and hard to penetrate.

These differing characteristics of the two industry types are a consequence of the effects of economic, not political, imperatives. The utility of distinguishing between global and multi-domestic industries to our model is highlighted in Figure 1. Specifically, we suggest that the effect of political imperatives on the firm will differ according to the structure of the industry in which it competes.

[2] The other basic manifestation of the political imperative is political opportunity. In the discussion which follows we focus specifically on political risks. In our analysis we are primarily concerned with political risk which has negative effects on the firm, a result which is consistent with research on how managers view political risk. Hereafter, we simply refer to political risk as the political imperative.

[3] This discussion is based on an analysis of global industries by Hout *et al.*, 1982, pp. 99–100.

Table 1. Range of host and home country political risks and potential impact on firm

	Transfers	Ownership control
Host country		
Countertrade	×	
Import/export regulations	×	
Import restrictions	×	
Boycotts	×	
Currency restrictions	×	
Local content restrictions	×	
Export requirements	×	
War and revolution	×	×
Nationalization/expropriation		×
Protests, strikes, riots		×
Terrorist attacks		×
Indigenization		×
Environmental standards		×
Pressure for joint ventures		×
Disinvestment pressure		×
Local ownership requirements		×
Home country		
Countertrade	×	
Export requirements	×	
Taxation	×	
Import restrictions	×	
Loan restrictions	×	
Technology transfer controls	×	
Foreign Corrupt Practices Act enforcement	×	
Use of embargoes	×	
Price/wage controls		×
Production controls		×
Licensing requirements		×
Pressure for divestment		×
International		
War	×	×
Foreign policy disputes	×	×
Trade wars	×	
Blockades	×	
Embargoes	×	

We adopt Root's (1972) framework for analyzing the effects of the political imperative on firms in the two different types of industries. Root's framework suggests that the potential impact of the political imperative is to be found on the firm's ownership/control, transfers, and operations. Transfer risks refer to government interventions which may impede flows of products, capital, payments, people, or technology between a firm and its subsidiaries. Import quotas or local content requirements reflect two of the more frequently observed forms of transfer risk. Ownership and control risk stems from government policies designed to change firm ownership or influence managerial control. A classic example of ownership risk is the threat of expropriation. Demands by a government for significant minority interest in a joint venture reflect policies designed to constrain managerial control.

In contrast to Root's approach, we suggest that the effects of the political imperative on what Root describes as operations can be translated into effects either on transfers or ownership/control. For example, Root (1972: 357) defines 'monetary and fiscal policies, price controls, taxation, labor codes and regulations, [and] local content requirements', as operations risks. We argue that, in effect, these kinds of risk constitute transfer risks since their real impacts are felt on the movements of capital and human resources, or intermediate goods, among units of a firm. Root also describes 'general administrative behavior' of a government as a form of the political imperative that threatens operations. While he provides no concrete examples, we take his concept of 'general administrative behavior' to mean forms of social regulation such as environmental and product safety which, in our framework, affect managerial control since they limit management's discretion.

Specifically, we argue that risk arising out of the political imperative will have a greater impact on transfers for firms doing business in global industries than on ownership or managerial control. In contrast, for firms in multi-domestic industries these kinds of risk are more likely to affect the ownership and/or control of the firm.

We expect transfers to be relatively vulnerable in global industries because firms are likely to have decentralized critical production facilities in more than one country to gain the benefits of comparative advantage, thereby reducing the economic benefits to the host government of expropriation or other activities threatening ownership or control. This approach to configuration (Porter, 1986), however, leaves the firm vulnerable to threats to transfers such as the imposition of local content requirements, import or export controls, or currency restrictions.

In multi-domestic industries, threats to ownership and control are more probable because subsidiaries tend to be relatively autonomous and not dependent upon a parent or other subsidiaries for critical value chain activities (Porter, 1985). We expect that expropriation of a stand-alone subsidiary, or demands that a majority interest in it be ceded to the state or to a local firm, can provide sufficient economic benefit to a government to warrant such action. The autonomous, decentralized nature of firms in multi-domestic industries suggests that acquisition of ownership or control provides the state with a fully operational business. Even when the state does not have sufficient managerial capacity to sustain the operation, it is often able to 'buy' expatriate managers and thus insures itself of a 'going concern' (Bradley, 1977).[4] Thus, we offer the following propositions regarding relationships between industry structure and the firm level effects of the political imperative:

P1a: The primary effect of the political imperative will be on transfers for firms operating in global industries.

P1b: The primary effect of the political imperative will be on ownership/control for firms operating in multi-domestic industries.

In choosing how to manage the firm-level effects of the political imperative, managers can select from an array of strategies. We turn to a discussion of these strategies and their relationship to political imperatives.

STRATEGIES AND POLITICAL IMPERATIVES

Ownership/control and transfer risks result from the strategic interdependence that exists between firms and nation-states. By strategic interdependence we mean a relationship in which the state and the MNC have to deal with each other to accomplish their objectives. Strategies, whether competitive or political, to manage this form of strategic interdependence can be classified using a typology developed by Pennings (1981).

Pennings (1981: 441) argues that, 'there are three categories of behavior that strategically interdependent organizations can display to coordinate their actions and to manage their interdependence: forestalling, forecasting, and absorption'. In our framework we do not treat forecasting (see e.g. Austin and Yoffie, 1984) as a separate category of strategic behavior since firms typically will forecast in the process of formulating either forestalling or absorption strategies.

Forestalling

Forestalling is 'coping behavior that prevents or controls the emergence of unpredictable behavior of other organizations. Coping by forestalling alters the structural arrangements of a strategic set' (Pennings, 1981: 441). For managers of MNCs a strategic set is the total mix of country/subsidiary interdependencies: the countries in

[4] Note that this argument is not likely to hold in situations in which the firm over which the state acquires control is doing business in a 'weak' market. In such cases the newly acquired SOE is likely to be viewed as a supplier of last resort (Moran, 1974).

which it has located operations and the relationships of those operations one to another. The structural arrangement in our case will be the result of decisions regarding the configuration and coordination of the firm's activities (Porter, 1986). Porter argues that configuration involves decisions on where the firm's activities are to be performed, including the decision as to the number of countries in which these activities will be performed. The coordination decision 'refers to how like or linked activities performed in different countries are coordinated with each other' (Porter, 1986: 23, 25). Because decisions on configuration and coordination determine the extent to which MNC subsidiaries are interdependent, they affect the way in which transfers within the firm take place. As a consequence of economic imperatives, however, firms operating in global industries have substantial flexibility in their configuration decisions. These options provide a basis for designing forestalling strategies to cope with the transfer risk inherent in global industries.

The objective of forestalling is to configure the firm's transfer processes such that they significantly increase the economic costs well beyond the political benefits derived by the nation-state from government intervention. By pursuing competitive forestalling strategies, firms in global industries obtain the cost advantages required for competitive advantage, while hedging against the effects of transfer risk. Carefully configured, competitive forestalling may minimize transfer risk arising from the actions of a single government, or from the concerted actions of a state-sponsored cartel or a customs union (see, Yarbrough and Yarbrough, 1987). For example, in the aftermath of the trans-Siberian pipeline embargo by the U.S. government, executives in some of the affected firms reported that they were giving serious consideration to locating production facilities outside the U.S.

Political forestalling strategies include public relations campaigns on trade issues such as those marshalled by Toshiba in the summer of 1987 (see e.g. *New York Times*, 1987; *Business Week*, 1987a, b, 1988) in response to a threatened embargo of the transfer of intermediate goods (semiconductor chips, components for microwave ovens and television sets) to its U.S. subsidiaries. The company took out full-page advertisements in many major American newspapers on 20 July 1987 arguing against the imposition of economic sanctions and detailing the potential harms such retaliation might have on the American economy. General Electric and Dresser Industries, among others, mounted similar political strategies in response to the imposition of an embargo on the transfer of technologies required to fulfill orders for compressors to be used in the trans-Siberian pipeline (see e.g. Lenway and Crawford, 1986).

The openness of the U.S. political system provides all firms with an opportunity to employ a broader range of political forestalling strategies than might be available to them elsewhere. Both U.S. and foreign firms can employ registered lobbyists, as well as create and fund foundations.[5] Constituency building and grass-roots lobbying (Baysinger, 1984) are examples of more recent forestalling strategies employed by politically active firms, both foreign—as Toshiba has demonstrated—and domestic. For U.S. firms there is the additional option of establishing corporate political action committees (PACS), whose campaign contributions (Maitland and Park, 1985) may help to forestall detrimental legislative or executive action. The implication of this line of reasoning for our analysis is that:

> *P2a: Forestalling strategies will be employed by firms in global industries to cope with political imperatives that threaten transfers.*

Absorption

In multi-domestic industries, firms tend to locate a fuller and more concentrated array of value chain activities within a specific country. In these industries the strategic interdependence between the firm and the state is based on the firm's need for access to significant market share and a host country's propensity to use the attractiveness of that market share as leverage in dealing with the firm. This concentration of value chain activities provides potential benefits to governmental policies that affect ownership and control, as opposed to transfers.

To deal with these kinds of circumstances, Pennings (1981: 441) provides another generic strategy. He defines absorption as 'coping behavior that mitigates the negative consequences

[5] The Japanese have become very aggressive in this area in recent years (see e.g. *Business Week*, 11 July 1988).

of other organizations [in our case, nation-states]'. As we define absorption, it is designed to minimize adverse effects of political imperatives by internalizing sources of political risk within the firm.

In the context of international business, absorption strategies include providing the host country with a measure of ownership through joint ventures or bringing nationals into management by including them on the board of directors or hiring them as managers. The political variant of these competitive absorbing strategies would involve legitimate activities such as absorbing host government political officials or state-owned enterprises within the firm (through the creation of a joint venture). In addition, absorption strategies could also include co-opting local government officials through pay-offs that are illegal under the Foreign Corrupt Practices Act.

If a firm's managers are concerned about threats to ownership or control after it makes a foreign direct investment, its preferred strategy will be to bring the threat into the organization at the time of the initial investment because internalizing the sources of political risk can lead to a public perception that the objectives of the firm and the state are congruent. These kinds of absorption strategies are also likely to provide an effective response to ownership/control risk because if the foreign nationals are not fully capable of running the multi-domestic firm as a going concern, they can become hostages. Once foreign nationals have been 'absorbed' by a multi-domestic firm, the state can acquire ownership and/or control over the firm, but only at the expense of the 'careers' of these individuals. Consequently, we offer the following proposition:

> *P2b: Absorption strategies will be employed by firms in multi-domestic industries to cope with political imperatives that threaten ownership/control.*

These propositions are based on the assumption that industry structure and firm structure are isomorphic. We go on to relax this assumption for two reasons. First, the political imperative can lead to the threat (or to the imposition of) significant import or export barriers which may reduce the economic benefits of integration inherent in global industries. The result of this type of government intervention is that a global industry could take on many of the characteristics of a multi-domestic industry.

For example, the imposition of a stringent import quota may have the effect of fragmenting world markets, thereby reducing their scope and the economic attractiveness of world products, or creating conditions favorable to entry of new firms within the protected markets. Trade restrictions are further likely to reduce the intensity of price competition by artificially reducing supply. In response to the threatened imposition of trade restrictions, the management of the firm has to decide whether they are likely to be sufficiently permanent to warrant reconfiguring value chain activities. This can be seen in the need for managers of computer and consumer electronics firms in the U.S. and Japan to consider the possible effects of a 'fortress Europe' after 1992 on the continued viability of their current forestalling strategies.

A second reason that firms may not employ strategies that we would expect is the result of the strategic predisposition of a firm. In the following section of the paper we describe the impact that a firm's strategic predisposition has on the strategies it employs in dealing with the political imperative.

STRATEGIC PREDISPOSITION AND STRATEGY

Miles (1982: 238) defines strategic predisposition as 'the extent to which an organization exhibits a consistent pattern over time in the choices it makes about the formulation and implementation of its strategies'. Bartlett (1986: 372) observes that the antecedents of a firm's strategic predisposition include 'a company's existing asset configuration, its historical distribution of responsibilities, and the ingrained management norms [which] will greatly influence—and often constrain' the ability of a firm to respond to changes in industry structure (whatever the source). We argue that the combined effects of these institutionalization processes create a strategic predisposition that causes firms to do things today because 'they are taken for granted as "the way things are done" ' (Scott, 1987: 505).

While we know of no research which has been conducted on the possible influence of strategic predisposition on the actions of firms in the course of coping with political imperatives, the Chakravarthy and Perlmutter (1985) typology provides a base for predicting the relationship between firm strategic predisposition and its choice of strategies. They describe four types of predisposition: ethnocentric, polycentric, regiocentric, and geocentric. Because characteristics of polycentric and geocentric firms tend to be reflected in regiocentric firms, excluding them simplifies the typology.

In an *ethnocentric* firm, strategic decisions for the firm as a whole tend to be dominated by the parent's needs and values. We expect that configuration and coordination trade-offs employed by firms with ethnocentric strategic predispositions would lead to high levels of interdependence between the parent and each subsidiary, thus enabling the parent to retain substantial control over its subsidiaries. For example, advanced technologies, R&D operations, and decisions concerning subsidiary financing are likely to be made at headquarters in top-down fashion. The need for headquarters control is also likely to preclude a firm with an ethnocentric predisposition from considering the creation of autonomous subsidiaries, even in multi-domestic industries.

The ethnocentric firm is likely to be more concerned with its economic viability than its political legitimacy, except in the home country. We expect that ethnocentric firms would use whatever leverage the home country can provide in dealing with their strategic interdependencies with host countries. As a consequence, ethnocentric firms are likely to assume that home government political support will help them to forestall transfer risks caused by political imperatives. Based on the above, we offer the following proposition:

P3a: Regardless of industry structure, ethnocentric firms will rely primarily on forestalling strategies in coping with political imperatives.

In contrast, firms with a *polycentric* strategic predisposition tend to use autonomous wholly owned subsidiaries which seek political and economic advantages offered by host countries. Their concern is with their legitimacy in all the countries in which they do business. Thus, polycentric firms are likely to be predisposed to meet the political imperatives of all countries in which they operate head-on. As a result of this need for legitimacy, firms with a polycentric predisposition are likely to be sensitive to the values and the culture of the host country. They are also likely to have the capacity and to be receptive to working directly with host country nationals. Thus, we propose that:

P3b: Regardless of industry structure, polycentric firms will rely primarily on absorption strategies in coping with political imperatives.

Geocentric firms tend to develop their own unique set of values. Their corporate culture is often distinct from that of the countries in which they do business. This enables them to benefit from country-specific advantages, while not discounting the need for political legitimacy in nation-states in which they have subsidiaries. Firms with a geocentric prediposition, because of their ability to balance the competing demands of economic viability and political legitimacy, are likely to experience fewer problems in coping with political imperatives, regardless of the structure of the industry in which they are competing. In global industries these firms are likely to be structured to take advantage of the economic benefits that result from creating strong interdependencies among subsidiaries. To protect these interdependencies, they are likely to engage in both competitive and political forestalling strategies.

In multi-domestic industries, geocentric firms may turn to competitive or political absorbing strategies (e.g. appointing foreign nationals to their board of directors or forming joint ventures with local companies) because their distinctive culture makes it possible to socialize foreign nationals into the norms and values of the geocentric firm. Consequently, we expect that:

P3c: Geocentric firms will rely primarily on forestalling strategies in global industries and on absorption strategies in multi-domestic industries.

CONCLUSIONS

Strategic predisposition and competitiveness

In this section of the paper we conclude by considering some of the managerial and research implications of the relationships between strategic predisposition, strategies, and the structure of the industry in which the managers of the firm have chosen to compete. Our conclusions are derived from the observation that managers attempt (but do not always succeed) to restructure the firm in ways that they perceive will help them in coping with the economic and political imperatives inherent in international business. They do not succeed because in the process of restructuring they develop relationships with subsidiaries regarding product/market objectives, human resource practices, and performance goals (e.g. financial objectives) which Chakravarthy and Perlmutter (1985) describe as components of a firm's strategic predisposition. Over time, firms also institutionalize belief systems and values which are partially derived from home and host country cultural elements that further constrain their ability to respond to changes in the economic and political imperatives (see e.g. Scott, 1987). The failure of firms to adapt to the political demands of a specific industry structure is a consequence of the divergence between the strategy that is responsive to the political imperative within a specific industry structure and the strategy that firms adopt as a result of their strategic predisposition.

Ethnocentric firms, because they have tended to exercise high levels of control over their subsidiaries, may be relatively more competitive in global than in multi-domestic industries. Their competitive advantage in global industries typically stems from combining the parent's distinctive competence with the country-specific advantages of the host countries in which they have located subsidiaries. This pattern appears to have dominated in the textile, petroleum and mining industries (see e.g. Chandler, 1986). Yet, in global industries ethnocentric firms may not respond as effectively as geocentric firms to the political imperative, because they project home country economic and political values onto host country subsidiaries. This makes them less inclined to work directly with host country nationals and leave them less sensitive to the nuances of host country political life and process. The intensity of the relationship between a parent and its subsidiaries in ethnocentric firms is also likely to preclude the creation of subsidiary–subsidiary interdependencies. In combination, these factors suggest that, in a global industry, ethnocentric firms may not employ the kinds of forestalling strategies necessary to insulate transfers from the political imperative as effectively as geocentric firms, since forestalling presumes a greater reliance on subsidiary–subsidiary interdependencies and an understanding of the host country political processes than the culture of the typical ethnocentric firm is likely to have fostered.

In multi-domestic industries, ethnocentric firms may find themselves at a serious competitive disadvantage because their reliance on forestalling strategies may leave them poorly prepared to deal with political threats to ownership/control. In addition, their need for control over their subsidiaries, as well as the dominance of the home country culture in dealing with their subsidiaries, may make them unwilling to use absorption strategies to insulate the firm from ownership/control risk.

For the polycentric firm, concern for political legitimacy in all the countries in which it operates may lead to undue reliance on absorption strategies in coping with the political imperative. In multi-domestic industries (e.g. branded and packaged goods industries) this is not likely to create problems, since the political imperative tends to threaten ownership/control. In global industries, however, the greater probability of threats to transfers requires a facility with the use of forestalling strategies. In addition, as Porter observes:

> In a global industry, managing international activities like a portfolio will undermine the possibility of achieving competitive advantage . . . . A firm may choose to compete with a country-centered strategy, focusing on specific market segments or countries where it can carve out a niche by responding to whatever local country differences are present. However, it does so at some considerable peril from competitors with global strategies (1986: 19).

Thus in global industries, polycentric firms may be disadvantaged in responding to both economic and political imperatives.

Our analysis leads us to conclude that a geocentric predisposition is likely to enhance the competitive position of a firm because of its ability to respond to the political imperative, regardless of industry structure. The unique culture of the geocentric firm that transcends national cultures enables the firm to develop a global perspective. Thus, in global industries (e.g. autos, consumer electronics) a geocentric strategic predisposition enables a firm to structure relationships with its subsidiaries to forestall threats to transfers while, at the same time, participating, when appropriate, in host country politics. On the other hand, in multi-domestic industries the unique cultures of firms with geocentric strategic predispositions allows them to absorb foreign nationals more readily than ethnocentrics (where the dominance of the home country culture may create tensions between headquarters and local management).

FUTURE RESEARCH

In the course of outlining our model we have offered a number of testable propositions which should be of interest to researchers in the fields of strategic management, political risk analysis, business–government relations and international management. For students of strategic management our analysis suggests that an effective response to the political imperative in international markets may require a mix of forestalling and absorption strategies. To date little attention has been paid to the need to formulate strategies designed to address the political imperative (e.g. home and host country import and export restrictions), especially as it increasingly affects the ability of firms to be competitive in international markets. There are signs, however, that this situation is beginning to change (see e.g. Doz, 1986; Kobrin, 1989).

The propositions we have offered require empirical testing. Unlike much of traditional political risk analysis and research in strategic management, the research program implied in this paper goes beyond an analysis of forecasting activities (e.g. Sethi and Luther, 1986). In addition to forecasting, it indicates the need for an analysis of the relationship between industry structure and firm-level effect of the political imperative, as well as the relationship between these firm-level effects and firm strategy. Investigation of the effects of strategic predisposition on strategy choices will require longitudinal studies, in addition to cross-sectional research.

Other issues not raised in this analysis, but germane to the topic, also require investigation. Further research of the effect of governmental bargaining power on strategic decisions (see e.g. Kobrin, 1986) would help us understand conditions that make the political imperative salient. An analysis of the relationship between the management of perceived commercial risk and political risk would provide insight into the extent to which management takes the political imperative into account in choosing between forestalling and absorption strategies. These and many more questions related to the analysis of business conducted in an international political and economic context remain open to those who are interested in increasing our overall understanding of the complex interplay between politics and markets.

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