Extending the bargaining power model

Eighteenth century lessons from Panton, Leslie and Company in managing political risk

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Abstract

Purpose – This paper seeks to further develop the bargaining power model of political risk management by employing a historical case study to uncover issues not presently considered in the model.

Design/methodology/approach – It first examines current political risk research, primarily focusing on the bargaining power model and then reviews a historical case study to demonstrate that the model remains incomplete. Next, both the resource-based view (RBV) of the firm and institutional theory are examined to develop propositions to guide future bargaining power research.

Findings – Examining the bargaining power model by employing a historical case study of Panton, Leslie and Company, which operated in the present day Southeastern USA during its tumultuous colonization period, not only provides an interesting historical account of how one firm managed political risk, it suggests the need to modify the bargaining power model to consider both the specific resources required for differentiation and the need to balance differentiation and conformity pressures in managing political risk. Based on what this case study reveals about the model, it is suggested that the RBV provides insights into factors that may help an multinational enterprise (MNE) maintain its bargaining power based on differentiation even under changing environmental conditions. Further, it is suggested that institutional theory highlights conditions that make it more or less necessary for an MNE to conform to host government demands, which can reduce or enhance its bargaining power, respectively. Thus, in tandem, both may provide useful insights to produce a more "balanced" bargaining power view of political risk.

Originality/value – For practitioners, the findings highlight critical considerations in managing political risk by illustrating the need to balance differentiation and conformity. In addition, this review provides propositions to guide future empirical political risk research, especially studies focusing on bargaining power issues.

Keywords Political risk, Case studies

Paper type General review

Internationalization entails many critical strategic moves for most firms. As they develop into multinational enterprises (MNEs), firms encounter greater opportunities to access

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new customers or resources, while at the same time they face increased uncertainties in general environment-, industry-, and firm-level factors (Miller, 1992). One critical uncertainty is the extent to which a particular country's (i.e. "host") government might interfere with an MNE's operations. Given its importance, this "political risk," that is, the threat that host government interference could adversely affect an MNE's profits or goals (Robock, 1971), has been the focus of substantial research over the last 35 years (Click, 2005; Delios and Henisz, 2003; Frynas *et al.*, 2006; Root, 1972).

In practice, however, MNEs have contended with political risk since international trade began. For example, historians have noted that Assyrian merchants with overseas trading posts faced political risk almost 4,000 years ago from host government protectionist policies (Moore and Lewis, 1999). More recently, events such as the Iranian Islamic revolution in 1978, the Chinese government's Tiananmen Square crackdown in 1989, and Great Britain's transferring Hong Kong to China in 1997 have emphasized that MNE managers must try to predict host government actions and manage a subsidiary so as to minimize the impact of these actions on profits and goals.

Although host governments may nationalize an entire industry, research has generally found that they often selectively intervene (Poynter, 1982). Thus, most political risk research has examined what factors increase or decrease a particular MNE's vulnerability to interference. One primary school of thought has focused on the bargaining power of an MNE *vis-à-vis* a host government by examining factors that increase or decrease each party's competitive advantage (Vernon, 1971). In general, an MNE having high (low) bargaining power relative to the government is expected to face relatively less (more) government intervention (Poynter, 1982).

Although this model has proven useful for examining political risk over the past two decades, recent research suggests it requires further development (Ramamurti, 2001). For example, Henisz and Zelner (2005) noted that even though the model has advanced political risk theory, as currently formulated, it remains limited because it does not yet fully account for country- and MNE-level characteristics that can prompt government intervention.

Accordingly, to help advance bargaining power research, we first review current political risk research with a particular focus on bargaining power issues. Next, we employ an historical case study examining a company that successfully managed extremely high political risk to further analyze bargaining power issues. This firm, Panton, Leslie and Company operated in the present day Southeastern USA during a tumultuous period from Spanish colonization until this area became a US territory (1783-1819).

Examining this company's actions not only provides an interesting historical account of how one firm managed political risk, it also highlights areas where the bargaining power model remains incomplete. Specifically, the case suggests the model should be modified to consider:

- what type resource types may provide an MNE with sustainable bargaining power; and
- how firms balance differentiation and conformity pressures in managing political risk.

Next, drawing from recent organizational research (Deephouse, 1996; Oliver, 1997; Zaheer, 1995), we employ both the resource-based view (RBV) of the firm and institutional theory to develop propositions regarding these issues. We conclude with future research suggestions.

Political risk research

Political risk represents a critical research topic given the impact it has on MNE foreign direct investment (FDI) decisions (Vernon, 1971). MNEs have long tried to manage this risk, particularly those in some (e.g. extraction) industries that have been historically vulnerable to host government interference (e.g. expropriation).

MNEs can experience political risk on three fronts: ownership, operations, and transfers (Root, 1972). Of these, ownership has received the most attention because government seizure of MNE assets (i.e. expropriation) or entire industries (i.e. nationalization) can dramatically impact FDI. Such drastic government actions, however, are not necessary to adversely affect an MNE's profit or goals (Daniels *et al.*, 1985). For example, governments can employ "creeping expropriation" where they require an MNE to transfer ownership to local owners or hire indigenous managers over time (Nakata and Sivakumar, 1997). Alternatively, the host government can change regulations that affect a firm's ability to operate (e.g. price controls) or transfer key resources (e.g. currency) into or out of a country (Ring *et al.*, 1990).

Current political risk research can be divided into studies primarily focusing on country- (i.e. "macro-") level, firm- or project- (i.e. "micro-") level, or a combination (i.e. "bargaining power") political risk models (de la Torre and Neckar, 1988). First, a significant amount of research has examined country-level factors that indicate a host government or political events (e.g. riots) may interfere with foreign investment (Alon and Martin, 1998), and this macro risk assessment comprises the focus of most practitioner and many academic political risk models. For example, Institutional Investor provides a risk rating for individual countries based on information provided by international banks (Ellstrand *et al.*, 2002). In addition, academic models have examined how factors such as a lack of commercial code, conflict between the host and an MNE's home country, and recent changes in political ideology increase macro political risk (Alon and Martin, 1998). Second, research has also focused on micro political risk by examining threats to individual firms (Keillor *et al.*, 2005). For example, studies have found political risk is higher for firms competing in strategic industries such as infrastructure (e.g. banking) and extraction (e.g. oil drilling) than in "non-strategic" industries (Kobrin, 1980; Poynter, 1986).

Third, a growing body of research has incorporated both macro- and micro-level factors to examine political risk in terms of an MNE's bargaining power *vis-à-vis* a host government. This research is the most advanced in paradigmatic development within political risk research (Lenway and Murtha, 1994), and it makes three assumptions:

(1) an MNE's bargaining power results from "what it brings to the table versus what the host government brings";

(2) early interactions favor the MNE whereas later ones favor the host government as the latter faces increased incentives to redirect MNE returns to other stakeholders; and

(3) the greater the MNE's bargaining power relative to the government, the lower its political risk (Grieco, 1982; Henisz and Zelner, 2005).

Research has examined several factors that decrease or increase an MNE's relative bargaining power (Figure 1). On one hand, a host government's bargaining power increases when a country has attractive investment opportunities, non-substitutable production factors, and competing (especially local) firms. In addition, a low technology investment, generic good production, and a large sunk capital investment decrease an MNE's bargaining power (Wells and Encarnation, 1985; Fagre and Wells, 1982; Lecraw, 1984). Time may also negatively affect an MNE's bargaining power because increasing competition generally diminishes its monopoly power over time (Hymer, 1970). Thus, whereas early interactions favor the MNE, later ones favor the host government in bargaining power relations. As the government increases its bargaining power relative to the MNE, the MNE enters the "Danger Zone" where it faces increasing interference risk.

On the other hand, an MNE can improve its bargaining power by providing substantial benefits to host nations such as promoting local employment, employing and training host country managers, or engaging in public relations (Kim, 1988). In addition, research has found that differentiation based on offering diverse products, having high R&D or advertising intensity, exporting finished products, and having a local advocate (e.g. an influential customer) can increase MNE bargaining power (Lecraw, 1984; Vachani, 1995).

Thus, an MNE increases its bargaining power to the extent that it either has a unique competitive advantage and/or it promotes host government's goals. Based on recent developments in organizational research, however, we suggest two areas where the current bargaining power model needs additional development. First, beyond discussing general resources (e.g. advertising or R&D), the bargaining power model has remained

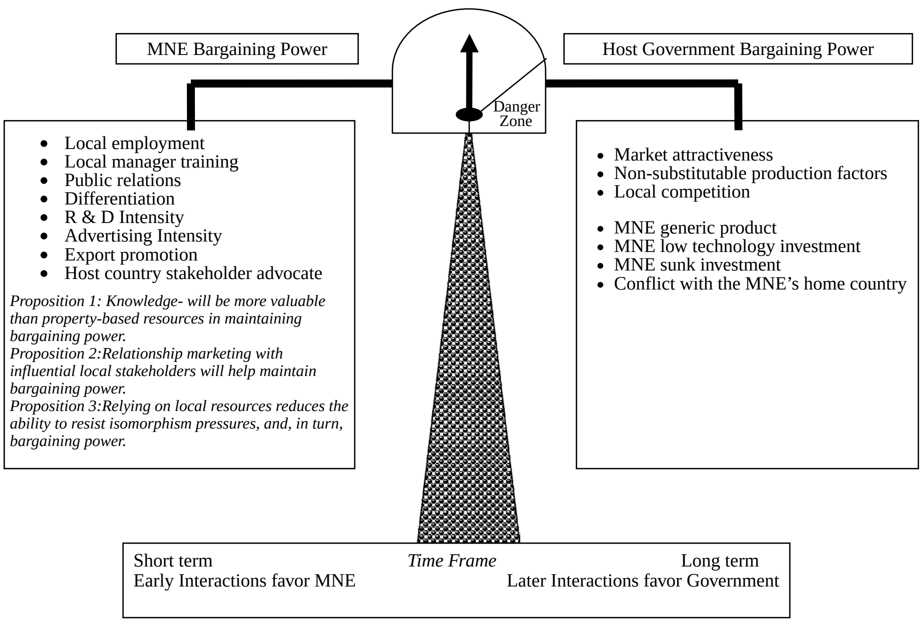

Figure 1.
A model of factors contributing to bargaining power

relatively silent regarding resources types that can lead to sustainable competitive advantage (SCA). This issue remains critical because, as noted in organizational research, not all resource investments necessarily lead to SCA (Barney, 1991).

Second, bargaining power research has rarely considered the possible dangers of "overdifferentiation" or "overconformity." At the extreme, however, following bargaining power logic too far can make an MNE appear "too foreign" or "too local," and actually increase its intervention threats (Poynter, 1982). For example, an MNE's competitive advantage may reside in its management abilities or corporate culture, and, it may, therefore, choose to staff a subsidiary with long-tenured managers from within the current corporate ranks. Alternatively, it may try to increase its bargaining power by hiring and training local managers. In the former case, the MNE may exploit its competitive advantage, but runs the risk of not conforming to local demands. In the latter case, a host government may soon decide that local managers are capable of running the subsidiary, and the MNE faces an increased redundancy threat.

To examine these issues and attempt to further develop the bargaining power model, we employ an in-depth case study in the next section of an MNE, Panton, Leslie and Company, which operated in Southeastern North America during European colonization. We chose this company based in large part on the availability of detailed archival records (for which the Spanish colonialists were famous) available at the University of West Florida (Coker and Watson, 1986). Using case studies in this retrospective manner can be useful in developing new or enhancing established organizational theories (Eisenhardt, 1989).

Panton, Leslie and Company in Colonial North America

Panton, Leslie and Company traded in the Florida Colonies during a time of wars and political turmoil. The host government role changed hands from the British, who first chartered the company, to the Spanish, and finally to the newly formed USA (Figure 2).

When Great Britain owned the 13 American Colonies and East Florida during the mid-eighteenth century, its merchants traded finished European goods with Native American (e.g. Cherokee, Chickasaw, Choctaw, Creek, and Seminole) tribes primarily for deerskins and other peltry. Although the French and Spanish also vied for this trade as a diplomatic tool for managing tribal relations in the region, by 1763, British traders had exploited both their geographic location and logistical abilities to create substantial dependence among these tribes on British goods. In doing so, they successfully prompted many tribes to end their loyalty to the Spanish Crown presenting security threats to Spanish West Florida and Louisiana (Coker and Watson, 1986).

Five Scotsman, William Panton, John Leslie, Thomas Forbes, Charles McLatchy, and William Alexander, were all involved with this trade prior to the American Revolution, operating in Charleston, South Carolina, Savannah, Georgia, and St Augustine in British East Florida (Claiborne, 1880). Increasing tensions during the years prior to the American Revolution, however, created problems because all were loyalists. In 1775, the Governor of East Florida, Patrick Toyne, recruited Panton to conduct trade with the Creeks in an effort to both maintain tribal loyalty and help defend the colony should war break out (Coker and Watson, 1986). Despite embargoes imposed by the Georgia and South Carolina Provincial Congresses, Panton continued

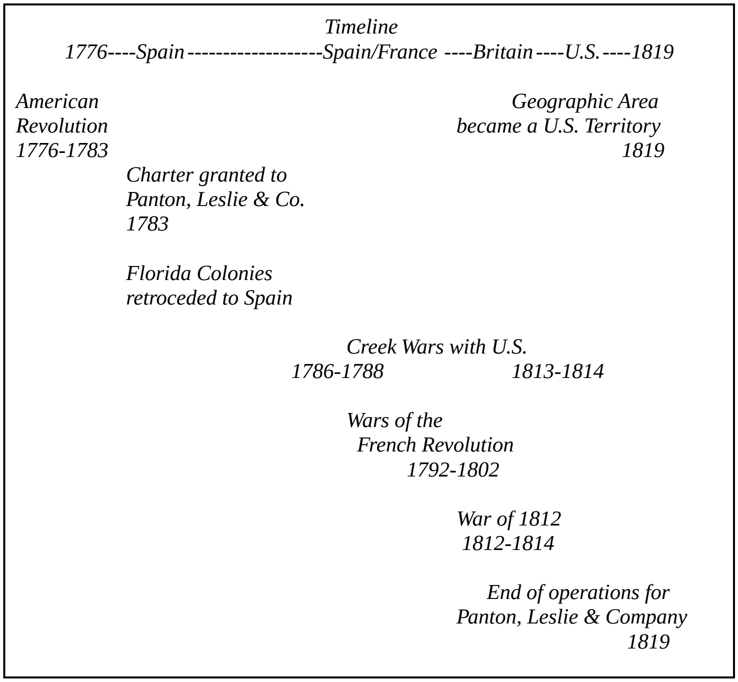

Figure 2.
A time of wars and political turmoil in the Florida Colonies

to ship goods to East Florida, prompting the President of Georgia, John A. Tuetlen, to later deem him an "open & bitter Enemy to the American Cause" (Jenkins, 1926, p. 248). Given their loyalty to the British Crown, Panton and his partners eventually fled to St Augustine fearing that their business interests were in danger.

The American's Revolutionary War victory created anxiety among Native American tribes, who feared both the loss of British trade and the incursion of American settlers into their tribal lands. Although the Americans could have provided goods of sufficient quality to replace those of the departing British, many tribes feared that trade would be followed by territorial demands (Watson, 1976), particularly given that some tribes had allied with the British during the war (Caughey, 1938). In response, some tribal representatives traveled to St Augustine from as far away as the Great Lakes to seek assurances of continued British military and trade support. To assuage trade concerns, the Governor Toyne licensed Panton and his partners in January 1783 to create Panton, Leslie and Company ("the Company") and establish a trading post with the Creek tribes near Apalachee Bay, Florida (Watson, 1976).

The Treaty of Paris in 1783, which granted the American Colonies their independence, also required Great Britain to retrocede East Florida to Spain. The Treaty, thus, fulfilled Spain's wish to turn the Gulf of Mexico into a Spanish "lake" by giving it control of North American from Mexico to the Florida Colonies. At the same time, however, it required them to contend with the approximately 45,000 Native Americans of various tribes that inhabited these colonies (Brown, 1959; Coker and Watson, 1986). During their previous ownership of these territories, the Spanish had exercised some control over these tribes via their Christian mission system, but this system had been largely destroyed during border disputes and superseded during British rule by control via trade (Lockey, 1949). Because both the Spanish and many tribes now shared the desire to curb American westward expansion, the Spanish were motivated to consider tribal wishes. The Spanish were further motivated by memories of intermittent tribal hostilities during their previous ownership (Whitaker, 1931).

One such wish was the continuation of trading, particularly in British rather than Spanish goods, the latter of which the Native Americans considered inferior (Coker and Watson, 1986). To aid this situation, Governor Toyne, prior to his departure, recommended to the Spanish that the company be allowed to continue its tribal trade. In a 1793 letter to Spanish officials, he suggested:

> … I take the liberty in addressing Your Excellency in favor of a system of maintaining cordial harmony with the Indian nations, which has been the practice for some time past to the general good of this province.
>
> Panton, Leslie and Company, who have been carrying on this trade with the Indians for many years in East Florida intend to remain, on which assumption I have the honor to recommend these gentlemen to your protection and patronage so that they may continue their business for the public good (Toyne to O'Neill, 1783).

Trade privileges were, thus, granted to the company, but the Spanish Government considered these temporary arrangements, and the company was restricted primarily to operating in East Florida with its headquarters in St Augustine (Coker and Watson, 1986). In addition, although never strictly enforced because of logical issues and aforementioned Native American preferences for British products, the Spanish Government initially directed the company to trade in only Spanish-made goods (Lockey, 1949).

The following year, the Spanish governor of East Florida wrote to his superiors justifying the continuation of the company's services, its trade monopoly in the region, and its importation of British goods:

> It is true that much use has been made of various European goods … (which) are of the first necessity for the Indians, to whom the lack of them is highly objectionable.
>
> To provide them with these things at the expense of the royal treasury would be impossible; for which reason, I understand, the French in the past and later the English, attempted to supply the needs of the Indians by means of trade. At first they allowed trade freely to all, but it was soon found that to permit this without discrimination resulted in fraud, rapine, and bad faith, which instead of attracting, repelled the Indian nations. To remedy this abuse, they came to entrust the Indian trade in each province to a single merchant or commercial house…
>
> From what has been said it is clear that the house of Panton and company, who have handled for ten years the trade of this province, have much influence over the neighboring Indians … If it is desired, therefore, to win effectually the friendship of these Indians for ourselves, it would be risky to expel this firm and company at one stroke, or even until several years have passed, to give time in which to introduce Spaniards among the Indian nations, educated in their trade, and somewhat skilled in their language …
>
> I believe their continuance here for some years will be useful and even necessary for royal service; and I believe also that it would be well to add to the said firm a Spanish subject with some acquaintance of the English language (de Zéspedes to de Gálvez, 1784).

Consequently, the company maintained its favored position in East Florida. At the same time, however, even at this early date, Governor de Zéspedes noted the importance of trying to introduce Spanish managers into the company.

The Spanish tried to keep the lucrative tribal trade in West Florida under their direct control, but a series of mishaps presented the company with an opportunity to provide critical gifts for tribal delegations during the 1794 Indian Congress in Pensacola. Following this success, the Spanish Government permitted the partners to move company headquarters to Pensacola, which had a four to one advantage over St Augustine in tribal trade volume (Brown, 1959). In the royal orders of 1786 authorizing the company's operations in West Florida, the Spanish tried to limit the company's activities by both requiring Panton and his partners to swear loyalty to the Spanish Crown (but allowing them to remain British subjects) and mandating the company only engage in tribal trade, sell at prices agreed upon at the Pensacola and Mobile Tribal Congresses, and pay 6 percent duty on all imports and exports. These orders also stipulated that in event of war with the British, the company would have one year to liquidate its business (Whitaker, 1931).

Its entry into the West Florida trade was also aided substantially by enlisting a Creek Chieftain, Alexander McGillivray, to whom the company had given one-fifth of the company's profit when it recruited him in May 1783 (Watson, 1976). McGillivray, son of Scottish father and a French and Indian mother, was born and raised among the Creeks, but later educated in both Charleston and Savannah. He, thus, possessed an understanding of European, American, and Native American viewpoints, which served him well in both his diplomatic role as a chief and principle negotiator for the Creeks and, at times, other tribes in treaty negotiations, as well as his business activities in connection with the company from 1783 to 1793 (Caughey, 1938). During his association with the company, McGillivary was instrumental in advocating its role in conducting tribal trade (Coker and Watson, 1986). For example, soon after joining the company, McGillivray wrote a letter in July 1785 to the governor of West Florida, stating:

> These Nations are exceedingly well Satisfied with the arrival of the supply of Indian Trading Goods brought by Mr Panton for the Support of their Nations & they expect that the Trade thus begun will be established on the most permanent footing as was promised them in the (Pensacola Indian) Congress.
>
> The Americans ever Since, the Congress of last year . . . which to them is a matter of much discontent . . . have been using every means in their power to Seduce these Nations from the engagements they have entered into with the Spanish Nations . . . (McGillivray to O'Neill, 1785).

By 1789, the combination of McGillivray's tribal influence, the company's diplomacy, and a rival British trading firm's bankruptcy in Mobile had helped the company monopolize tribal trade in the Florida Colonies (Brown, 1959). By that time, along with its Pensacola trading post, the company traded with the Chickasaw and Choctaw tribes from Mobile, and later expanded further to operate in Cherokee country in 1792 and as far north as Chickasaw Bluffs (present day Memphis, Tennessee) in 1795 (Caughey, 1938).

Its growing success and influence allowed the company to eventually circumvent the restrictions mandated by the royal orders of 1786. For example, over time it expanded beyond importing products destined for tribal trade (e.g. blankets, guns and ammunition) to include those desired by Spanish colonists (e.g. linens, furniture and coaches) and beyond exporting peltry to include other commodities (e.g. cotton) and processed goods (e.g. lumber, beef, and turpentine). Indeed, in 1789, another royal order rescinded one of the most onerous restrictions, the six percent duty, by granting the company duty-free trade status (Whitaker, 1931).

At the zenith of its success in the 1790s, the company began to encounter problems based on both micro- and macro-level events. At the micro level, other British merchants and politicians in the Bahamas retained William Bowles, who looted the company's St Mark store in 1792 in an attempt to break its monopoly (Wright, 1967). In addition, McGillivray's untimely death in 1793 deprived the company of an irreplaceable advocate both among the tribes and with the Spanish (Caughey, 1938).

At the macro level, the French Revolution prompted pan-European conflicts that would rage for 20 years, and both the British and Spanish became involved in 1793. Spain's involvement and its subsequent alliance with France against the British in 1796, in particular, created several problems for the company. First, Spain had planned to use territorial disputes with the USA about areas forming present day Alabama and Mississippi as bargaining chips for commercial concessions from the Americans, but the war required it to acquiesce, resulting in the Treaty of San Lorenzo in 1795. The Spanish, thus, recognized the Mississippi River and the 31st parallel as the US' western and southern boundaries, respectively, moving the Cherokee into US territory (Whitaker, 1931). Thus, the Treaty not only effectively deprived the company of further trade opportunities with major customers, it also jeopardized a purported $200,000 in uncollected debts. In addition, the US Government quickly established factories in the region to provide goods to the tribe, which presented the company with greatly increased competition (Coker and Watson, 1986).

Second, the war created multiple logistical hardships for the company, resulting in shortages. For example, the war's outbreak imperiled a season's worth of perishable furs in Pensacola and made shipping trade goods directly from London much more difficult. The Spanish also ordered that any company shipments through the vital port of Havana, Cuba had to be made on Spanish or American ships because British sailors would not be tolerated in this strategic port during wartime. In addition, the company endured both increased scrutiny from Spanish authorities, which prevented it from circumventing some trade restrictions, and faced increasing threats of British and French privateers capturing cargo or even sinking company ships. For example, in 1797, Panton informed the Spanish Crown that losses to the French along with higher insurance payments had cost the company $185,059 (Coker and Watson, 1986).

The company's plight prompted an investigation by the Spanish Ministry of State in 1800, which sought to determine whether the company's services were still needed. The governor of Louisiana conducted the investigation, and after six months determined that the company must be allowed to continue operations in the region. As justification, he cited the company's role in providing intelligence about and its trade in maintaining peaceful relations with the tribes, thereby counteracting American ambitions. As a result, the Spanish Crown permitted the company to continue its trading monopoly (Coker and Watson, 1986).

This trade increasingly declined after 1800 as the growing American incursions pushed most tribes further west. In response, the company increasingly relied on other commodities such as cotton in lieu of deerskins for revenue. By doing so, the company was able to continue to thrive, and in 1804, it maintained assets of approximately $400,000, which closely approximated its value before facing such tremendous difficulties in the 1790s (Whitaker, 1931).

Following William Panton's death in 1801, John Forbes, who had joined the firm as a partner nine years prior, took over the firm. The company, renamed John Forbes and Company in 1803, maintained some trading activities, but also focused on collecting outstanding debts and, later, recouping losses incurred during the War of 1812 (Brown, 1959). As part of these debt settlements, the company acquired substantial tracts of Native American land in present day west Florida, which the Apalachicola Land Company later administered and sold by after the remaining partners retired from the company (Upchurch, 1969).

In summary, although expelling the British from the Gulf of Mexico had been a principle Spanish goal during the American Revolution, Panton, Leslie and Company was largely able to operate and later monopolize trade with Native American tribes in the Spanish colonies from 1783 until the end of Spanish rule in 1819. The company attained this success despite both Spanish intentions to replace it with a loyal Spanish firm and war between Spain and Great Britain. Indeed, in his 1800 letter to the Spanish Crown supporting the company's continued monopoly, Govenor Caso Clavo stated that "Replacing Panton [is] a project that since January, 1787, has been thought of . . . but never has a house presented itself who would or could take care of this trade" (Brown, 1959, p. 332).

Results

Panton, Leslie and Company operated during a tumultuous period when various colonial powers were at war, and it survived transitions during which territorial ownership changed hands. The case study's findings support the traditional bargaining power model by showing, for example, how the Spanish attempted to minimize the company's bargaining power through actions such as seeking to install Spanish managers within the company.

At the same time, the case illustrates two political risk issues that suggest the bargaining power model requires further development. The first involves how an MNE develops strategic differentiation necessary to sustain its competitive advantage. The case shows that the company maintained its advantage for more than 25 years by developing particular resources types that resulted in a SCA, and, in turn, allowed it to maintain its bargaining power. The second involves how much an MNE must conform to host government demands. The case shows that the company heeded Spanish Crown's requirements to the extent necessary to stave off large-scale interference, but it successfully resisted "overcomforming" and, in turn, becoming redundant. Thus, the bargaining power model needs to be revised to incorporate these findings.

Both major findings parallel those in strategic management research conducted in both domestic (Deephouse, 1999) and international (Zaheer, 1995) settings suggesting that successful firms balance differentiation with conformity. To examine these two issues, these studies have often employed the RBV of the firm and institutional theory, respectively. Accordingly, in the next section, we briefly review this research to examine an MNE's need to balance these dual pressures so as to manage political risk.

Managing political risk: differentiation versus conformity

The resource-based view of the firm

According to the RBV, a firm's ability to develop and maintain a SCA requires it to control a resource or capability that is valuable, rare, imperfectly inimitable, and lacking strategically equivalent substitutes (Barney, 1991). These resources can be defined as any factor, tangible or intangible, that the firm has at its disposal to "enable it to produce efficiently and/or effectively a market offering that has value for some market segment or segments" (Hunt and Morgan, 1995, p. 6).

Despite its importance, RBV research, to date, has been surprisingly silent about political capabilities as a resource (see Dahan, 2005 and Frynas *et al.*, 2006 for two recent exceptions). One issue, however, that appears particularly pertinent for political risk research focuses on a firm's ability to maintain competitive advantage over time (Teece *et al.*, 1997). Thus, an opportunity exists for RBV to inform political risk research particularly given the bargaining power model emphasizes firm resources and capabilities (e.g. R&D).

Traditional RBV conceptualizations have often depended on framing resources issues in stable environments (Priem and Butler, 2001). Given increasing environmental uncertainty in many industries, however, it may be more critical for managers to maintain a match between resources and firm's environment over time in dynamic environments (Teece *et al.*, 1997). Indeed, rapid and unpredictable changes in its environment can eliminate a firm's current SCA (Leonard-Barton, 1992) and may require new resources to be developed (Miller and Shamsie, 1996). In the context of MNE-host government interaction, this translates into an MNE making decisions necessary to maintain its bargaining power even as a host government's power changes (often increases) over time.

We suggest applying RBV to political risk research in two ways. First, we examine different resource types to gauge their relative value in increasing an MNE's bargaining power. Second, we review one segment of RBV research, relationship marketing, to examine how an MNE's relationship with influential local partners might increase its bargaining power.

In terms of resource types, firms can possess property- or knowledge-based resources (Miller and Shamsie, 1996). Whereas the former rely on exclusionary legal contracts or first mover advantages, the latter are based on "uncertain imitability" (Lippman and Rumelt, 1982). Accordingly, economic rents accrue to firms with property-based resources to the extent that they have exclusive control based on property rights. In contrast, rents accrue to firms knowledge-based resources to the extent that competitors remain ignorant of cause-effect relationships providing the firm its advantage.

In a political risk context, we posit that knowledge-based should be more related than property-based resources to an MNE's bargaining power for two reasons. First, as noted in our political risk review, bargaining power is related to an MNE's ability to provide unique benefits that are difficult for a host government to copy. Second, political risk may involve changing property rights, which can nullify an MNE's competitive advantage resulting from property-based resources. For example, the government may expropriate tangible (e.g. production plants or equipment) resources or fail to enforce laws protecting intangible (e.g. patents or brand names) assets from piracy. These issues suggest the following (Figure 1):

P1. Knowledge-based will be more valuable than property-based resources in enhancing an MNE's bargaining power *vis-à-vis* a host government over time.

Developments in one area of RBV research, relationship marketing, may also provide insights for political risk research by focusing on an MNE's interaction with local stakeholders. This research, thus, builds on findings in political risk research that the presence of a local advocate can be critical in maintaining an MNE's bargaining power (Gereffi, 1978).

Relationship marketing involves establishing long-term marketing relationships through a firm's efforts to attract, maintain, and enhance relationships with its customers, buyers, suppliers, employees, or regulators (Berry, 1995; Morgan and Hunt, 1994). Properly executed, the relationship a firm develops with these external actors may constitute a resource (Bendapudi and Berry, 1995). Such a relationship exists when transactions are not evaluated individually, but as a culmination of historical transactions that are likely to continue in the future (Czepiel, 1990). This temporal aspect of relationships allows for the sustainability required for an SCA, particularly for service firms because customers typically form relationships with individuals and organizations instead of products or goods (Gronroos, 1990).

In a political risk context, we posit that relationship marketing will be a critical resource in maintaining MNE bargaining power. Specifically, to the extent that an MNE can develop long-term relationships with powerful stakeholders (e.g. unions or influential customers), it may cultivate an advocate willing to plead its case to the host government for nonintervention (Poynter, 1982). These findings suggest the following (Figure 1):

P2. Relationship marketing with influential local stakeholders will help an MNE maintain bargaining power *vis-à-vis* a host government over time.

Institutional theory

Institutional theory seeks to explain why firms operating in the same environment have so many similarities (DiMaggio and Powell, 1983). One general conclusion is that conformity to regulatory, cultural, and social expectations produces firm legitimacy, which has survival value (Baum and Oliver, 1991). Thus, in contrast to the RBV, which posits that a firm's success is predicated on uniqueness, institutional theory posits that successful firms are those gain legitimacy and support by conforming to expectations, thereby increasing pressures toward homogeneity (Oliver, 1997). In addition, in contrast to the RBV, which has focused little on political issues (Boddewyn and Brewer, 1994), institutional theory has viewed governments as primary actors in establishing norms through methods such as regulatory pressures (DiMaggio and Powell, 1983; Oliver, 1997).

Gaining legitimacy with government bodies is often crucial for a firm's success and, even, survival. For example, in domestic settings, Deephouse (1996) found that the extent to which a bank conformed to conventional strategies in an industry was related to fewer regulatory actions. Moreover, Baum and Oliver (1991) found that links to government agencies reduced the failure rates of day care centers, and these connections became even more important with increasing competition.

Firms may comply with institutional pressures because of coercive (e.g. from regulations), normative (e.g. from professional organizations), or mimetic (e.g. from competing firms) isomorphism (DiMaggio and Powell, 1983). For political risk research, a host government's ability to use coercive power appears most relevant for examining bargaining power issues.

MNEs face special problems in gaining legitimacy in a host country because they face dual pressures for isomorphism with the local environment and pressure for consistency within the MNE (Rosenzweig and Singh, 1991). On the one hand, they must convince the host government of their benefits (e.g. higher employment, technology transfer, and export promotion) because their goals (e.g. resource access and profit enhancement) may be viewed as suspect by the host government or influential stakeholders (Boddewyn and Brewer, 1994). On the other hand, a subsidiary must also remain similar enough with rest of MNE to function as part of the larger organization.

In deciding how much to conform to host government demands, research suggests that a subsidiary's isomorphism may depend on the amount of resources provided by the MNE relative to those provided by the government (Rosenzweig and Singh, 1991). For example, in examining HRM policies, Rosenzweig and Nohria (1994) found that isomorphism was determined, in part, by an MNE's reliance on local inputs, the presence of non-local managers, and the extent of communication with parent. Thus, for subsidiaries that draw resources primarily from the local environment, increasing isomorphism with local norms would contribute to increasing legitimacy, and, in turn, greater access to additional resources. In these cases, an MNE would be expected to conform to host government demands. For those that receive resources primarily from the MNE, however, the degree of isomorphism (Westney, 1993), and, in turn, the need for conformity to host country demands should be reduced.

As noted, although such isomorphism may have legitimacy benefits by making the MNE appear less foreign, extreme isomorphism (e.g. local sourcing of key inputs and having local managers run the subsidiary) may actually invite increasing interference if the host government perceives that it can gain control of a fully functioning subsidiary. Thus, MNEs may need to resist isomorphism pressures to the extent possible so as to maintain its bargaining power. These findings suggest the following (Figure 1):

P3. Greater MNE reliance on local resources reduces its ability to resist isomorphism pressures, and, in turn, its bargaining power with a host government over time.

Summary and discussion

We have reviewed current political risk research with particular focus on the bargaining power model. We then illustrated both the model and two significant shortcomings in the model with a detailed historical case study of Panton, Leslie and Company, which operated successfully for decades despite facing high risk in the colonial North America amidst wars and considerable political turmoil from changes in host government.

The case study revealed a need to further develop the traditional model into a "balanced" bargaining power model of political risk. For example, the model suggests that the company was able to maintain its favored position, despite being a foreign firm, based on what it "brought to the table" versus what the Spanish brought. Based on macro issues, the company was initially able to operate in Spanish territories because of both the Spanish Crown's need to maintain tribal loyalties so as to stem encroaching American colonists and its traders' inability to supply sufficient quantities of acceptable goods. Macro political risk research would also suggest, however, that subsequent developments (e.g. war with the British) would have doomed the firm to government intervention. In addition, micro political risk research would suggest that the firm's involvement in a strategic industry would have similarly resulted in interference, including outright expropriation.

Part of the company's success may have resulted from its serving as an acceptable compromise, albeit a temporary one as envisioned by the Spanish, based on the axiom "the enemy of my enemy is my friend." As noted, some company partners were indicted *in absentia* by the Americans for treason during the American Revolution; thus, the Spanish recognized early on that little chance existed that they would switch loyalties (de Zéspedes to de Gálvez, 1784). Perhaps, more speculatively, the Spanish may have found the company tolerable because the partners were Scottish rather than English. Although there was never any question of the partners' loyalty to the British Crown (Coker and Watson, 1986), the historical animosity between the English and Scots during this time (e.g. the Scottish "Jacobite" rebellion against the English Crown had occurred in 1745; Home, 1802) might have permitted the Spanish to see them as less risky despite the ongoing Anglo-Spanish conflicts both in Europe and the Americas.

Even with these advantages, however, the bargaining power model predicts that over time, the company's bargaining position would have declined, and the Spanish Government would have replaced it with a Spanish firm to secure better control over tribal trade. Consequently, focusing on how the company sustained its competitive advantage employing both the RBV and institutional theory provides additional insights into how it continued operating despite its inherent disadvantages.

First, the RBV provides insights into how the company maintained differentiation, and, in turn, its bargaining power over time. For example, it initially secured property-based resources through first mover advantages by setting up trading posts that provided access to Native American traders. As noted by our RBV review, however, it is unlikely that these would have sustained the company given both the ongoing Spanish desire to replace it and the relative ease in taking over a trading post. Thus, both the company's knowledge-based resources (e.g. insights in dealing with Native American traders through experience and hiring Alexander McGillivary) and obtaining tribal allies via relationship marketing proved critical in sustaining its bargaining power.

Second, employing institutional theory shows how the company was able to resist coercive pressure to conform to host government demands. Specifically, because the trading posts drew resources primarily from the company rather than the local environment, the degree of isomorphism, and, in turn, the resulting conformity it needed, diminished. From a bargaining power perspective, this allowed the partners to concede to some degree of isomorphism, such as swearing loyalty to the Spanish Crown, but avoid extreme isomorphism, such as hiring Spanish managers, which might have prompted increasing Spanish Government interference as they gained increasing knowledge of the trading business.

Future research

We have examined differentiation and conformity employing an RBV and institutional theory perspective, respectively, to suggest how an MNE can maintain its bargaining power over time. Other theories, however, may also be useful to enhance the study of political risk. For example, based on the RBV, we employed relationship marketing as a basis for deriving *P2*, but examining research on other resources, such social capital (Lin *et al.*, 2001), may provide additional insights. Thus, future research could examine an MNE's bargaining power based on network characteristics such as strength of ties and network breadth.

Other issues requiring future research include examining longitudinal and time frame factors. Although the case points to areas in the bargaining power model that may require future development, we should note that some issues may vary based on time and location, especially international differences in economic, cultural, political, and legal matters. For example, although unavailable to the company in colonial Florida, modern MNEs may derive a competitive advantage in some countries based on patents. Our findings suggest that additional research is needed to ascertain how much these resources enhance a modern MNE's bargaining power given that they serve as a hybrid of property- (i.e. the legal document) and knowledge-based (i.e. the innovation) resources.

Conclusion

Although the bargaining power model has proven useful for examining political risk over the past two decades, we proposed that it needs additional development. To do so, we reviewed an historical case study from early North American history, which suggested two relevant issues not considered in the bargaining power model as presently structured. To address these issues, we then employed the RBV of the firm and institutional theory to examine differentiation and conformity issues, respectively, and developed three propositions to guide future research. Although further empirical study is needed, evidence from the Panton Leslie and company case study suggests that modern MNE managers must both develop knowledge-based resources to maintain competitive advantage and balance differentiation and conformity pressures in managing political risk.

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