BUSINESS-GOVERNMENT RELATIONS IN A GLOBAL ECONOMY: BROADENING THE CONCEPTUAL MAP*

IE Working Paper DE8-109-I 07-12-2004

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Abstract

While most work on corporate political activity focuses on the domestic arena, globalization has raised the business salience of international policymaking such that firms increasingly engage in international political processes as well. Political dynamics in the two arenas follow different logics whose management implications have been largely overlooked. This paper integrates management theory and institutional analysis in political science to develop two contrasting models, and to delineate what kind of political resources and capabilities are necessary to project political influence in either arena.

* The authors would like to thank David B. Allen, Abe Newman, Almudena Villanueva, and Steve Weber for helpful comments and suggestions on an earlier draft.

INTRODUCTION

Politics and political influence are important concerns for managers because of their impact on the competitive context in which firm strategy is executed. Over the past two decades, the globalization of major markets combined with policies designed to lessen the burden of government on business, such as privatization and liberalization, have paradoxically made politics and political influence more, not less, important for business. There are at least three reasons for this. First, as the impact of business on society and nature grows, managers experience increasing demands from diverse stakeholders (Donaldson & Preston, 1995; Mitchell & Agle, 1997). Politics is the arena in which diverse stakeholder demands are ultimately reconciled. Competitive success thus demands active participation in this process. Secondly, innovation and strategic reliance on new technologies has become central to competition in many industries (Tushman & Anderson, 1997). New technologies often create regulatory challenges which demand political responses that can affect the viability and profitability of strategic innovation. Government policy also influences the ability of business to appropriate the economic value created by innovation. The ability to exert political influence in technologically dynamic sectors therefore becomes an important strategic capability. Thirdly, globalization can significantly reduce the transaction costs of doing business internationally, allowing companies to extend their activities beyond their home market (Ohmae, 1999). Managers thus encounter multiple and conflicting regulatory demands, elevating the importance of skillful political management.

Because of these trends, management scholars are paying greater attention to politics and political influence. The literature on corporate political activity in particular has made important contributions to the study of management. Studies of corporate political activity have demonstrated the extent to which politics impact business and has charted new ground by examining patterns of political influence, the diversity of political strategies, and the effects of political engagement on company performance. This line of research has admirably fused insights from management theory and economic theories of regulation with insights from the political science subfield of American Government. Contributors deserve particular credit for reaching out to political science, a field that is rich in lessons that bear directly on problems encountered in management but does not enjoy the same prominence in management research as work in sociology, psychology, or economics.

Most of the existing work on corporate political activity, however, has primarily focused on the domestic arena (Shaffer, 1995; Hillman, Keim, & Schuler, forthcoming). This certainly made both empirical and theoretical sense in light of the prominence of lobbying activities in the United States and the extensive political science literature on interest groups and their effects on Congress and the executive branch. While recent studies have applied these insights to corporate political activity in other countries (e.g.Coen, 1999), the focus remains on a domestic political context. Concentrating solely on domestic activities is a critical limitation, especially as companies project political influence beyond their home market's borders by lobbying foreign governments directly, working with international organizations, and participating in diverse international coalitions and forums.

This paper's principal objective is to further our understanding of politics and political influence in the context of management by broadening the conceptual map and scrutinizing the dynamics of corporate political activity on the international stage. To complement existing work, we draw on insights from the International Relations subfield of political science and specifically upon recent literature on international political economy and international market regulation. We show that the assumptions about politics and political dynamics vary considerably between the domestic and international contexts. As a result, the management capabilities and assets that are beneficial in a national context might not have the same effectiveness in an international arena. Indeed, in certain situations, capabilities and assets that yield domestic political influence can stand in the way of effectively projecting political influence internationally. Paradoxically, parochial success within national arenas can in the worst case lead to competitive failure in the context of globalizing markets. We explore these tensions and derive propositions from them.

To explore the interaction of firm-specific assets with particular political environments this paper integrates management theory and work in political science more tightly than previous work. Specifically, we bring together the resource-based view of the firm and political institutional analysis. The argument's theoretical core is developed in a three-stage process, consisting of first, an examination of various types of firm-level political resources and capabilities; secondly, an analysis of the way institutions shape the logic of business-government relations in particular political settings; and thirdly, an assessment of the kinds of political resources and capabilities likely to maximize political influence in a given settings. In this paper, we focus on the contrast between domestic and international political settings because corporate political activity on the international stage has been largely neglected by management scholars. A similar approach, however, could be developed for political institutional environments that vary along other dimensions.

We develop two stylized models of corporate political activity to contrast the domestic and international arenas. The first is termed a "closed political economy" (CPE) model in which corporate political activity takes place entirely within a domestic arena. In this model, a sovereign government is the principal creator of market institutions and allocator of property rights. Other actors, including business, seek to influence government policymaking to advance their interests. Given the conflicting interest group demands, government's chief role is to arbitrate in a manner consistent with public goals. The second model is termed an "open political economy" (OPE) model. In an open international context, politics and political influence are not restricted to the domestic arena, but instead play out on both the domestic and international stage simultaneously. In this "transnational" setting government is no longer the authoritative creator and allocator of property rights because no government has jurisdiction over the whole world.[1] International property rights are consequently weaker and contested more frequently. At times, they can stem from a particular government unilaterally extending the jurisdictional reach of its rules and regulations beyond its national borders, but more generally they are the result of negotiations and consensus-building among governments. This is because sovereign governments are the only actors fully recognized under international law.

Given the substantial differences between the two arenas, business-government relations follow a very different logic in each, with consequent implications for management. Strategies optimized for the demands of one setting may run against the logic of the other. Capabilities and assets developed to engage in the domestic context can inhibit political influence in an international or global political arena. Most existing work on corporate political activity employs the closed model of political economy, though this focus is often

[1] In the International Relations literature, the term "transnational" refers to phenomena that unfold *across* nation states, i.e. they have national and international elements. See Kaiser, 1969, Keohane and Nye, 1974, and Risse-Kappen, 1995.

implicit. Yet assuming that business-government relations always follow the logic of the closed model can lead to suboptimal business decision-making. It could bias managers toward investments in one set of assets when their dependence on favorable international regulatory terms in fact promises greater returns from investments in an alternative set. Globalization pushes a growing number of policy issues from the domestic arena onto the international stage. Managers thus increasingly encounter political dynamics for which existing management literature offers little guidance.

The following section sketches core pillars of our theoretical approach. We adapt the resource-based view of the firm to the field of business-government relations and integrate it with institutional analysis as applied in political science to distinguish domestic and international political arenas. Subsequently, we develop the closed and open models of political economy and derive propositions about the dynamics of business-government relations and their management implications. We then apply the insights to real world management by illustrating the effects of moving corporate political activity from a closed to an open political economy in the context of intellectual property regulation and environmental protection. The final section concludes with an assessment and agenda for future research.

MERGING MANAGEMENT THEORY AND POLITICAL SCIENCE: A RESOURCE-BASED AND INSTITUTIONAL PERSPECTIVE

Our perspective on the role of politics and political influence in the context of management draws more comprehensively on political science than previous studies. At the same time, it integrates such elements more fully into management theory. Previous work on corporate political activity has been primarily influenced by work in the American Government subfield of political science and has consequently focused on specific activities, such as lobbying, campaign contributions, advertising, and public testimonies by executives. Building on this work, we broaden the perspective. Corporate political strategies and the political environments in which they are being deployed are complementary. These environments can vary considerably, which has important implications for the kinds of corporate political strategies and resources most likely to yield success. As work in the International Relations subfield of political science has convincingly shown, domestic and international political environments differ considerably from one another. But even though political scientists have studied the role of business both domestically and internationally, firms remain black boxes in much of this work. Therefore, to obtain a richer picture of the nexus of business and politics, we systematically integrate a resource-based view of the firm and an institutional assessment of the political environment in which corporate political activity takes place. While we focus in this paper specifically on critical differences between domestic and international political environments, the framework could be adapted to explore more generally how various aspects of political environments interact with firm resources.

The central proposition of the research-based view is that firms are heterogeneous in terms of the strategic resources they own and control and that these firm-specific resources account for the performance differences among firms within the same industry (Barney, 1991; Grant, 1991; Henderson & Cockburn, 1994; Leonard-Barton, 1995). This paper extends this central insight to the political activities of firms. The resource-based view alone, however, yields an incomplete picture. Business engages in politics to shape the environment in which it operates. And aspects of that environment, in turn, reciprocally structure business-government relations. We thus complement the resource-based view of the firm with an institutional assessment of the political economic environment in which corporate political activity takes place. Institutions can be defined broadly as "humanly devised constraints that shape human interaction" (North, 1990). Institutions structure social settings by providing incentives and constraints for particular courses of action (March & Olsen, 1984; Powell & DiMaggio, 1991; Hall & Taylor, 1996; Knight & Sened, 1998). They empower some actors and not others; they distribute costs and benefits, in the short run and the long run; they grant some access to policymaking and exclude others (March & Olsen, 1989; Knight, 1992). In doing so they shape actors' strategies and interests, and even affect the very constitution of interests groups and coalitions (Berger, 1983).

The importance of institutions for corporate political activity of course has been noted previously in the management literature. Hillman and Keim (1995), for example, theorize how business-government relations might differ in parliamentary and U.S.-style presidential systems. In this study, we go one step further by focusing specifically on the constitutive role of institutions. Institutions not only regulate behavior, they also determine which actors have formal standing in a particular setting and thus how the policymaking process unfolds (Rawls, 1955; Searle, 1995; Wendt, 1998). The central insight of the field of International Relations is that domestic and international political settings differ considerably from one another in this respect (Jervis, 1978; Waltz, 1979), an insight with critical implications for corporate political strategies.

Based on these premises, we develop four fundamental concepts for the study of business-government relations: *political resources*, *political capabilities*, *political processes*, and *exchanges* between firms and political actors.

Barney (1991) defines "resources" as all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm. Resources can be tangible such as buildings or production equipment, or intangible such as reputation, or corporate culture (Barney, 1991; Collis & Montgomery, 1997). Resources are said to be valuable when they enable a firm to carry out strategies that enhance its efficiency and effectiveness (Barney, 1991). In parallel we define political resources as mostly intangible, context-specific assets that allow a company to engage in political processes and influence outcomes in a manner that enhances the execution of business strategy. Political resources are either financial, informational, social or institutional. Financial resources can be used as campaign contributions to specific candidates or contributions to organizations like political parties or political action committees (PACs). Informational resources are specialized information including detailed knowledge about technical issues, understanding of political processes, and broader industry or otherwise specific information. Social resources are networks of contacts, personal relationships, and mutually developed trust, with policymakers as well as with potential allies and opinion leaders. Finally, institutional resources are specific recognitions or legal standing given to managers or their firms in political processes, such as representation on advisory panels or study committees.

Capabilities are defined as a firm's ability to deploy resources to affect a desired end (Prahalad & Hamel, 1990; Amit & Schoemaker, 1993). We consider political capabilities as firm specific, intrinsically intangible capacities that firms develop over time and that depend on the application of political resources in the context of political processes. Firms use political capabilities to engage in political processes that they deem consequential for their ability to implement corporate strategy or attain other business objectives.

Political processes are the ways and means by which political decisions are made, implemented, and enforced, and are defined above-all by institutions. By definition, political processes are part of the external environment that facilitates or constrains a firm's strategic options. Through the creation and assignation of property rights, political processes yield the rules of the game in which firms develop and execute strategy. Property rights are a particular type of institutions and can be defined as the "social institutions that define or delimit the range of privileges granted to individuals to specific assets" (Libecap, 1989). Firms try to influence the outcomes of political processes in ways that enhance the payoff from deploying their non-political resources in market and non-market activities. Previous work has highlighted the implications for business-government relations of differences in domestic political processes between parliamentary and presidential systems (Hillman et al., 1995). A logical next step is to explore the differences between domestic and international political processes. While political processes can vary within countries and between them, a particularly stark contrast exists between political processes unfolding in domestic versus international settings. It is this contrast that we focus on below through the distinct closed and open political economy models.

The final conceptual element of our approach are exchange relationships, the glue that binds firms and policymakers (Keim & Zeithaml, 1986). Informed by economic theories of regulation, much of the early work on business-government relations modeled such relationships primarily as an exchange of campaign contributions for favorable policies (Stigler, 1971; Noll, 1989). Additional research has since broadened this notion and has placed greater emphasis on the role of information exchange (de Figueiredo, 2002). Firms have knowledge resources and specialized information that is often unavailable to policymakers (Lohmann, 1995). By providing valuable and otherwise unattainable information, firms enable policymakers to improve public policy and achieve political goals such as reelection or reappointment. The importance of having an information edge vis-à-vis other political actors is another reason for policymakers' receptiveness to business holding such information.

How do these various building blocks relate to one another? Our principal concern is the interaction between the firm and its resources on the one hand and the political environment on the other. It is a central insight of the resource-based view that a firm's resources are not universally deployable. Their effectiveness varies across contexts. A parallel argument can be made for political resources and political contexts. Ensuring that a firm's political resources and capabilities match the demands of a particular political environment is critical for the success of corporate political activity. We therefore state generally:

> *Proposition 1: Corporate political activity is more likely to achieve desired results if a firm's political resources and capabilities correspond to the logic of the political environment in which they are deployed.*

As noted above, a particularly stark contrast exists between political processes unfolding in domestic – or what we term "closed" – and international – that is "open"– political economic environments, thus:

> *Corollary 1a: Different combinations of political resources and capabilities are necessary to influence political processes unfolding in domestic vs. international settings.*

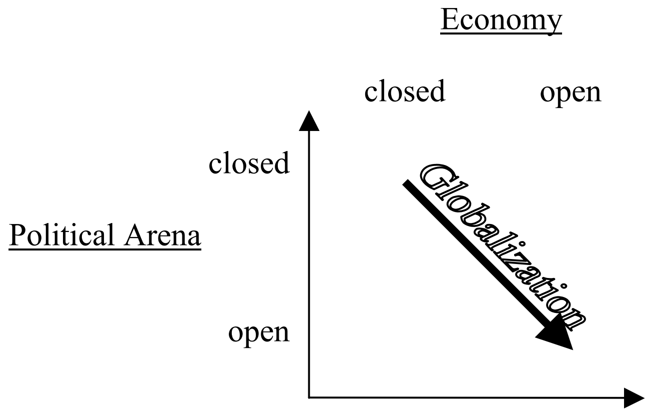
Globalization, as we argued above, moves an increasing number of political processes from the purely domestic to the international realm, potentially creating a miss-match between resources and enveloping political processes. In the following section, we develop the contrast between the two settings more fully and relate them to firms' political resources and capabilities.

CLOSED VS. OPEN POLITICAL ECONOMY

It is a staple of macroeconomic theory to distinguish between open and closed models of the economy. In a closed economy, for instance, a tax cut creates increased disposable income, which in turn boosts consumption and savings and could thus stimulate economic activity. Yet in an open economy, the same tax cut could merely increase imports as consumers spend their additional money on foreign goods. In that case, the tax cut would have no positive stimulative effect on the domestic economy. In fact, policymakers increasingly face just this dilemma. As economies become more open, the effects of fiscal and monetary policy instruments on the domestic economy become harder to predict, and some previously effective economic policies do at times more harm than good (Rodrik, 1997). No economy is of course entirely closed or fully open. The contrast between a closed economy model and an open economy model merely focuses attention on critical variables, parameters, and mechanisms within each, as well as the differences between them. It is, in short, a heuristic device.

Extending the utility of this approach from economics to the realm of politics, we propose to distinguish between closed and open political arenas. In the former case, analogous to the notion of a closed economy, we model a purely domestic political environment where all political actors are domestic constituents. In the latter case, we relax several assumptions and model a political playing field that extends beyond national borders. This in effect yields a nested model, in which the domestic arena is a specific sub-system of the now broadened conceptual map reflecting the complexity of policymaking in the global economy. Although scholars continue to disagree over the meaning of globalization (Guillén, 2001), many would agree that globalization tends to extend both the economic and political-regulatory arenas beyond national borders, though certainly unevenly across industries and countries (Cerny, 1995; Majone, 1996; Kobrin, 1997; Held, McGrew, Goldblatt, & Perraton, 1999; Scholte, 2000; Woods, 2002). In our terminology, globalization moves an increasing number of issues from a closed political economy setting, where all relevant economic factors and political actors are thought to be domestic, to an open political economy setting, where both economic and political dynamics unfold internationally (figure 1).

FIGURE 1
Globalization and Political Economy



This leads to our second overarching proposition:

> *Proposition 2: Economic globalization extends the political arena for corporate political activity beyond the confines of the nation state.*

This insight has important implications for management:

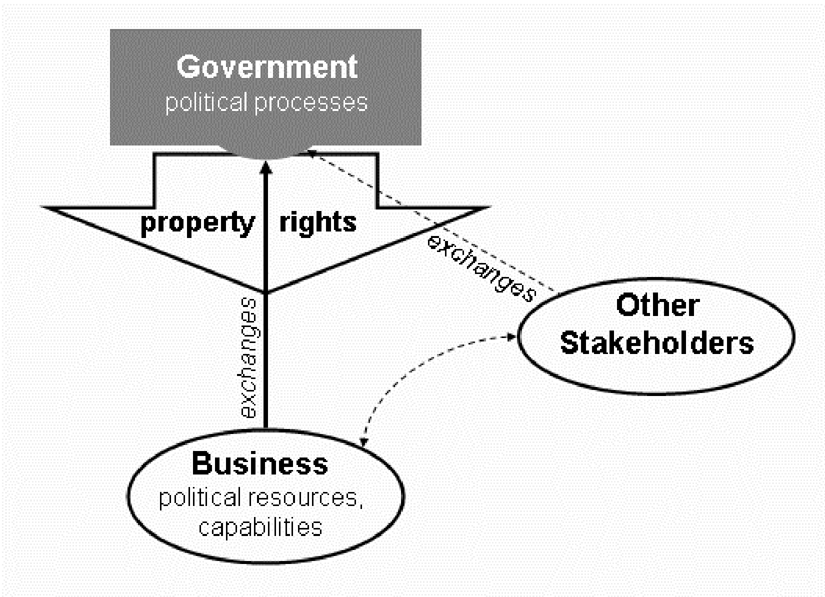
> *Corollary 2a: As economic globalization extends the political arena for corporate political activity beyond the confines of the nation state, firms need to deploy different political resources and capabilities to achieve their objectives .*

Figure 1 reveals one additional feature of our approach that warrants emphasis. There are certainly issues that fall in the open economy category yet are determined largely within a closed political arena. A prominent example is trade protectionism. Domestic producers facing foreign competition may seek trade protection, such as tariffs or quotas, as a shield (Aggarwal, Keohane, & Yoffie, 1987; Irwin, 1996; Schuler, 1996). Indeed, openness of the economy and its effects on domestic producers can be a principal motivator of corporate political activity in reaction (Gourevitch, 1986). Yet the political dynamics in this case are characterized by the logic of a closed political arena. Ignoring for the moment the possibility of international trade agreements prohibiting such practices, a government can grant trade protection as an act of sovereign policymaking. This situation differs sharply from the open political economy context where a single government cannot supply desired policies and where key political actors are located outside the domestic arena.

The Closed Political Economy Model

The closed political economy (CPE) model assumes corporate political activity takes place entirely within the borders of a single state and all critical stakeholders are therefore domestic. The fundamental ordering principle of this system is hierarchy (Waltz, 1979). Government occupies a special position and sits on top of this hierarchy because of its monopoly over the legitimate use of violence. According to Max Weber's famous definition, a political entity is a state "if and in so far as its administrative staff successfully upholds a claim to the monopoly of the legitimate use of physical force in the enforcement of its order" (Weber, 1947). In this model, government is the principal creator of market institutions and allocator of property rights (Polanyi, 1944). As such, it is the target of competing interest group demands, with a particular firm or industry generally being only one of several stakeholders (figure 2).

FIGURE 2
Closed Political Economy Model



In an ideal pluralist democracy, government arbitrates among competing domestic interests on the basis of priorities established through public mandates. Rarely, however, does politics actually work this way (Lowi, 1969). Economic theories of regulation therefore depict both business and policymakers as self-interested and model an imaginary political marketplace where business offers inducements such as campaign contributions in exchange for favorable policies (Stigler, 1971; Noll, 1989; Hillman et al., 1995). Regulation frequently has asymmetric effects, distributing benefits to some while imposing costs on others, thus pitting business against other stakeholders including other firms competing in the same industry (Leone, 1986). Rational policymakers are thought to resolve allocation conflicts by supplying regulation that is favorable to business up to the point where benefits offered by business are outweighed by the costs inflicted by other constituents who are negatively affected by the policy. Thus:

Proposition 3: When potential beneficiaries and potential losers of a policy are constituents of the same political system, competition becomes the dominant mode of stakeholder interaction.

This competitive view of corporate political activity, in turn, has implications for the kinds of political resources and capabilities likely to maximize political influence:

Corollary 3a: In CPE settings, political resources and capabilities that permit obtaining an edge over other stakeholders in terms of access to domestic political processes will be most effective.

In many areas of public policy, government arbitration of competing interests is a continuous process and not a one-time event. Many governments create regulatory agencies and other administrative bodies to institutionalize such arbitration. In the U.S., for example, the Department of Labor's Office of Occupational Safety and Health Administration (OSHA) sets and enforces standards intended to protect workers and routinely arbitrates between companies on the one hand and labor organizations representing employees on the other. Similarly, environmental agencies arbitrate between environmentalists demanding greater environmental protection and companies citing the costs such measures would entail. Government agencies, in short, frequently translate demands from third-party stakeholders into substantial costs for business. In such cases, business has considerable incentives to try to dilute the effectiveness of petitions by political competitors. Thus corporate political influence frequently aims to limit the enforcement powers and regulatory capabilities of government agencies. Consider, for example, American business mobilization against the expansion of federal regulatory power in the area of social and environmental regulation in the 1960s (Kagan, 2001), or the opposition of marketing, financial, and Internet firms to the creation of a European-style central data protection authority (Newman & Bach, 2004). We thus state:

Proposition 4: In a CPE, where government translates stakeholder demands into compliance costs for business, business will work to limit government's regulatory powers.

In other words, the underlying competitive character of corporate political activity within a domestic CPE context translates into a predilection to diminish the power of government. With respect to resources and capabilities, we conclude:

Corollary 4a: Firms that expect to be negatively affected by the extension of new government regulatory powers will employ political resources and capabilities effective in delaying and undermining new government regulatory powers.

Firms' ability to succeed in this regard depends, again, on a match between their political resources and the character of enveloping political processes. Political scientists employ institutional analysis to identify veto points, which are moments in the political process where interests groups can intervene and exert influence (Immergut, 1992). Most generally, firms successful in limiting regulatory powers will be those with political resources and capabilities that allow them to influence the political process at veto points. Yet countries vary with respect to their veto points. Federalism, bicameralism, and independent judicial review are just some of the institutional factors that increase a country's veto points (Immergut, 1992; Blake & Adolino, 2001; Tsebelis, 2002). Political processes in the U.S., for example, are characterized by an abundance of veto points, whereas countries such as Britain or France have considerably fewer (Huber, Ragin, & Stephens, 1997). Particularly where veto points are plentiful, firms thus have special incentives to develop political resources and capabilities aimed at delaying or diluting the effects of new policy (Badaracco, 1985). Targeted lobbying of committee members in position to amend proposed legislation or investments in legal teams to mount court challenges against adopted regulation are consistent with this logic.

Having assessed the logic of business-government relations in a CPE and reasoned what kind of political resources and capabilities are likely to maximize political influence, let us now turn to an open political economy. Relaxing several CPE assumptions fundamentally changes political dynamics and thus has important implications for business efforts to command political influence.

The Open Political Economy Model

Whereas all critical stakeholders in a CPE setting fall under the same jurisdiction, the open political economy (OPE) model describes an arena in which stakeholders are spread out across multiple jurisdictions and policymaking occurs on the international level. To emphasize the fundamental difference between political dynamics within states and between states, scholars of International Relations often draw a contrast between hierarchy and anarchy (Waltz, 1979; Oye, 1986; Lake, 1996). The notion of anarchy does not mean that international politics is all chaos and without order; it merely implies the lack of a central world authority (Bull, 1977). Contrary to the domestic realm, there is no single authoritative creator of property rights in international politics. As a result, international property rights tend to be weak or contestable. They generally originate from bargaining among states – often in the context of international organizations – and their enforcement is usually left to states as well. Very few international organizations have what political scientists call "supranational authority," i.e. the ability to make and enforce decisions over sovereign states (Sandholtz & Zysman, 1989), because states jealously guard against it. The European Union is an important exception (Sandholtz & Stone Sweet, 1998). However, even the World Trade Organization (WTO), one of the most powerful international bodies, has to rely on member states to enforce its trade panel rulings (Lukas, 1995; Kong, 2001; Lawton & McGuire, 2001). Although firms and non-governmental organizations play an increasingly important role in the regulation of international markets (Cutler, Haufler, & Porter, 1999; Haufler, 2001; Mattli, 2001), formal international politics remain very much state-centric. Only states have formal standing before the WTO's dispute resolution panel, for example. Similarly, to the extent that private actors participate in formal international negotiations they do so dominantly as members of particular national delegations headed by foreign or trade ministers, and not independently.

FIGURE 3
Open Political Economy Model

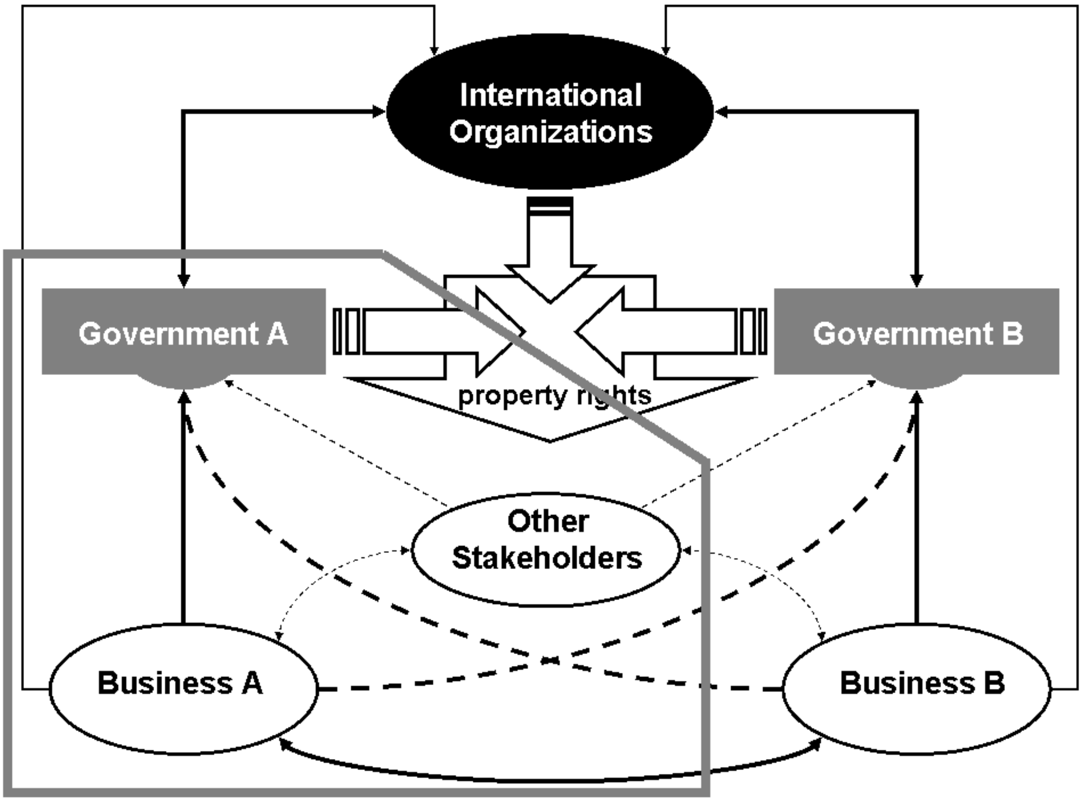


Figure 3 shows a highly stylized picture of political and regulatory dynamics in an OPE. Marked by a frame, the lower left-hand corner contains the CPE model displayed in figure 2, showing it as a subsystem of the larger whole. Relaxing the original CPE model assumptions about the location of critical stakeholders in the political process yields a more complicated map. Most importantly, in an OPE bargaining context, a single government cannot autonomously supply policies desired by business. Instead, policymaking occurs predominantly through interstate negotiation, frequently under the auspices and with active participation of international organizations.

The presence of multiple additional actors and the lack of a single authoritative source of property rights opens up considerable new space for linkages, coordination, and coalition-building. Firms may find it advantageous, for example, to coordinate their position with firms in other countries in order to then simultaneously lobby their respective governments with an identical message. A good example of such international business coordination is the Global Business Dialog on electronic commerce (GBDe), which brings together CEOs of leading American, European, and Asian e-commerce firms to adopt harmonized positions on a set of pressing issues that participants then advocate vis-à-vis governments and international organizations (Cowles, 2001). Business may also want to directly engage international organizations, lobby international officials, contribute to official studies or participate in expert panels set up on the international level. In addition, the model highlights the ability of an individual firm to directly lobby foreign governments, and to lobby several governments at the same time.

In an OPE context, building coalitions, coordinating, and harmonizing positions with stakeholders located abroad is essential for political influence. When firms in a variety of countries manage to agree on a set of objectives and pressure their respective governments in a coordinated fashion, the probability of obtaining desired international policies increases substantially. In actuality, winning government support in a few key countries – usually the U.S., key members of the European Union, and Japan – is often sufficient as these exert considerable influence over the international agenda, particularly in the area of market regulation (Drezner, 2001). The ability to forge alliances and to foster stakeholder consensus is certainly important for successful corporate political activity in all environments (Keim et al., 1986). The peculiar character of international policymaking, however, puts an additional premium on this strategy in an OPE. We thus hypothesize:

Proposition 5: Coalition- and consensus-building is more important for effective political influence in an OPE than in a CPE.

The ability to effectively assemble coalitions and to build consensus among diverse stakeholders – particularly across borders and therefore in transnational and cross-cultural settings – is a formidable political capability:

Corollary 5a: Political resources and capabilities that enhance the ability to build international coalitions and consensus are essential for political influence in an OPE.

Despite the importance of additional actors, new linkages, and the need for international coalitions, perhaps the most significant difference between the closed and the open model of political economy lies in new roles for existing actors. A fundamentally transformed role of a firm's home country government and the resulting implications for business-government cooperation set the OPE model apart. The home-country government essentially becomes a means for corporate political activity, rather than the end. In an OPE, governments are gateways to international political processes since they alone have formal standing in international policymaking. Rather than being the endpoint of corporate political activity that can autonomously supply desired policies, as is the case in a CPE, government in an OPE is primarily an advocate of national interests on the international stage. Considerably more than in a purely domestic context, government can thus be an advocate of business interests. In an OPE, many critical stakeholders are by definition not domestic constituents. Individual governments thus need not balance the competing interests of all stakeholders, as they generally have to do at home, and can instead focus on advancing the interests of domestic constituents with a stake in the international issue at hand. Consider an example. Increasing the protection of intellectual property generally shifts benefits from consumers to producers (Maskus, 2000). In a CPE, those bearing the cost of the new policy – consumers and other users of intellectual property – are constituents whose opposition to the policy has to be taken into account by policymakers (Samuelson, 1999). Yet policymakers face a different logic when constituent firms ask them to put pressure on a foreign government to ensure adequate protection of intellectual property in a foreign country. Here, beneficiaries of the new policy are domestic constituents whereas those that stand to lose – consumers and pirates in the foreign country – are not. We can thus hypothesize more generally:

Proposition 6: In an OPE, a home-country government can more easily be an unconditional advocate of business interests than in a CPE.

Without domestic business support, however, government is constrained in its ability to be an effective advocate of national economic interests. One reason for this is government's limited ability to gather data on market dynamics and specific issues in foreign countries. This, combined with the often technical nature of international policy processes, places large information demands on participants in international negotiations. For example, while trade statistics may suggest a foreign government's policies discriminate against imports, that alone would rarely be enough to bring a case before the WTO. Evidence from the ground is necessary, something that may be difficult for foreign governments to obtain, but readily available to firms operating in the country. Such firms, therefore, have a clear informational edge over governments in this respect. This makes information the critical currency of business-government exchange in an OPE:

> *Proposition 7: As the environment for corporate political activity moves from CPE to OPE, the relative importance of information in business-government exchanges increases and the relative importance of financial contributions decreases.*

A final implication of the changed logic of business-government relations in an OPE is perhaps most unexpected and indeed paradoxical. We previously reasoned that business in a CPE has an incentive to dilute the effectiveness of government regulation if government translates third-party stakeholder demands into compliance costs for business. There are many empirical examples of business doing just that, particularly in the U.S. where managers frequently view strong regulators as detrimental to the their interests. Yet the OPE view suggests that strong national regulators are often essential to wielding effective international political influence. Governments are the formal interface between the domestic and international arenas, and weakness at home usually implies diminished international clout and lack of resources to vigorously pursue issues (Putnam, 1988; Evans, Jacobson, & Putnam, 1993; Milner, 1997). At the very least, an agency or regulatory body is necessary to represent national interests in specific international deliberations is necessary (Slaughter, 2004). One reason why the U.S. has not had much influence in international negotiations over data privacy protection is because it – contrary to European Union and most OECD countries – lacks a powerful regulatory agency in this area (Farrell, 2001; Newman, forthcoming 2005). Yet mere representation is not sufficient. To effectively influence international market regulation, domestic regulators must also have the resources and capabilities necessary to formulate and advance international policy proposals. They must enjoy some kind of normative authority in the field and must possess some kind of leverage over foreign stakeholders, such as the ability to control market access (Bach & Newman, 2004). For this reason, undermining regulators at home risks weakening international political influence. Thus:

> *Proposition 8: In an OPE, undermining or diluting domestic regulatory capacity hinders the obtainment of favorable international policies.*

When government is the gateway to international political processes, strengthening government's ability to advance business interests internationally makes managerial sense. Managers and policymakers can be real partners in an OPE, something that is considerably more difficult in a CPE where potential losers from a policy desired by business are by definition constituents as well.

CPE AND OPE: FROM THEORY TO MANAGEMENT IN THE REAL WORLD

Economists distinguish stylized models of closed and open economies to highlight how additional variables and new relationships among variables fundamentally transform underlying dynamics. We have attempted to do the same by drawing a stylized contrast between a closed and an open model of political economy. Simply relaxing the assumptions that all stakeholders are located in the same jurisdiction and that a government can single-handedly supply desired policies yields a broadened conceptual map. New actors enter, new coalitions and linkages become possible, the role of government moves from arbiter to advocate – all with important implications for management. Just as economists demonstrate that sensible policies in closed economies can have adverse effects in open economies, there is reason to believe that corporate political strategies optimized for closed political economies loose their effectiveness – or at worst even become counterproductive – when the political arena broadens beyond the nation state. We have derived preliminary propositions about what kind of political resources and capabilities are likely to be more effective in each setting and how the character of business-government exchanges might shift.

Economists of course know that no economy is fully open or entirely closed. The same is true for political economies. The stylized models should thus be seen as endpoints on a scale, rather than binary alternatives. The literature on corporate political activity has so far focused overwhelmingly on business-government relations toward the CPE end of the scale. While few authors would discount the importance of international actors, building upon existing models in political science and economics with a predominantly domestic focus, naturally inclined management scholars toward the domestic arena. Globalization and the growing complexity of doing business in a global economy, however, mean that it is valuable to also explore business-government dynamics in a larger, open political economy context.

While corporate political activity in an environment approximating the OPE model brings challenges for business, it also opens new strategic opportunities. When managers correctly assess the underlying logic of political processes and develop and deploy resources and capabilities accordingly, the payoff can be substantial. The danger, however, is not recognizing a changed environment and therefore relying on inadequate political resources and capabilities. As strategy theorists have shown, firms may find that resources developed for a specific competitive environment can become liabilities, or sources of rigidity, in an new or altered competitive environment (Leonard-Barton, 1995). By briefly examining a prominent instance of each, we can more readily see the implications for management.

Mastering an OPE: American Business and Intellectual Property Rights

Twenty years ago, international intellectual property right (IPR) protection was weak. While treaties specifying minimum terms of protection for patents, trademarks, and copyrights had been in force for nearly a century, adherence was entirely voluntary and international enforcement virtually impossible (Braithwaite & Drahos, 2000). Today, the situation is radically different. All WTO members must adhere to a strict set of standards derived from U.S. domestic IPR law. Moreover, enforcement of these standards has become considerably easier as the WTO's dispute-resolution panel can authorize countervailing trade sanctions against laggards (Evans, 2000). None of this would have happened without concerted corporate political activity by leading producers of intellectual property in the U.S., Europe, and Japan. Spearheaded by U.S. business executives, the campaign to subsume IPR under the mantle of trade accords has fundamentally changed the regulation of intellectual property in the global economy.

Hollywood had long been concerned about piracy of U.S. satellite television transmission in the Caribbean when Congress in the early 1980s debated renewal of a bill granting certain Caribbean countries preferred trade access to the U.S. market. On behalf of the Motion Picture Association of America (MPAA), a few influential Washington lawyers capitalized on their close relationship with key Congressional committee members to inject themselves into the political process. The lawyers drafted an amendment that included adequate protection of U.S. IPR among the set of country eligibility criteria, saw it pass easily through committee, and witnessed Congress adopt the provision without much controversy or public debate. For the first time, trade and IPR had been formally linked. In many respects, it was a classic instance of corporate political activity in a CPE. Business lobbied and government delivered.

Yet business quickly realized that such domestic reforms were only the first step toward a new global intellectual property regime. In 1986, IBM CEO John Opel and his Pfizer counterpart Edmund Pratt created the Intellectual Property Committee (IPC) – a body whose membership also include the CEOs of eleven other leading U.S. intellectual property producers – to push for the inclusion of mandatory IPR protection in the agenda of the upcoming General Agreement on Tariffs and Trade (GATT) negotiations under the Uruguay Round (Matthews, 2002; Sell, 2003). From the outset, IPC's efforts were not limited to the domestic arena. American business leaders contacted their counterparts in Europe and Japan, won their support for sweeping change, and coordinated how to best pressure Western governments into including IPR in GATT negotiations (Sell, 1999). Later, during the negotiations, IPC even led this transnational coalition of business leaders into the preparation of a draft treaty that was circulated among all GATT members and that formed the basis of the subsequent international agreement (Sell, 2003).

In addition to working internationally, American executives played a key role in educating U.S. trade negotiators and policymakers about the importance of IPR and the pervasiveness of piracy in much of the world. Capitalizing on its superior access to information about foreign IPR infringement and its knowledge of IPR law, business prepared comprehensive studies, reports, and briefing papers, held "trade shows" of pirated goods for policymakers and the media, and even organized training seminars for trade negotiators on basic IPR law. Business-government cooperation became increasingly institutionalized, both formally and informally. Additional reforms of U.S. trade law in the 1980s created special tools for trade negotiators to threaten and impose bilateral sanctions on governments condoning piracy. These reforms also created a formal process that solicited business input in the preparation of "priority watch lists" and enabled business to formally petition U.S. authorities to launch investigations (Bello & Holmer, 1988). In addition, close relationships developed during this time between business leaders and trade authorities that enabled intensive strategic coordination in informal settings (Sell, 1999).

These new tools, fueled by close business-government cooperation, ultimately proved decisive as the U.S. and its European allies broke developing country opposition to the inclusion of IPR in the Uruguay Round through the threat of bilateral sanctions (Matthews, 2002). Business thus secured a deal – the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement – that had been unthinkable just a few years before. Capitalizing on the distinct logic of business-government relations in an OPE by feeding government critical information, assembling a transnational coalition, coordinating simultaneous lobbying of different governments, supporting the strengthening of government regulators, and turning government into an partner, U.S. executives and their allies secured international policies that have greatly enhanced their ability to do global business.

Fumbling an OPE: Shell and Brent Spar

An OPE, as the case of intellectual property illustrates, offers business new potential allies and new opportunities, if managers can develop and deploy the right resources and capabilities to strategically seize them. But a broadening political arena is not always in business' interest, especially when managers fail to adjust. Royal Dutch Shell's experience during the Brent Spar controversy provides a telling example. Brent Spar came to prominence in 1995, when the British government announced its support for Shell's application to dispose of the retired North Sea oil loading facility in the North Atlantic. In 1994, Shell had commissioned an extensive report that recommended deep sea abandonment as the safest and most cost efficient form of disposal and submitted it to the UK Department of Trade and Industry for approval. Shell received permission from British authorities for what critics would later call the "dumping" of Brent Spar in February 1995. Having effectively exploited its political resources and capabilities in the domestic political arena, Shell moved ahead with what it considered a routine operation.

It turned into anything but routine when Greenpeace learned about the upcoming disposal, occupied Brent Spar in telegenic fashion for three weeks, and launched a pan-European high-profile media campaign that included calls for boycotts of Shell gas stations. However, the crucial element of Greenpeace's campaign was to shift the political arena away from domestic UK politics and to the broader international stage (Vorfelder, 1995). In our terminology, the environmentalists' efforts moved politics beyond the confines of a CPE and into the realm of an OPE. Greenpeace had approached the issue from the beginning with an OPE mentality, not recognizing the British government's authority to decide unilaterally what it saw as an international environmental matter. Shell, in contrast, realized way too late that the political arena had broadened. Whereas Greenpeace effectively rallied allies consistent with the logic of an OPE, Shell continued to play a CPE game where its political resources and capabilities were most developed.

Seizing the momentum generated by its occupation of Brent Spar, Greenpeace engaged European opinion leaders and key policymakers. By coincidence, the 4th International Conference on the Protection of the North Sea took place in the midst of the controversy. Greenpeace effectively lobbied the environmental ministers of Sweden, Denmark, and the Netherlands, as well as Ritt Bjerregaard, the European Commissioner in charge of the environment, and obtained an official intergovernmental statement condemning the British government and Shell. Geenpeace's German wing was at the same time particularly effective in mobilizing consumers, leading to boycotts that almost halved Shell's weekly gasoline sales in Germany, and prompting German Chancellor Helmut Kohl to confront Prime Minister John Major over the issue at the Halifax G7 summit meeting (Barbol, 1996).

In the end, public and international political pressure on Shell proved overwhelming, despite the steadfast support of the British government. Indeed, at the very hour that John Major took to the floor of the House of Commons to defend Shell's plan to dump Brent Spar, the multinational pulled the plug. Rather than sinking the facility at deep sea, Shell had it towed to a Norwegian fjord where it was dismantled. Whereas the scientific and technical issues pertaining to the disposal remain debatable (Pearce, 1995; Abbott, 1996; Masood, 1996), the incident powerfully demonstrates the danger of not matching a corporate political strategy to the political environment in which it unfolds. Shell's managers had deployed political resources and capabilities built over time that had been historically successful to enlist the support of the British government in domestic political processes (Elkington, 1998). Unnoticed to Shell's managers, however, Greenpeace's actions propelled the issue onto a much wider, international stage. In this setting, Shell's political resources and capabilities became a liability. The more it rested its case on British government approval and scientific evidence, the weaker its case became in the international arena. The resulting political repercussion did lasting damage to Shell's reputation with both its customers and government officials.

CONCLUSION

The literature on corporate political activity has substantially enriched management theory by shedding light on the important role that politics and political influence play in the world of contemporary business. Given the empirical prominence of domestic lobbying and the availability of sophisticated theoretical tools in political science and economics to study the interaction of domestic regulators and interest groups, it is sensible that most existing work in the field of management has focused on the domestic arena. Yet it is undeniable that globalization extends the competitive playing field for business, providing new opportunities in foreign markets and new challenges at home. There is also considerable evidence that the political arena is broadening, as many political and regulatory issues transcend national boundaries and require attention at the global level (Cerny, 1995; Kobrin, 1997). Firms thus increasingly engage political processes internationally, as well as domestically. As the stakes rise in international political processes, corporate political activity that extends beyond national boundaries is likely to intensify and management scholarships needs to adjust.

In this paper, we have taken a first step toward extending work on corporate political activity by including dynamics in the international arena. Yet a mere transposition and application of existing concepts from the domestic to the international realm will not suffice. We have drawn from the political science subfield of International Relations to illuminate fundamental differences between domestic and international political dynamics that have important implications for business-government relations and corporate political strategies. In order to draw that contrast and relate it to management theory, we have combined a resource-based view of the firm with political institutional analysis. From the logics of two ideal-typical models – a closed and an open political economy model – we have derived initial propositions about the political resources, capabilities, and exchanges most likely to yield political influence in a given setting.

Combining the resource-based view of the firm and institutional analysis as applied in political science offers a solid conceptual toolbox for work in this dynamic area. Integrating more closely management theories and political science framework is of interest not just to business scholars. To most political scientists, the firm remains a black box. Political scientists have certainly observed political activities of firms on both the domestic and international levels, and have incorporated firms as political actors into models of politics, yet little is understood about the factors that motivate firms to engage in politics and that determine their relative effectiveness. Bringing theoretical insights from both sides together, in short, promises new insights for both management research and political science.

Clearly, more work needs to be done. Systematic empirical research is necessary to scrutinize the propositions and the two contrasting models from which they have been derived. As noted above, the CPE and OPE models should most usefully be seen as endpoints on an imaginary scale, not binary alternatives. If that is the case, what are the mixed forms in-between? Is there a tipping point at which a particular logic comes to dominate? What factors can push corporate political activity onto the international stage? Globalization and the growing permeability of national boundaries are certainly among them. But the case of Brent Spar suggests that actors themselves may influence the arena in which politics play out. Can this insight be generalized and could business harness the ability to switch to favorable political arenas? How can it resist efforts by other stakeholders to shift the arena? A second line of future research could apply the argument to corporate political activity in what political scientists call "multilevel governance" (Hooghe & Marks, 2000), i.e. overlapping patterns of political authority such as in the case of European Union and member state authority or the tensions between federal and state authority in the U.S. Analyzing corporate political activity in multi-jurisdictional settings could shed important light on the effects of different political environments on political strategies and particularly on the challenge of working simultaneously in distinct arenas. Finally, a framework for the analysis of corporate political activity combining a resource-based view of the firm and political institutional analysis can be adapted and extended to illuminate the effects of multiple institutional differences among countries. We have already alluded to this in the brief discussion of veto points above. There is a robust and growing literature in political science on institutional differences among political economies and how these provide business incentives in areas such as finance, worker training, product development, and research investments (Zysman, 1983; Hall, 1986; Kitschelt, Lange, Marks, & Stephens, 1999; Soskice, 1999; Hall & Soskice, 2001; Thelen, 2004). Harnessing some of these insights could be an important step toward a general theory of corporate political activity that fully incorporates the important role of political environments.

As the subtitle to this paper states, our principal goal has been to open up and broaden the conceptual map for the study of politics and political influence in the context of management. Naturally, the paper thus poses more questions than it answers. Yet if management scholars studying the business and politics nexus continue to freely incorporate insights from related disciplines, we will make progress in grasping business-government relations in a global economy.

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