Business & Society

http://bas.sagepub.com/

International Business Dynamics : Drivers of Multinational Corporations' In-Country Economic Returns

Viva Ona Bartkus and James H. Davis

Business Society 2010 49: 290 originally published online 30 May 2008
DOI: 10.1177/0007650308319736

The online version of this article can be found at:
http://bas.sagepub.com/content/49/2/290

Published by:
SAGE
http://www.sagepublications.com

On behalf of:
IABS
International Association for Business and Society

Business & Society
Volume 49 Number 2
June 2010 290-315

10.1177/0007650308319736
http://bas.sagepub.com
hosted at
http://online.sagepub.com

International Business Dynamics

Drivers of Multinational Corporations' In-Country Economic Returns

Viva Ona Bartkus
James H. Davis
University of Notre Dame

Globalization of the world economy and proliferation of multinational corporations (MNCs) has dramatically affected the power balance among international actors. On one hand, MNCs have long influenced the states in which they operate, with the consequent erosion of state sovereignty. On the other, states directly affect MNCs, in effect becoming another factor of production in addition to the economist's traditional set of labor, land, and capital. This article introduces a theoretical model based on the interaction of the MNC, the local state, and the local market to predict and explain the economic returns that the MNC will earn on its investment in the local market.

Keywords: *global strategy; corporate strategy; economic returns*

According to the United Nations Conference on Trade and Development, there were 37,000 multinational corporations (MNCs) with 175,000 foreign subsidiaries in the early 1990s. By the end of 2003, there were 64,000 MNCs with 870,000 foreign subsidiaries. Amazingly, 60% of all international trade takes place within these MNCs (i.e., firms trading with themselves; "A Taxing Battle," 2004). The rapid growth in the size, power, and scope of the MNC has precipitated the emergence of new international power distributions, both political and economic. Furthermore, the pace and proportion of foreign direct investments to countries outside the developed world are accelerating (Mataloni, 2003; Mataloni & Yorgason, 2002). Many policy makers and scholars have failed to recognize these changes in the interaction of MNCs and foreign states. MNCs continue to try to manipulate

Authors' Note: Address correspondence to Viva Ona Bartkus, University of Notre Dame, Mendoza College of Business, Notre Dame, IN 46556; e-mail: vbartkus@nd.edu.

existing power structures to their advantage by limiting the sovereignty of the states in which they operate (Davis, Reyes, & Stern, 1999), whereas states compete with one another to attract MNCs—namely, for the potential boost that MNCs give to the economic development of a nation, as well as for their positive externalities (Stopford & Strange, 2002). The local state directly affects the performance of MNCs as a factor of production.

In this article, we introduce an integrated theoretical model based on the interaction of the MNC with the local state and with the local market to predict and explain the economic returns that the MNC can earn on its investment in that market. The model has as its foundation existing research on the resource-based view of the firm and its implications for the bargaining-power relationships between the MNC and the local state. However, existing empirical research does not explicitly address the link between economic returns and the MNC–local state relationship. The proposed model goes beyond previous research on the firm to (a) introduce the strength of the state and the attractiveness of the market relative to the MNC's other investment opportunities as variables and (b) link these three variables to the dependent variable of the MNC's economic returns. The model addresses questions of the conditions under which the MNC will invest in a local market and how the returns could vary across MNCs that are investing in the state and how returns could vary for a single MNC across a portfolio of different overseas investments.

Existing theory presumes the local state as a constant or (at most) a moderator in the bargaining relationship frameworks. In the proposed theory, the fact that the state can be strong or weak—based on widely accepted definitions of sovereignty—becomes a direct factor in explaining the MNC's economic returns, as does the relative attractiveness of the market. In this article, we begin with a critical analysis of the broadly accepted model of power distribution between states and corporations, then introduce and describe our proposed theoretical model, illustrating it with an industry case study. Finally, we offer directions for future empirical research to test the theoretical model.

Overview of the Literature

At the most basic level, scholars who are studying the economic performance of the firm in the local market can be divided into two categories based on whether their emphasis is on firm-specific factors or industry- and country-specific factors (Dunning, 1993; Gladwin & Walter, 1980; Rugman

& Verbeke, 1993a, 1993b, 2001). On one hand, resource-based scholars of the firm argue that firm-level factors can better explain the variance in firm performance (Barney, 1991; Boddewyn & Brewer, 1994; Hansen & Wernerfelt, 1989; Rumelt, 1991). The firm's unique competitive position is based on difficult-to-imitate physical, human, organizational, and financial resources. These resources must be rare, durable, imperfectly imitable, and nonsubstitutable to convey a sustainable competitive advantage (Barney, 1991; Conner, 1991; Grant, 1991; Helfat & Peteraf, 2003; Peteraf, 1993; Wernerfelt, 1984). On the other hand, scholars who are focused on industrial organization economics emphasize the explanatory power of industry-level factors and country-level factors (Stopford & Strange, 2002) in determining firm performance (Caves, 1982; Kobrin, 1982). Scholars of bargaining power—more than any other approach—have focused on issues associated with MNCs and have investigated the relative power of the MNC versus the local state to explain the outcomes of MNC–local state interactions.

$$\text{Outcomes} = f(\text{MNC–state bargaining power})$$

The dominant perspective in the bargaining-power literature focuses on explaining the firm-level sources of MNC power relative to the state. Whereas most empirical studies have found that several firm-level power sources have a positive or negative impact on MNCs' bargaining power, empirical research has revealed that a few factors have an ambiguous or contradictory influence such power. Those with a positive influence include technological intensity (Bradley, 1977; Fagre & Wells, 1982; Lecraw, 1984; Poynter, 1982, 1985) and advertising intensity (Fagre & Wells, 1982; Lecraw, 1984; Poynter, 1982, 1985). Further factors that scholars have shown empirically to have a positive effect on MNCs' bargaining power and, consequently, their outcomes include intra-MNC sourcing (Bradley, 1977; Poynter, 1982), export intensity (Lecraw, 1984; Poynter, 1982, 1985), and product diversity (Fagre & Wells, 1982; Hitt, Hoskisson, & Kim, 1997).

Nevertheless, without the theoretical construct, it remains challenging to explain the at-times contradictory empirical findings. For example, empirical research has revealed a contradictory or ambiguous influence of several factors on firm bargaining power, including the size of the subsidiary and the staffing approach. Fagre and Wells (1982) and Gasser and Rossier (1974) indicate a positive relationship between the size of the subsidiary and firm bargaining power, whereas Poynter (1982, 1985), Bradley (1977), and Hawkins, Mintz, and Provissiero (1976) contend that the size of subsidiary negatively affects bargaining power.

Staffing policy appears to affect MNCs' bargaining power in a U-shaped relationship, with reduced bargaining power at both high (> 50%) and low (< 10%) proportions of parent country managers (Gong, 2003; Poynter, 1982). Further scrutiny of the literature reveals an unaddressed issue: Without a solid theoretical framework, it is difficult to assess the relative weight of one factor versus other factors, as illustrated in the following summary equation.

Outcomes = *f*(MNC–state bargaining power) = *f*(size [+/–], staffing [+/–], technology intensity [+], advertising intensity [+], intra-MNC sourcing [+], export intensity [+], product diversity [+])

Some industry-level factors also affect the relationship between MNCs and the local state, including industry concentration and competition (Fagre & Wells, 1982; Kim, 1988; Lecraw, 1984) and the strategic importance of the industry (Bradley, 1977; Poynter, 1982). Both factors have been found to negatively affect the MNCs' bargaining power. As of yet, country-specific sources of bargaining power have not been as thoroughly researched (Poynter, 1985; Stopford & Strange, 2002).

Outcomes = *f*(MNC–state bargaining power) = *f*(industry competition [–], strategic importance [–], country-specific factors [?])

Turning to outcomes, most empirical research correlates MNCs' bargaining power to several types of outcomes that vary along the following dimensions: objective measures (ownership, expropriation) versus subjective measures (MNCs' changes owing to actual intervention or fears of intervention), ex ante factors (ownership during negotiations) versus ex post factors (intervention, expropriation), and the acts of government intervention versus the impact of those interventions. Variations on the intervention measures were the dependent variables for Kim (1988), Poynter (1982, 1985), and Hawkins et al. (1976), Bradley (1977), whereas ownership levels were the focus of Lecraw (1984) and Fagre and Wells (1982).

Outcomes (intervention, ownership) = *f*(MNC–state bargaining power)

Most existing literature neither provides the necessary theoretical framework nor links economic returns directly to MNC–state bargaining power. Moon and Lado (2000) have made a recent contribution in this direction

with their theoretical model. Their proposed hypothesis is that managerial resources, technological know-how, and reputation combine to increase the MNCs' bargaining power, which in turn positively affects economic performance. The MNC–state relationship is moderated by industry concentration, the host country's appropriability regime (Teece, 1987), its level of economic development, and its cultural context. This theoretical contribution has yet to be tested in empirical studies.

Outcomes [economic returns] = *f*(MNC–state bargaining power)
= (firm's managerial resources [+],
technological know-how [+], reputation [+])

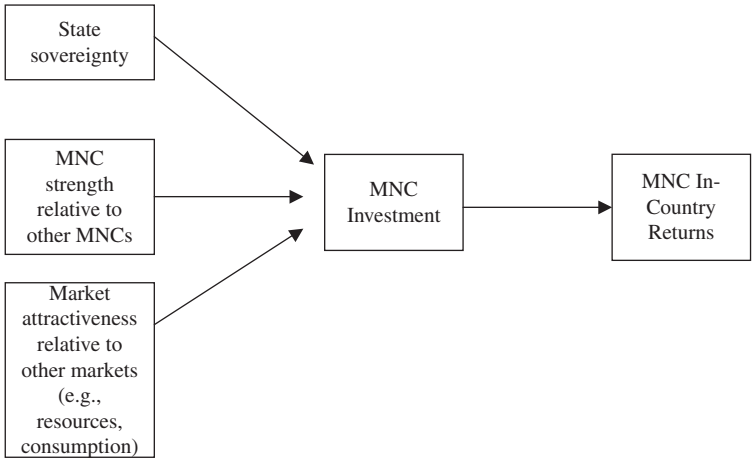
Moderators [industry concentration, country appropriability regime, economic development level, cultural context]

Although Moon and Lado's theoretical framework (2000) is certainly a welcome addition to the literature, there are a number of important questions left unanswered, such as those regarding the MNCs' initial investment decisions and the further refinement of the factors affecting the MNCs' economic performance. The model proposed here rests on the tradition of the resource-based view of the firm, or the strategic theory of the firm, although it extends the factors enhancing the strength of the firm. It also introduces two new variables: the strength of the local state and the relative attractiveness of its market. We contend that it better explains the crucial outcome of an MNC's in-country economic performance.

The Model

Clearly defined boundary conditions are a sign of good theory; that is, it describes when, how, and why relationships hold (Bacharach, 1989). What is needed in the study of MNC–state interactions is a rigorous and coherent theory that clearly specifies the independent and dependent variables. As suggested above, the proposed model draws on and then extends the insights of the resource-based view of the firm, or the strategic theory of the firm (Barney, 1991; Conner, 1991; Grant, 1991; Helfat & Peteraf, 2003; Hunt, 1997; Peteraf, 1993; Rumelt, 1984; Wernerfelt, 1984). It also extends the existing power-bargaining research to specify the local state as an independent variable and the local market as another. The proposed model contends that the outcome variable—an MNC's in-country economic performance—is a function of the interaction among three variables: the MNC and its strength, the local

Figure 1
Proposed Model of a Multinational Corporation's (MNC's) In-Country Economic Returns



state and its sovereignty, and the local market and its relative attractiveness. We now turn to describing each independent variable and the dependent variable, before proceeding to three hypotheses generated by the model.

The MNC

The insights from the literature regarding the strategic theory of the firm have provided explanatory power for the proliferation of firms and their performance—mainly in the domestic context. Some scholars have argued that this view

> contributes to explaining firm diversity; provides a theoretical foundation for endogenous growth models, has all the requisite building blocks and attributes of . . . evolutionary theory; accommodates path dependencies, incorporates the predictive successes if neoclassical theory; and preserves the cumulativity of economic science. (Hunt, 1997, p. 433)

Nevertheless, the extension of the strategic theory of the firm into the international realm has been limited to issues regarding an MNC's international strategic alliances (Collis, 1991) and its sociopolitical activities

within a local market (Boddewyn & Brewer, 1994). The resource-based view of the firm provides insight into the economic performance—both domestic and international. We contend that the strength of the MNC in MNC–state bargaining relationships is based on strong competencies, differentiated resources, and international experience. One only need to think of Haliburton and other U.S. companies' investments in Iraq to understand that supportive home country policies (in particular, mercantilist foreign policies) can support international expansion and experience, whereas home country market size and competitiveness can assist in building strong MNC competencies. For our purposes, we categorize MNCs as being either strong or weak relative to comparisons against their industry competitors.

It is important to note that the main comparison of an MNC's strength is not relative to the state, as asserted by bargaining-power literature, but rather the comparison of one MNC's strength versus other MNCs in the same industry. The resource-based view of the firm argues that differences in a firm's performance can be attributed to the degree to which its resources and capabilities are valuable, rare, and costly to imitate (Barney, 1986, 1991; Rumelt 1984; Wernerfelt, 1984). The resources and capabilities cannot be shared by a large number of competitors within an industry for an MNC to have strength and competitive advantage vis-à-vis its competitors (Ray, Muhanna, & Barney, 2005). Likewise, the MNC's capabilities and resources must have causal ambiguity and social complexity, and they must involve tacit knowledge for an MNC to have strength in the industry (Barney, 1986, 1991; Dierickx & Cool, 1989; Rumelt, 1984).

Although we argue that competencies, differentiated resources, and international experience are the drivers of an MNC's strength, one can point to many other contributing factors and many indicative outcomes. Later in the article, we discuss the relative strength and weakness of MNCs through the case study—specifically, that of the oil and natural gas industry. Yet, to illustrate the point here, in the oil and natural gas industry, Exxon, British Petroleum, and Royal Dutch/Shell would be categorized as stronger MNCs, whereas Unocal and Petrobras would be characterized as weaker MNCs.

$$\text{MNC strength} = f(\text{competencies, resources, international experience})$$

The State

Long neglected by bargaining-power literature, the unique characteristics of the state directly affect the MNC–state relationship. We contend that strong states retain their sovereignty in their relationships with MNCs.

Defined along classical political lines, sovereignty for the state has a dual meaning: The state can effectively defend its community from external threat and represent the unquestioned authority over the community in a territory (Bartkus, 1999). For this inquiry, we focus on the second meaning of sovereignty—namely, the government's effective control over a population within its borders.

Commissioned by the United Nations, the International Commission on Intervention and State Sovereignty (2001a, 2001b) conducted the most comprehensive study of the tension between state sovereignty and the so-called right of humanitarian intervention. Accordingly, the scholars under the direction of the commission co-chairs, Gareth Evans and Mohamed Sahnoun, proposed criteria to assess sovereignty by country. Furthermore, Ted Robert Gurr, of the Integrated Network for Societal Conflict Research and the University of Maryland, created the Minorities at Risk database, which analyzes data from 1946 to 2000 to track 285 minority communities within more than 100 states and which indicates the degree of central government repression of minorities and the level of minority resistance versus government authority (Gurr, 2000). Combining the report of the International Commission on Intervention and State Sovereignty with the Minorities at Risk database provides direction to the degree of sovereignty by country.

It is important to note that the strength of the state is not assessed relative to the MNC, as bargaining-power scholars dictate; rather, the state's strength is assessed relative to the absolutes of sovereignty. Within this proposed model, the extent of a state's sovereignty, combined with the attractiveness of its market, dictates its interaction with the MNC and, consequently, the MNC's in-country economic returns. To illustrate, presume that the definition of *sovereignty* is "the dominant authority in a territory"; as such, a dictatorship whose power base is slim and who has not completely crushed rivals for power within its territory cannot be categorized as a sovereign state but rather a weak state. Later in this article, we discuss the oil and natural gas industry, its competitors, and their overseas investments, in which we argue that Norway is a strong state. By contrast, based on a example from the Minorities at Risk database, the military dictatorship currently running Myanmar (Burma) represents a weak state, given its multiple rivals for power within Burmese society, including Aung San Suu Kyi's mass democratization movement and the numerous armed communities of ethnic secessionists on the borders of Myanmar, including the Karen, Kachin, Shan, Wa, and others.

$$\text{State strength} = \text{Sovereignty } f(\text{internal authority})$$

The Market

The state is associated with an attractive or unattractive market. Whereas the definition of the strength of the state—its sovereignty—lends itself more judgment against an ideal definition, in the case of the market, its attractiveness is judged relative to the alternatives presented by other markets. The attractiveness of the market is not defined by its absolute level of size, growth, natural resources. Rather, the attractiveness of the market—either as a source of raw materials or consumption—is defined relative to the next-best investment opportunity for the MNC.

Indeed, because two potentially mutually exclusive categories of market attractiveness—resources and consumption—are feasible, two equations are suggested. On one hand, market attractiveness based on resources is a function of the availability of raw materials and a factor of production costs. Availability of resources would positively affect market attractiveness, whereas production costs would negatively affect it. On the other, market attractiveness based on consumption would be a function of a number of market characteristics. Porter (1980) argued that the market can be considered strong when purchases are in large volumes relative to MNC sales, when purchases from the MNC represent a significant fraction of the market's costs, when the products are commodities, when the market faces few switching costs, when the market poses a credible threat of backward integration, when the MNC product is unimportant to the market's products or services, and/or when the market has complete information. The market is also strong and attractive when it is large and growing and when it has large disposable incomes.

The case study of the oil and natural gas industry illustrates the first category of market attractiveness: resources. The study of the international expansion of MNCs dedicated to the provision of goods (such as packaged goods companies) or services (such as retail banking) provides examples of the second category of market attractiveness: consumption. Yet, we argue that the model for an MNC's economic returns based on the interaction of its strength, degree of state sovereignty, and market strength holds for both categories of market attractiveness. Focusing again on the oil and natural gas industry, given its extensive reserves that can be extracted at an acceptable cost, both Norway and Nigeria would be considered attractive markets. However, Norway's attractive market would be associated with a strong state, whereas Nigeria's military dictatorship, facing significant rivals for domestic power, would be characterized as a weak state.

Market attractiveness resources = *f*(availability of raw materials [+], factor of production costs [–])

Market attractiveness consumption = *f*(purchase volume relative to MNC sales [+], purchase as significant fraction of market costs [+], MNC products as commodities [+], few switching costs [+], threat of backward integration [+], products not critical [+], market information [+], market size [+], market growth [+], disposable income [+])

The In-Country Economic Performance of the MNC

The dependent variable of the model is the economic performance of the MNC, earned from its investment in the market. The definition of economic performance uses accounting returns (e.g., return on invested capital) and market returns. Every 5 years, the U.S. Department of Commerce, by way of the Bureau of Economic Analysis, conducts what is perhaps the most comprehensive benchmarking survey of financial and operational performance indicators regarding the foreign direct investments of U.S. companies. Data are captured from income statements (such as sales, expenses, net income) and from balance sheets. These data sets can be obtained as consolidated data (by industry or by country) or as unconsolidated data (by company), as needed here. The Bureau of Economic Analysis database can be sorted by Standard Industrial Classification industry code (such as petroleum), by company (such as Exxon and Unocal), and by country (such as Norway, Nigeria, Indonesia, and Venezuela; Borga & Yorgason, 2002; Mataloni, 2003; Mataloni & Yorgason, 2002). For analytical purposes, it may be better to focus on those industries that do not face the largest issues regarding internal transfer pricing among subsidiaries of the same MNC, thereby effectively excluding such industries as pharmaceuticals. Although the bureau collects data only for the overseas investments of U.S. companies, other countries collect data on their own countries (see, e.g., the German Bundesbank MiDi database, in Frankfurt).

The model proposes to investigate medium-term returns—in whatever way such returns are defined for that industry. It is important to note that the MNC's strength, the state's sovereignty, and the market's attractiveness combine to create a profile that drives the acceptable returns for investment and, consequently, the MNC's in-country economic returns. The last section of this article proposes detailed empirical work to test the theory.

MNC economic returns = *f*(MNC strength, state sovereignty, market attractiveness [e.g., resources, consumption])

The proposed model clearly distinguishes itself from previous studies by addressing two significant questions left unexplained in the literature: First, why and when would some MNCs invest in some markets and not others? Second, why and how does a single MNC earn different returns across different investment opportunities within multiple states? Earlier scholarly work focused on factors that strengthen an MNC in its bargaining with the state and thus predicted outcomes such as intervention and expropriation, but such work has not yet addressed questions of an MNC's in-country economic returns from such investment. This early research could become valuable to predict returns of a single MNC within a state or those of several MNCs within the state. Nevertheless, even this theoretical path would be improved by no longer presuming the state as a constant, given that empirical observation clearly does not bear out such an assumption. Furthermore, earlier work presumed that MNC–state interactions are a zero-sum game. Although some scholars have questioned this assumption (Boddewyn & Brewer, 1994; Conner, 1991; Hill, 1990), the model proposed here makes the assumption that such interactions can lead to a positive-sum game. We discuss this proposition at the conclusion of the article.

The proposed model generates multiple hypotheses. The first concerns where, when, and why an MNC-based investment may or may not occur, whereas the following two propositions concern the economic returns based on when and where the MNC chooses to invest.

Proposition 1: The MNC will earn normal returns on its in-country investments when the interaction is among a strong MNC, a strong state, and an attractive market.

Normal returns = *f*(MNC [+], state [+], market [+])

When the state is weak, it may face greater threats of internal disorder and external incursions. Given these circumstances, the strong MNC would attempt to extract additional returns in negotiations with the weak state to invest in the attractive market.

Proposition 2: The MNC will earn abnormal returns on its in-country investments when the interaction is among a strong MNC, weak state, and attractive market.

Abnormal returns = *f*(MNC [+], state [–], market [+])

Furthermore, weaker MNCs may not have investment opportunities as broad as those of stronger MNCs. Nevertheless, under circumstances of a weak state, with its associated threats of internal disorder and external incursions, even the weak MNC would attempt to extract additional returns in negotiations with the state to invest in the attractive market.

Proposition 3: The MNC would earn abnormal returns on its in-country investments when the interaction is among a weak MNC, a weak state, and an attractive market.

Abnormal returns = *f*(MNC [–], state [–], market [+])

Although the objective of this article is to propose a theoretical model that can explain the economic returns of an MNC's in-country investment, the model can be used to explain the potential risks and returns—defined broadly—that the state can expect through its interactions with the MNC. That examination is left for future research given that it is beyond the scope of the current study.

MNC Returns and the Oil Industry: A Case Study

It may be helpful to illustrate each proposition through a detailed series of cases within one industry. The oil and natural gas exploration and extraction industry is one of the most global industries in the world. In 2002, the top 100 oil companies generated nearly $1.85 trillion in revenues and employed nearly 3.8 million people around the world (Energy Intelligence Research, 2003). Given a number of its characteristics, we believe that the oil and natural gas industry is well suited to illustrate the theoretical model, especially with regard to market attractiveness based on resources and not consumption. Oil and natural gas MNCs engage in exploration and other commercial activities in nearly all four corners of the globe, which means that their senior executives must conduct business in strong states (such as the United States, Norway, and Britain) as well as weak states (such as Nigeria and Myanmar). As argued above, the definition proposed in this article refers to strong states as those that are fully sovereign; in other words, they represent unquestioned domestic authority. Furthermore, in

light of geological and other environmental challenges to locate natural resources, a local market in this case can be fundamentally more attractive than others given its proven oil and natural gas reserves, not to mention the potentially lower costs to extract the natural resources. These two conditions of the industry—political risk and geological risk—mean that oil companies must assess and estimate the potential returns before investing in what frequently become multiyear, multibillion-dollar projects. Once again, whereas we use natural resource markets in this case analysis, the proposed model works equally well in commercial markets, when MNCs invest in overseas markets to provide goods and services for local consumption.

The major oil MNCs have developed expertise to assess the risks associated with such projects and their potential returns, whether using a net present value calculation, internal rates of return, or other measures of return on invested capital. The oil and natural gas companies can be ranked in terms of strength, according to the resource-based view of the firm, by their competencies, differentiated resources, and international experience. Other industry-specific metrics can be proxies in the analysis of the strength of the MNCs relative to one another.

Finally, this industry is well covered by multiple data sources, including company filings with the Securities and Exchange Commission, annual reports, analyst reports, the *Almanac of Russian and Caspian Petroleum*, OPEC's *Annual Statistical Bulletin*, BP's *Statistical Review of World Energy*, and the Energy Intelligence report (2003).

For the purposes of illustrating the theoretical model proposed here, the oil and natural gas industry does present some challenges. First, the biggest state oil companies, such as Saudi Aramco, Petroleos de Venezuela, and the National Iranian Oil Company, dominate the industry. Yet as with many other state companies, they do not disclose financial returns. Consequently, the analysis must be limited to those oil companies with public shareholders, such as Exxon, BP, Shell, and Unocal. Furthermore, unique factors impinge on the normal workings of supply and demand in this industry. For example, governments can heavily influence the demand for oil through pricing and taxation, whereas supply can be curtailed through the OPEC cartel. Moreover, oil price volatility is closely tied to international political events. All of these economic and political conditions directly affect the investment calculations of oil companies; hence, for the purposes of this case study, we assume that they similarly affect all competitors across the industry.

Within the industry, it is possible to rank the MNCs according to their strength. Helpful financial and other industry-specific metrics, such as

reserve replacement ratios and oil reserves per production years, can help identify stronger versus weaker MNCs. A thorough analysis along these lines—resting on size, growth, profitability, returns on capital employed, reserves, and exploration—would lead one to conclude that Exxon, BP, and Shell are stronger MNCs, whereas Unocal is a weaker MNC. See Table 1 for the analysis of oil MNCs based on industry metrics and financial indicators.

Each proposed hypothesis can be illustrated through an example from the oil and natural gas industry. As such, we turn our attention to Proposition 1.

Proposition 1: The Case of the Strong MNC, the Strong State, and the Attractive Market

BP's investments in North Sea oil drilling are a good example of oil projects in the intersection of strong states, strong MNCs, and attractive markets. The two states that share the North Sea territory are Norway and Great Britain, both sovereign (strong) states. A detailed retrospective analysis of the preinvestment calculations and assessment of the returns for BP on the North Sea oil project approaches what are considered normal returns in the industry (given basic Black-Scholls financial estimates of the weighted average cost of capital).

Proposition 2: The Case of the Strong MNC, the Weak State, and the Attractive Market

The case of Shell's long-term investment in Nigeria illustrates Proposition 2, a strong MNC, an attractive market, but a weak state. The weakness of Nigeria—especially with the threat of internal disorder given its ethnic, religious, and secular rivals for domestic authority—increases the risks of expropriation, nationalization, and other threats for an MNC, which must judge these threats before investing in the country and then must proactively manage them thereafter. These threats of internal disorder and disruption imply that the strong MNC, such as Royal Dutch/Shell, will attempt to extract additional returns in negotiations with the state to invest in the extraction of Nigerian oil.

Strong MNCs must diligently manage investments in weaker states. The Royal Dutch/Shell example in Nigeria provides a cautionary tale. Insofar as the state retains the competence and inclination to balance first and foremost the well-being of society with the interests of business and its need for

Table 1
Multinational Corporation–State–Market Model for Economic Returns: Oil and Natural Gas Proxy Information to Assess Multinational Corporation Strength

	BP		Shell		Unocal	
Metric	2001	2002	2001	2002	2001	2002
Industry specific						
Oil / natural gas liquid output (thousands barrels / day)	1,931	2,018	2,220	2,372	170	167
Natural gas output (billion cubic feet / g)	8,632	8,707	9,009	9,423	2,003	1,826
Oil / natural gas liquid reserves (million barrels)	8,376	9,165	9,469	10,133	693	681
Natural gas reserves	46,175	48,789	55,829	53,438	6,749	6,559
Reserve replacement ratios						
Oil (3-year average)	95	167	89	123	205	187
Natural gas (3-year average)	249	235	56	49	141	115
Oil reserves / production years	12.4	12.9	11.7	11.7	11.4	11.2
Natural gas reserves / production years	14.4	15.1	17.1	15.5	8.6	9.5
Financial						
Monies ($ million)						
Revenue	176,551	182,616	138,252	182,055	6,876	5,420
Net income	6,554	6,843	10,852	9,419	615	331
Operating profit	13,968	11,902	19,972	17,800	1,253	797
Market capitalization	172,494	143,335	171,687	152,859	8,733	7,889
Capital expenditures	14,124	19,111	9,626	22,444	1,727	1,670
Return (%)						
Capital employed	15.3	13.3	30.1	23.9	20.7	12.2
Average assets	9.5	8.1	17.1	13.5	12.3	7.5
Average equity	9.5	10.2	19.2	16.2	21.2	10.3
Sales	3.8	3.8	8.1	5.2	9.2	6.3
Price to earnings ratio	26.3	21.1	15.8	16.2	14.2	22.8

revenue, there is less latitude to critique the abuse of corporate power. However, situations persist where the MNC has accumulated such influence within a territory that the weak state acts as an agent of the MNC. In such situations, the state either implicitly or explicitly assists the MNC to earn abnormal returns on its investment. In such circumstances, the state can and does fail to guarantee the most fundamental rights due its citizens. There have been numerous cases in recent years that raise some aspect of this question. Few, though, have seen the level of public scrutiny directed toward the Royal Dutch Petroleum Company, its partner, the Shell Transport and Trading Company (Royal Dutch/Shell), and their subsidiary, the Shell Petroleum Development Company of Nigeria (SPDC).

Since 1958, with the initial production of Nigeria's first commercially viable oil fields, Royal Dutch/Shell has been that country's leading oil producer. After Nigerian independence in 1960, SPDC began working as a minority partner in joint ventures with the Nigerian National Petroleum Corporation, as stipulated by national law. Today, the operations run by SPDC account for roughly 925,000 barrels per day, or nearly one half the country's total output. Oil proceeds contribute about 90% of Nigeria's foreign exchange and 80% of the state's total revenue, whereas Royal Dutch/Shell draws 14% of its global production from Nigeria. As a result, the corporation and the government share the reasonable interests of maximizing productivity and minimizing regulation.

In Nigeria, though, given the level of institutional corruption combined with the generally unrepresentative nature of its central government, the state's capacity to enforce the law has become a mechanism to enhance oil production at the expense of its people and its environment. Perhaps if the government of Nigeria owed its legitimacy to its citizens, there would be some balance sought between what is profitable and what is responsible. Unfortunately, this is not the case, nor have the people of Nigeria ever enjoyed an extended period of true governmental accountability.

In one example, after the coup d'état in November 1993, the military regime of General Sani Abacha ruled with little regard for human rights, the environment, and international public opinion. Instead, his security forces were implicated in the deaths of thousands of political and environmental activists, primarily, but not exclusively, in the Ogoni region, where SPDC extracts most of its oil. International awareness of this oppression reached its height in 1995, when despite diplomatic objections, the Abacha regime tried and executed nine activists before a military tribunal, including the famed human rights activist Ken Saro-Wiwa.

Abacha, however, was not the only one criticized internationally. Faced with accusations that its practices posed a serious threat to the Nigerian ecology, that it was the impetus behind the government's violent crackdowns against peaceful protestors, and that it bore some implicit (if not explicit) responsibility for the deaths of Saro-Wiwa and others, Royal Dutch/Shell was forced to rebut. Nevertheless, Shell's reactions did not silence most of its critics. The shareholders of Royal Dutch/Shell voted eight to one in May 2002 not to allow external audits of SPDC's environmental and social practices, contending that absent internationally accepted norms, such audits could not be objective. Instead, Shell published a *Statement of General Business Principles* and set up an internal social accountability team intended to address any ecologically unsound practices and to assess the oil giant's involvement with oppressive regimes.

Due in part to its failure to respond satisfactorily, Royal Dutch/Shell faced a series of formal and informal sanctions: organizations such as Greenpeace, Amnesty International, the World Wide Fund for Nature, and the Sierra Club mobilized boycotts against the company's products; several municipalities in the United States passed ordinances that prohibited engaging in commerce with companies affiliated with the Abacha regime; and several victims of state oppression and relatives of those executed in November 1995 filed criminal charges in U.S. district court against Royal Dutch/Shell for summary execution, crimes against humanity, torture, cruel and inhuman or degrading treatment, and so forth (*Wiwa v. Royal Dutch Petroleum*, 1998). Boycotts, civic protests, and court cases are certainly nothing new for the MNC, however. Whether these actions will have long-term effects on the business practices of Royal Dutch/Shell or its Nigerian subsidiary remains to be seen.

To summarize, in today's world of trade and investment liberalization, many countries and societies are suffering the results of a power imbalance. In many places, MNCs have been able to take advantage of a world divided among sovereign powers because domestic laws generally do not apply to other sovereign states. The fragmentation of traditional sources of authority and regulation have allowed MNCs to use their flexibility, superior organizational structures, and efficient exploitation of resources to garner abnormal in-country profits while taking little responsibility for damages done. The Shell oil case in Nigeria illustrates how major MNCs further eroded the imperfect sovereignty of the already-weak state, becoming the focal point of power within a territory, and thereby not only evading accountability on violations of international norms in human rights and the

environment but also potentially earning abnormal returns on its investment along the way.

Propositon 3: The Case of the Weak MNC, Weak State, and Attractive Market

The investment options within an industry may not be as broad for the weak MNC as they are for the strong MNC. Weaker MNCs may be forced to invest in second-tier markets, yet they will try to interact with their weak state counterparts in the same way that strong MNCs do. The weakness of the state, with the dual threat of internal disorder and external threats, implies that the weak MNC would attempt to extract additional returns in negotiations with the state to invest in the relatively attractive market. An example of this case could be Unocal's investment in natural gas production and transportation in Myanmar—a state that has faced some of the longest-standing international sanctions and whose oppressive military government continues to be a pariah in the international community. Like the case of Shell in Nigeria, Unocal faced significant sovereign risks with its investments in Myanmar; as such, the model proposed in this article argues that Unocal would have expected and earned abnormal returns on such investment.

The evolution of Unocal's investment in Myanmar's natural gas production must be understood in the context of the Alien Tort Claims Act of the United States, which was enacted by the first Congress in 1789 and which provides that "the district courts have original jurisdiction of any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States." The act has evolved into a vehicle for asserting a variety of claims based on alleged violation of customary international law, particularly in the area of human rights. Specifically, a set of Burmese citizens attempted to use the act to hold Unocal liable for aiding and abetting international law violations in Myanmar. The following section details this case of an attempt to place sovereignty and, thus, accountability on MNCs for the responsibilities historically considered to reside with the state.

In 1992, the French oil company Total S.A. contracted with the Myanmar government for rights to produce, transport, and sell natural gas from an offshore location in Myanmar. The project required construction and operation of a gas pipeline across the Tenasserim region to Thailand. Total S.A. contracted the Burmese army to provide security for the pipeline. Unocal obtained a 28% interest in this project from Total S.A.

The Burmese villager plaintiffs alleged that the Burmese army forced them to work as porters on the project. They further alleged that in connection with security for the pipeline, the Burmese military commanders subjected villager families to murder, rape, and torture. The plaintiffs did not allege that Unocal employees physically carried out any human rights abuses; rather, they claimed that Unocal was aware of the Burmese military's abuses and that its involvement in the project rendered it liable for these abuses.

The decision of the U.S. Ninth Circuit Court of Appeals in *Doe I v. Unocal Corp* in November 2002 represents a significant precedent in the field of corporate liability for international human rights violations under the Alien Tort Claims Act. The opinion authored by Judge Harry Pregerson and joined by Judge Wallace Tashima held that a corporation may be civilly liable as an aider and abettor for human rights abuses carried out by a foreign government based on the company's practical assistance or encouragement that has a substantial effect on the perpetration of the crime. Unocal has continued to appeal the decision.

Regardless of whether the decision is upheld on appeal, this court case has already set a staggering precedent for MNC–state interactions. MNCs can be held indirectly liable for human rights violations—and other international law violations more broadly—if those violations are conducted by foreign governments while MNCs collaborate with them on international business projects. This would certainly increase the costs of operating in less savory weak states and consequently increase the required returns in considering investments in otherwise attractive markets.

Conclusion and Future Research

Scholars and policy makers alike have been slow to appreciate and articulate the important changes in state sovereignty and the balance of power between MNCs and nation-states. International relations scholars have not adequately taken into account the role that MNCs play in the international world order, whereas business and management scholars have not adequately taken into account the role of states. On one hand, Strange (1993) asked, "Why is it taking so long for the study of international relations to embrace and incorporate big business into the analysis of the international system?" Furthermore, Eden and Potter (1993) argued that political economics sees "the nation-state as the key actor in the global system, the organizer of the international political order." On the other hand, with the exception of Poynter's work (1985), little research has been conducted by management scholars into the country-specific factors in the MNC–state

power relationships. Thus, as Eden and Potter argued, "the crucial problem in the study of political economics as we move into the twenty-first century is the tension between states and multinationals corporations." This challenge is beginning to be taken up by scholars such as Stopford and Strange (2002) and Levy and Prakesh (2003).

We agree. With our proposed model of MNCs' in-country returns—based on the interaction of the MNC, the state, and the market—we aspire to begin to address this white space in the body of research. We argue that the power balance between states and the web of MNCs, is determined by their relative strengths and by the underlying attractiveness of the market.

We propose five potential vectors for future research in this area: first, further case study and empirical analysis of the economic returns of MNCs based on the model; second, extension of the model and theory to other circumstances of the MNC, state, and market; third, an extension of the model to explain returns to the state from its interactions with the MNC; fourth, investigation of how the model may change and how MNC economic returns may change under conditions of changes in state sovereignty and market attractiveness, as associated with economic integration initiatives such as the European Union; and fifth, given the inherent risks associated with such investments, the ways that MNCs can manage those risks through organizational approaches such as joint ventures. We now describe each of these potential research vectors in turn.

To begin with, this theoretical model describes how three factors affect the returns to the MNC earned from its overseas investments. More research is needed on the nature of those economic returns and the types of associated risks. By employing the Bureau of Economic Analysis database on the financial and operational performance of foreign direct investments made by American companies, as well as the sovereignty indicators provided by the International Commission on Intervention and State Sovereignty and the Minorities at Risk database, further empirical research can test the theoretical propositions proposed here. Further questions can include the following: What are the types of risks that MNCs are willing to assume in their association with states, given their respective strengths? Likewise, what types of returns are favored by MNCs of different strengths? One could assume that whenever possible the MNC would negotiate for short-term, liquid, and nearly immediate abnormal returns if the state is particularly weak but that it would opt for longer-term, less liquid, normal returns with a stronger state.

Moreover, market attractiveness in this study was limited to the availability and quality of resources in the country. Future research must take a broader perspective of market attractiveness. The case study approach

should be extended to analyze market attractiveness based on consumption, perhaps utilizing MNCs in the packaged goods industry and those in the retail banking industry. How do MNC investments and economic returns change if the market is poor in resources but an attractive commercial market for goods and services? Because the MNC deals directly with the people in the country of its commercial enterprise, state sovereignty can be directly affected. How does direct MNC–citizen interaction affect the types of returns and associated risks that the MNC can anticipate? How does the state moderate and/or mediate that interaction, and how does that mediation affect the MNC's risks and returns? Without doubt, empirical examination of the proposed model and its related hypotheses will help us to determine the boundaries of our theory. By using the Bureau of Economic Analysis data on Foreign direct investment and in-country financial metrics, each aspect of the model can and must be tested through statistical examination.

The second proposed vector of future research involves extending the theoretical framework to accommodate other types of circumstances of MNC–state–market interactions. For example, the model might extend to situations of a weak MNC, a strong state, and an unattractive market. With its strength as the undisputed authority in a territory, the state could entice MNCs' investment with concessions that improve the economic returns:

$$\text{Abnormal returns} = f(\text{MNC } [-], \text{ state } [+], \text{ market } [-])$$

In the case of the oil and natural gas industry, examples may include the state's encouraging an MNC to enter into its market or continue operations through guarantees of abnormal returns, perhaps through exploration concessions, price regulations, or other approaches. One could argue that similar exploration concessions—for example, those that Brazil has extended to Petrobras, or Indonesia to Petronas—may be extended to foreign companies to encourage foreign direct investment and may consequently affect the potential in-country economic returns.

Whether structuring the agreement for investment in a strong market or a weak market, the strong state remains the dominant political authority within a territory—as sovereignty is defined—so it can therefore agree on and enforce a potentially mutually beneficial agreement with either a strong or weak MNC. However, in a weak state, the ministers of government may not utilize the MNC–state relationship for the greater good of their society. They may use the relationship for private gain; hence, in such circumstances the relationship may prove unstable. Indeed, a possible extension of the model would assert that the strength of the state determines whether the

MNC–state relationship will be win–win for the strong state or a zero-sum game for the weak state.

$$\text{Stable MNC–state relationship} = f(\text{state strength})$$

Third, this research into the abnormal and normal returns must not stop with the MNC. Future research must explore the types of returns that strong and weak nations prefer. One can assume that more stable, strong states retain more sovereignty than weaker states and would therefore have different social goals and objectives. Those states would look to MNCs to help them meet those higher-order objectives. Weaker states give up part of their sovereignty to attract the MNC to make investments in their markets. Weaker states would look to different type of returns based upon lower-order needs.

Fourth, major developments in the international system have affected market attractiveness and state strength. Many scholars have argued that the formation of the European Union has fundamentally redefined state sovereignty, given that it has certainly redefined the market. As a consequence, future research must examine how international trading alliances such as the European Union affect MNCs' activity and returns? If weaker states become partners of such institutions as the European Union, they can naturally rely on stronger states for power when bargaining with more powerful MNCs. In a similar fashion, stronger states may use the markets of the weaker state as leverage in their own MNC negotiations. The recent growth of such new international integrative institutions—in the form of not only the European Union but also Mercosur, the Andean pact, and the Association of South East Asian Nations, as well as those within the Caribbean and Southern Africa—may naturally affect the interaction of states, MNCs, and markets. This proposed model here extends current research on states and so proposes a model explaining MNCs' returns based on the interaction of states, markets, and MNCs. Future research may consider using an interaction among MNCs, states, markets, and supranational institutions.

Fifth and final, regardless of the assessment of state sovereignty and the overseas market attractiveness, it is incumbent upon MNCs to manage these associate risks. Multiple organizational approaches exist to address such risks, including establishing joint ventures with local companies and even state enterprises. Further investigation is required into the effectiveness of various organizational responses to overseas investments by strong and weak MNCs into opportunities presented by strong and weak states associated with attractive and unattractive markets.

The relationship among markets, states, and MNCs can no longer be ignored in the literature. This research and proposed model attempt to link MNCs to states by exposing the effects of relative strength and power on the returns on investment that an MNC can anticipate. The increasing globalization of business and the proliferation of MNCs have dramatically affected the power balance among international actors. No longer do national borders and government structure guarantee sovereignty for the state or economic returns for the MNC. The proposed model of international power distribution strengthens our understanding of market, state, and MNC interaction.

References

Alien Tort Claims Act, 28 U.S.C. § 1350 (1789).

Bacharach, S. B. (1989). Organizational theories. Some criteria for evaluation. *Academy of Management Review*, *14*(4), 496-515.

Barney, J. B. (1986). Organizational culture: Can it be the source of sustained competitive advantage? *Academy of Management Review*, *11*, 656-665.

Barney, J. (1991). Firm resources and sustained competitive advantage, *Journal of Management*, *17*, 99-120.

Bartkus, V. (1999). *The dynamic of secession*. Cambridge, UK: Cambridge University Press.

Boddewyn, J., & Brewer, T. L. (1994). International-business political behavior. New theoretical directions, *Academy of Management Review*, *19*, 199-143.

Borga, M., & Yorgason, D. (2002, July). Direct investment positions for 2001: Country and industry detail. *Survey of Current Business*, pp. 25-35.

Bradley, D. G. (1977, July–August). Managing against expropriation. *Harvard Business Review*, pp. 75-83.

Caves, R. E. (1982). *Multinational enterprise and economic analysis*. New York: Cambridge University Press.

Collis, D. J. (1991). A resource-based analysis of global competition. *Strategic Management Journal*, *12*, 49-68.

Conner, K. R. (1991). A historical comparison of resource-based theory and five schools of thought within industrial organization economics: Do we have a new theory of the firm? *Journal of Management*, *17*, 121-154.

Davis, J. H., Reyes, D., & Stern, I. (1999). *Whose sovereignty? Corporate governance and state compliance*. Chicago: Strategic Management Society.

Dierickx, I., & Cool, K. (1989). Asset stock accumulation and sustainability of competitive advantage. *Management Science, 35*(12), 1504-1513.

Doe I v. Unocal Corp., 395 F.3d 932 (9th Cir. 2002).

Dunning, J. H. (1993). Governments and multinational enterprises: From confrontation to co-operation? In L. Eden & E. Potter (Eds.), *Multinationals in the global political economy* (pp. 59-83). New York: St Martins.

Eden, L., & Potter, E. H. (1993). *Multinationals in the global political economy*. New York: St. Martin's Press.

Energy Intelligence Research. (2003). *The Energy Intelligence top 100: Ranking the world's oil companies.* New York: Author.

Fagre, N., & Wells, L. T., Jr. (1982, Fall). Bargaining power of multinationals and host governments. *Journal of International Business Studies*, pp. 9-24.

Gasser, T. P., & Rossier, J. A. (1974, Winter). Lessons from Switzerland's mini-multinationals. *The McKinsey Quarterly*, pp. 32 et seq.

Gladwin, T., & Walter, I. (1980, Summer). How do MNCs manage? *Journal of Business Strategy*, pp. 54-68.

Gong, Y. (2003). Subsidiary staffing in multinational enterprises: Agency, resources, performance. *Academy of Management Journal*, *46*, 728-740.

Grant, R. M. (1991). The resource-based theory of competitive advantage: Implications for strategy formulation. *California Management Review*, *22*, 114-135.

Gurr, T. R. (2000). *Peoples versus states: Minorities at risk in the new century*. Washington, DC: U.S. Institute of Peace Press.

Hansen, G. S., & Wernerfelt, B. (1989). Determinants of firm performance: The relative importance of economic and organizational factors, *Strategic Management Journal*, *10*, 399-411.

Hawkins, R. G., Mintz, N., & Provissiero, M. (1976, Spring). Government takeovers of U.S. foreign affiliates, *Journal of International Business Studies*, pp. 3-16.

Helfat, C. E., & Peteraf, M. A. (2003). The dynamic resource-based view of capability lifecycles. *Strategic Management Journal, 24*, 997-1010.

Hill, C. W. L. (1990). Cooperation, opportunism, and the invisible hand: Implications for transaction cost theory. *Academy of Management Review*, *15*(3), 500-513.

Hitt, M. A. Hoskisson, R. E., & Kim, H. (1997). International diversification. Effects on innovation and firm performance in product-diversified firms. *Academy of Management Journal*, *40*, 767-798.

Hunt, S. D. (1997). Competing through relationships. Grounding relationship marketing in resource-advantage theory. *Journal of Marketing Management*, *13*, 431-445.

International Commission on Intervention and State Sovereignty. (2001a). *Responsibility to protect: Commission report.* Ottawa, Ontario, Canada: International Development Research Centre.

International Commission on Intervention and State Sovereignty. (2001b). *Responsibility to protect: Reseach, bibiography, and background.* Ottawa, Ontario, Canada: International Development Research Centre.

Kim, W. C. (1988). The effects of competition and corporate political responsiveness on multinational bargaining power. *Strategic Management Journal*, *9*, 289-295.

Kobrin, S. J. (1982). *Managing political risk assessment*. Berkeley: University of California Press.

Lecraw, D. J. (1984). Bargaining power, ownership, and profitability of subsidiaries of transnational corporations in developing countries. *Journal of International Business Studies*, *15*(1), pp. 27-43.

Levy, D., & Prakesh, A. (2003). Bargains old and new: Multinational corporations in global governance. *Business and Politics*, *5*(2) 131-150.

Mataloni, R. (2003, November). U.S. multinational companies: Operations in 2001. *Survey of Current Business*, pp. 85-105.

Mataloni, R., & Yorgason, D. (2002, March). Operations of U.S. multinational companies: Preliminary results from the 1999 Benchmark Survey. *Survey of Current Business,* pp. 24-54.

Moon, C. W., & Lado, A. A. (2000). MNC-host country bargaining power relationship: A critique and extension within the resource-based view. *Journal of Management*, *22*, 85-117.

Peteraf, M. A. (1993). The cornerstone of competitive advantage: A resource-based view. *Strategic Management Journal, 14*(3), 179-191.

Porter, M. (1980). *Competitive strategy*. London: Free Press.

Poynter, T. A. (1982). Government intervention in less developed countries: The experiences of multinational companies. *Journal of International Business Studies*, *13*(1), pp. 9-25.

Poynter, T. A. (1985). *Multinational enterprises and government intervention*. New York: St. Martins Press.

Ray, G., Muhanna, W., Barney, & J. B. (2005). Information technology and the performance of the customer service process: A resource-based analayis. *MIS Quarterly, 29*(4), 625-652.

Rugman, A. M., & Verbeke, A. (1993a). Foreign subsidiaries and multinational strategic management: An extension and correction of Porter's single diamond framework. *Management International Review*, *33*(2), 71-84.

Rugman, A., & Verbeke, A. (1993b). Generic strategies in global competition. In A. M. Rugman & A. Verbeke (Eds.), *Research in global strategic management: Vol. 4. Global competition: Beyond the three generics* (pp. 3-15). Greenwich, CT: JAI Press.

Rugman, A. M., & Verbeke, A. (2001). Subsidiary specific advantages in multinational enterprises. *Strategic Management Journal, 22*(3), 237-250.

Rumelt, R. P. (1984). Toward a strategic theory of the firm. In R. Lamb (Ed.), *Competitive strategic management* (pp. 556-570). Englewood Cliffs, NJ: Prentice Hall.

Rumelt, R. P. (1991). How much does industry matter? *Strategic Management Journal*, *12*, 167-185.

Stopford, J. M., & Strange, S. (2002). *Rival states, rival firms: Competition for world market shares.* New York: Cambridge University Press.

Strange, S. (1993). Big business and the state. In L. Edden & E. H. Potter (Eds.), *Multinationals in the global political economy* (pp. 101-107). New York: St. Martin's Press.

A taxing battle. (2004, January 31). *Economist*, pp. 71-72.

Teece, D. J. (1987). Profiting from technological innovation: Implications for integration, collaboration, licensing, and public policy. In D. J. Teech (Ed.), *The competitive challenge* (pp. 185-219). New York: Harper & Row.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, *5*, 171-180.

Wiwa v. Royal Dutch Petroleum, S.D.N.Y. 96 Civ. 8386 (1998).

Viva Ona Bartkus is an associate professor of management at the University of Notre Dame. She graduated summa cum laude from Yale University with master's and bachelor's degrees in economics and then completed her doctorate and master's in international relations at Oxford University while on a Rhodes scholarship. Her book *The Dynamic of Secession* (1999) investigates nationalism, self-determination, and why groups attempt secession. Her current teaching and research interests concentrate on two distinct areas: the social capital of communities that enables collaboration and the leadership approaches most effective in solving complex business problems. Her book *Getting It Right* (2008), with Ed Conlon, argues that successful leadership depends on making values-based problem solving a habit of mind. Her book *Social Capital: Reaching Out, Reaching In* (2008), with Jim Davis, explores the networks, norms, and trust that underpins collective action. Before joining the faculty at Notre Dame, Dr. Bartkus spent 10 years at the global management consulting firm of McKinsey &

Company (the last 4 years as a partner), serving health care, industrial, retail, and high-tech clients to overcome their strategic, operational, and organizational challenges.

James H. Davis is the John F. O'Shaughnessy Professor of Family Enterprises and the Ray and Milan Siegfried Director of Entrepreneurial Studies at the University of Notre Dame. He received his doctorate in corporate strategy from the University of Iowa, his master of business administration from Idaho State University, and his master of education and bachelor of arts from Brigham Young University. His research has appeared in many publications, including the *Strategic Management Journal*, *Academy of Management Review*, *Journal of Applied Psychology*, and *International Journal of Value-Based Management*. His book *Social Capital: Reaching Out, Reaching In* (2008), with Viva Bartkus, explores the networks, norms, and trust that underpin collective action. His publication on trust has been recognized as the best research for the second decade of the *Academy of Management Journal*.

Fonte: Business & Society, v. 49, p. 290-315, June 2010. [Base de Dados]. Disponível em: <http://online.sagepub.com>. Acesso em: 3 agosto 2010.