OF POLITICS AND PERMISSION SLIPS:
THE ROLE OF BARGAINING POWER IN THE SEARCH FOR POLITICAL
COMPETITIVE ADVANTAGE

The World Trade Organization (WTO) is increasingly a source of trade policy harmonization. This harmonization can affect the economic sources of firms’ competitive advantages. The phenomenon may lead more firms toward the pursuit of political advantages which may result in a greater use of the WTO’s dispute settlement system.

Introduction

The President of the United States pronounced in his 2004 State of the Union address that his nation shall never seek a permission slip to defend itself against those who would do it harm. While powerful nation-states are not always bound by the tenets of international law, and have the ability to re-write their domestic ones, business entities are not so fortunate. They are often constrained by environmental circumstance: not just the economic dimensions of the industries in which they exist; but also the legal and political regimes in effect for the jurisdictions in which they operate. Firms have historically found it necessary to seek permission from governmental entities to conduct operations, ranging from the mundane necessity of obtaining corporate charters and business licenses to lobbying efforts aimed at achieving favourable legislative changes. What has changed is that political decisions of important economic consequence to Canadian businesses are originating with increasing frequency in Geneva, Switzerland – home of the World Trade Organization – than they are in Ottawa or in one of our provincial capitals.

Problem

One of the most pressing challenges facing Canadian business in the next quarter century is increasing their global competitiveness in an era of ever eroding global borders. With each decision that arises from the aegis of the WTO’s Dispute Settlement Understanding, global trade rules become increasingly harmonized. This harmonization effect may mean that traditional sources of economic-based competitive advantage will not be sustainable in the long term. Economic advantages that once supported domestic market share of industry leaders, if diluted or prohibited, will no longer offer protection from nimble new business entrants located around the world. The purpose of this paper is to examine how firms can manage this new business reality, leveraging the system to reinforce their particular economic advantages, while defending against the vicarious attacks of their rivals via proxy governmental representatives.
Research Question

The objective of this paper is to examine what role, if any, bargaining power might play in the search for political competitive advantages whose value resides in the ability to protect or enhance a firm’s own economic-based advantages while neutering the advantages of one’s global rivals. Given that the World Trade Organization is a forum from which global trade rules are developed and compliance with which is adjudicated, firms have a strategic interest in ensuring such rules preferably favour, but certainly do not disfavour, their particular economic competitive advantages. Firms may therefore be inclined to secure their competitive advantages via international trade actions that (a) seek to globalize a particular competitive advantage of theirs or (b) disallow the competitive advantage of a foreign rival, through the WTO dispute settlement mechanism. This may be achieved by the application of politically-oriented bargaining power toward a domestic government in order to initiate a trade dispute, or conversely, to rebuff the trade actions of foreign rivals.

Background

The importance of this topic evolves out of Canada’s historical and continuing dependency upon international trade and is predicated upon the nation’s role as one of the four most active players in the WTO’s dispute settlement system (Zivkovic and Drache, 2000). By improving our understanding of Canada’s open economy in a global political-economic context, we can also expand our knowledge of the role of individual firms within the context of international institutionalism.

The dependency of the Canadian economy, and by extension, domestic firms upon international trade is significant. Exports of goods and services account for 41.0% of national gross domestic product in Canada (“Fourth Annual Report on Canada's State of Trade,” 2003) but a mere 9.4% for the United States (calculated by author from “U.S. International Trade In Goods And Services”, 2003; “Gross Domestic Product”, 2003 data). Noteworthy and of concern is Canadian firms’ reliance on the American marketplace. In 2002, 84.8% of merchandise exports went to the United States (“Fourth Annual Report on Canada's State of Trade,” 2003). Of added interest is that despite Canada and the United States having the world’s largest trading relationship, the United States has been involved in 18 of 44 WTO dispute cases affecting or initiated by Canada (“Dispute Settlement: The Disputes”, 2004). Due to the breadth and depth of this relationship, and given the lack of research on WTO trade dispute initiation, this topic is of significant importance to academic researchers concerned with the global competitiveness of Canadian firms.

Knowing that the Canadian economy is dependent on international trade, and understanding the vital role of the WTO in establishing norms within the international trading regime, the fundamental significance of this research program are the methods and modalities available to firms wishing to harness this strategic opportunity in order to generate political competitive advantages in order to preserve or project extant economic advantages of the firm. The aforementioned research question thus attempts to describe, define and detail how firms may
acquire and allocate political bargaining power in such a way as to maximize their political advantages in ways not possible through economic competition.

**Literature Review**

While various authors have advanced the need to achieve economic advantage, whether through core and distinctive competencies (Prahalad and Hamel, 1990), resource capabilities (Wernerfelt, 1984; Barney, 1991) or market positioning (Porter, 1980, 1985), what has insufficiently been considered are the impacts of isomorphic forces (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1987; Galaskiewicz and Wasserman, 1989; Oliver, 1990) on economic advantages which can reduce the level of firm heterogeneity within an industry. Many firms often find these economic sources of competitive advantage to be illusive – as suggested by the large numbers of firms which become insolvent each year. Even firms that do manage to achieve them face the increasing threat of international attack upon these advantages through the dispute mechanism of the World Trade Organization. These attacks may come in the form of coercive isomorphism as represented by dispute panel reports that mandate compliance with their decisions; unrepentant nations face trade retaliation that target industries unrelated to that which was involved in the initial dispute.

Firms may turn to corporate political activity (CPA) in order to offset the impact of isomorphic forces, or to defend their economic advantages from rivals’ threats. The CPA literature draws upon a number of theoretical perspectives including strategic management, resource dependency, exchange and institutional theories. Collectively, the intermingling of these approaches raises questions of goal achievement; the acquisition and dispensation of political capital; the disposition of power relations between firms and government; and the structural importance and influence of regulatory and legislative bodies. These theoretical approaches shape the processes through which firms recognize sources of politically-oriented bargaining power, acquire bargaining leverage, and dispense it to governmental institutions and related stakeholders.

The research question involves a CPA/strategic dimension: how the firm shapes and influences its stock of politically-oriented bargaining power may in turn affect the performance it receives from its government-directed activities. The criteria that define a strategically valuable resource implicitly suggest that variations in the composition of political capital produce politically-oriented bargaining power of varying degrees of importance (Barney, 1991; Collis and Montgomery, 1995). Implicit in the first research question is the need for an examination of the strategic potential derived from such variation.

A second dimension of the research question concerns how firms might create politically-oriented bargaining power. It involves opportunity identification, political resource recognition and resource acquisition activities. Despite work in the RBV arena having addressed resource recognition, it remains insufficiently addressed within the CPA field. The CPA approach has historically recognized the resource dependency of firms (Yoffie, 1987; Hillman and Keim, 1995; Rehbein and Schuler, 1995) while offering lesser attention to political opportunity identification and the processes through which strategically valuable resources are obtained by firms prior to their dispensation.
A third aspect of the research question, which involves the allocation of political capital in the form of bargaining power, may be enlightened by considering an exchange power viewpoint found in CPA writings. Getz (1997, c.f. Cook, 1977) notes, “the key feature of an exchange relation is the transfer of resources for mutual benefit.” Firms with high levels of bargaining power in comparison to government may therefore be expected to receive politically-related competitive advantages in exchange for the provision of political capital (Gale and Buchholz, 1987; Mitnick, 1993). These three dimensions of politically-oriented bargaining power – its composition, methods of acquisition and processes for allocation – form the heart of a conceptual model drawn from the strategic management and CPA literatures.

Figure 1

A model of the bargaining power/dispute initiation relationship
Propositions

The outcome of this paper is to develop a propositional inventory related to the role of politically-oriented bargaining power as it pertains to the initiation of trade disputes. The advantage of such an outcome is it can frame and advance our understanding of an imprecisely defined phenomenon based upon works drawn from the extant literature (Gatignon and Robertson, 1985; Le Vine, 1997), conceptual methods that have often been used to model human behaviour. The following first and second level propositions have been delineated from a theoretical application of the strategic management and corporate political activity literatures as depicted in the conceptual model shown above.

Proposition 1: Firms considering the deployment of politically-oriented bargaining power engage in an environmental scanning effort to determine the availability of acquiring further power.

Arising from the traditions of the Harvard Policy Framework within the strategic management literature is the contribution of environmental scanning (Andrews, 1971; Christensen et. al., 1973). The purpose of an environmental scanning effort was to produce organizational alignment between the firm’s internal and external environments from which enhanced firm performance was the expected outcome. We extend this strategic management principle to the business-government activities of the firm in the context of trade dispute initiation. It is suggested that subsequent to an environmental stimulus and preceding the decision of whether to commit politically-oriented bargaining power to initiate (or rebut) a trade dispute action, firms engage in an environmental scanning effort. The intention is to assess the available quantity of the firm’s bargaining power from both internal and external sources, in addition to the bargaining power of rivals and the demands of governmental service providers. It is believed that the firm will determine whether or not to act in response to the stimulus based upon the outcome of the environmental scanning effort. Further sub-dimensions of these propositions are delineated below:

Proposition 1a: The firm performs an internal assessment of the politically-oriented bargaining power readily available from the internal environment.

The purpose of this sub-component of the environmental scanning effort is to enable the firm to assess its present, ready available stocks of politically-oriented bargaining power. According to Hillman and Hitt (1999), the firm can engage in one of three generic strategies as part of a corporate political strategy: information provision, financial contribution or constituency building. The ability to provide information, financial assistance or constituent support is contingent upon the available political and economic resources available to the firm. Hence, it is expected that firms analyze which of these resources, and in what quantities, are available for potential use as part of a corporate political strategy.
**Proposition 1b:** The firm performs an external assessment of the politically-oriented bargaining power potentially available from the external environment.

An accounting of available political bargaining power is insufficient to estimate the potential influence firms may have on governmental service providers. An additional sub-component of the environmental scanning effort is required to incorporate the potential political resources firms may acquire from the external environment. Potential sources for these external resources include other supportive firms, both within and without the industry, suppliers to and buyers from the firm, and other stakeholders. These bargaining power contributions are from stakeholders that do not wish a direct role in negotiating a response to a trade-related stimulus; those stakeholders wishing to have a direct involvement are considered separately below. In contrast, bargaining power that arises from this source represents appropriable resources from the external environment through the firm’s ongoing economic and political activities.

**Proposition 1c:** The firm performs an external assessment of the politically-oriented bargaining power potentially deployable by rivals.

The impact of rival firms is a necessary consideration with any environmental scanning effort. Rivals with interests contrary to those of the firm pose a threat to the firm, no longer just an economic one but also a political one based on the firm’s assessment of their stock of politically-oriented bargaining power. An analysis of rivals is necessary to identify which firms pose a threat, the extent of the threat posed based on their bargaining power, and an assessment of the likelihood rivals will engage in competitive political bargaining.

**Proposition 1d:** The firm performs an external assessment of the politically-oriented bargaining power demanded by government in order to affect trade dispute initiation.

As the firm assesses the total bargaining power supply, available for itself from internal and external sources, and in possession of its rivals, it can compare it to the demands for bargaining power by governmental service providers. The composition of such demands – whether for information provision, financial support or constituent support – in part may determine whether the firm engages in corporate political activity at all. Bundles of some political capital may be more desirable by government than others; bundles which may be in greater possession by some firms than for others. The temporal nature of politics may also differentiate the initial and final levels of bargaining power demanded by government: initial demands may be followed by subsequent demands to expedite the response of government, or conversely, to prevent a delay in the implementation of a desired public policy response.

**Proposition 2:** Firms considering the deployment of politically-oriented bargaining power consider the availability of collaborators’ contributions toward a joint governmental approach when determining the availability of acquiring further power.

Until now, bargaining power has been considered from the frame of a firm being a solitary actor in the interaction with government; that additional stocks of political bargaining
power are acquired through an exchange process and applied directly by the firm. The inclusion of this proposition recognizes conjoined political interaction of the firm and other supportive stakeholders in a collaborative approach to government. Joint political activity may be formal – such as through industry trade groups, business associations or the like – or informal, such as short term alliances between like-minded firms and other stakeholders. This proposition is also necessary given that collaborative support by industry may be part of the terms demanded by government; in such cases, an equivalent amount of political capital amassed and applied by a single firm may be perceived as less legitimate than an equivalent amount proffered by a collection of firms.

**Proposition 3: A firm’s decision whether to act or react toward a trade dispute stimulus effect is contingent upon the available and acquirable politically-oriented bargaining power of the firm.**

Only when an environmental scanning effort is complete can the firm determine with certainty whether it will actively engage in corporate political activities directed at government. This decision of whether to commit, and when to commit, depends on the outcome of the environmental assessment. This commitment, or lack thereof, is contingent upon the immediacy of available resources; the nature and extent of externally acquirable resources; the threat of potential rivals; the collaborative support of stakeholders; and the demands of government. It is this consideration and impact of these forces that determine whether the firm is able to actively respond to stimuli, as firms may have the desire but an inability to respond due to internal and external environmental factors.

**Proposition 4: Having decided to act, the quantity of the firm’s allocated bargaining power is contingent upon the involvement of foreign governments, other stakeholders, and the expected demands of the domestic government.**

Firms may choose not to respond to stimuli; those that do respond are challenged by questions as to the extent of their response. This proposition involves the level of the firm’s commitment as demonstrated by the quantity of politically-oriented bargaining power allocated. It recognizes the difference between bargaining power potential and that proportion which is employed. The magnitude of this allocation is contingent upon the expectations of government, and magnified by the conflicting influence of foreign governments and of contrary-minded stakeholders. At this critical juncture in the business-government relationship, the negotiation process is critical. If firm commitment is blind to the impact of its rivals, and the opportunity for subsequent offers of additional political capital are not present, the stakes will be higher and conversely, initial offers of political capital by firms would likely be higher than if follow-up bidding is possible.
Proposition 5: The determination of whether a trade dispute is initiated – or a foreign dispute vigorously defended – is dependent on the nature and the quantity of bargaining power allocated by the firm, foreign governments and other stakeholders’ involvement.

Governments determine whether to initiate a trade dispute with a foreign nation, not initiate, or delay such an initiation. That decision is influenced by the composition and magnitude of politically-oriented bargaining power offered by domestic firms. It may also be affected by foreign governments or other stakeholders that may attempt to subvert the interests of domestic firms. Additionally, domestic governments, when faced with competing perspectives on a particular public policy issue, may decide to focus on less contentious policy issues that necessitate an even larger allocation of bargaining power beyond that which would normally be necessary. In such circumstances, the exhaustion of domestic firm bargaining power potential may be insufficient to refocus governmental attention that has turned to other pressing but less controversial matters.

Contributions

Inspired by the work of Yan and Gray (1994) which connected bargaining power, management control and joint venture performance, this paper has conceptualized a linkage between bargaining power acquisition, allocation and trade dispute initiation. This connection, though speculative, attempts to bridge the gap between the tradition performance-oriented of the strategic management literatures - e.g. the strategic positioning (Porter, 1980, 1985) and the resource-based viewpoints (Wernerfelt, 1984; Barney, 1991) – with the more phenomenologically-centred corporate political activity perspective (Baysinger, 1984; Hillman and Keim, 1995; Hillman and Hitt, 1999). This connection has important implications both for academics and for management practitioners.

Implications for Academics

Leading strategic management scholars have for years offered contrasting viewpoints of the sources for achieving excess rent generating performance (Porter, 1980, 1985 as compared to Wernerfelt, 1984; Barney, 1991). Yet as an implication of the discussion of isomorphic forces might suggest, the debate is moot if these economic competitive advantages are undermined by overarching political decisions shaped by the World Trade Organization. The boundaries of the strategic management research agenda are expanded through this connection between economic and political notions of competitive advantage. Greater consideration and investigation of these linkages are necessary to understand how the intersection of economic and political advantages is affected by the evolving international trading system.

This paper also provides an additional frame of reference when considering the present and future sustainability of economic-based competitive advantages. The impact of isomorphic forces on economic competitive advantages has insufficiently been addressed by academics; one method through which its effects may be mitigated may involve the pursuit of political competitive advantage. This action-oriented process may begin through the application of data
Implications for Practitioners

Four important implications for practitioners have evolved from this paper. The first is the need for business practitioners to possess an increased awareness of the World Trade Organization and the potential impacts it may have on their operations. The second is the need to undertake a monitoring process of developing trade disputes that may arise in their industry. The third is the need to perform periodic environmental scanning assessments of the firm’s bargaining power position relative to its rivals within the industry. Last is considering the initiation of trade disputes as an additional component of the political strategies of the firm.

An increased awareness by business practitioners of the World Trade Organization is necessary if firms are to have a fuller understanding of their external environments. The difficulty is that the WTO is not well understood (“Farmers in the dark about WTO impact: Poll,” 2000; Mulveny and Wasserman, 2000; Latyshova, 2003). Subsequent to achieving an increased awareness of the WTO, firms need to monitor rivals in their domestic industry and their foreign competitors. As these are the likely sources for the initiation of trade disputes that run counter to the interests of the firm, both prudence and strategic management necessitate an ability to intervene in nascent trade disputes before they become initiated at the inter-governmental and WTO levels. The difficulty of adopting such a monitoring process is that events which trigger trade disputes may be ambiguous for the firm. Further, as Hillman and Hitt (1999) imply, rival firms that have perpetual relationships with their governmental service providers may possess a strategic advantage over those that do not. Accordingly, an investment in developing on-going relationships with particularly their federal governmental representatives and the Department of Foreign Affairs and International Trade is important.

In tandem with the implementation of a monitoring process in order to respond to trade issues before they become formalized, is the need to continually assess the firm’s bargaining power position. As part of this process, firms may wish to consider proactive environmental scanning initiatives in place of a reactive response to environmental stimuli. The benefit of a periodic and regular assessment of the firm’s internally available bargaining power; that power which is acquirable by the firm from the external environment; the stocks of bargaining power held by its domestic and foreign rivals; and the continually shifting demands of government empower the firm to respond more rapidly to evolving trade disputes.

Given the aforementioned considerations for practitioners, a final implication is the inclusion of trade dispute initiation among the inventory of strategic management tactics for the Canadian business leader. Firms unable to increase their market share in domestic or foreign industries may wish to consider the pursuit of trade dispute initiation as a strategic device. It provides a way to circumvent the economic successes of rivals whose economic advantages are distinctive from those of the firm. Faced with a limited ability to compete economically, firms
wishing to survive may wish to pursue political sources for competitive success. For those firms lacking in economic influence but endowed with or capable of acquiring political clout, it provides an alternate basis of competition in which they may potentially thrive. Accordingly, better understanding the inner workings of government, expanding the cultivation of relationships with governmental representatives, and building on their common interests are necessary for firms to not only safeguard their economic competitive advantages, but to expand them through the strategic management of their political advantages.

**Limitations and Future Directions**

At first glance, an evident limitation of this study is that it is conceptual in nature. This, however, is out of necessity. A theoretical bridge between the strategic management and negotiations literatures does not exist. In the absence of a theory, there is nothing to test empirically. The first step in producing an empirical assessment of the linkages between economic and political notions of competitive advantage is the development of a relevant theory that has been contextualized. The nexus between business and government, economics and politics, is trade dispute settlement. The context of the World Trade Organization provides an opportunity to explore what role, if any bargaining power might play in the search for political competitive advantages whose value resides in the ability to protect a firm’s own economic-based advantages while neutering the advantages of one’s global rivals.

An additional limitation concerns the empirical implications of future research but one worth considering within the confines of this study. This relates to the generalizability of empirical research in this area. The differing natures of distinct political systems may curtail the ability to test a general theory of political competitive advantage. It is important to note that while the tactics of corporate political activity vary across countries and with different levels of governmental analysis – part of the reason why a widely accepted taxonomy of corporate political tactics has not emerged (Hillman and Hitt, 1999) – the higher order strategic motivations for engaging in disparate corporate political activities may potentially be shared across borders and boundaries. The motivation of firms to engage in political competitive advantage may be the result of isomorphic forces undermining economic competitive advantages, of firms seeking an alternative basis of competition than traditional economic means, or as a way for dominant firms to perpetuate their dominance. Academics and practitioners need to know which of these or other motivations stimulates the business-government negotiations behaviour that lead to trade dispute initiation. This paper begins that intellectual journey.
References


