The Institutional Environment for International Business

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International business is the study of transactions between counterparties who either reside in different nations or who reside in one nation but are compared to a pair of counterparties in another nation. This simple definition focuses our attention on the key facet of research in this area that distinguishes it from other fields. International business research necessarily requires attention to the institutional characteristics that alter the costs of engaging in business activity of a given form in one nation as compared to another. In this chapter, I examine the nature of these differences in the institutional environment and their implications for the current and future state of international business research.

Scholars in the field of international business base their research largely in the disciplines of economics and sociology. The study of actual business activity precludes the simplifying assumptions of perfect rationality among atomistic agents interacting in a world where complete contingent claims contracts are feasible as well as abstraction from the underlying economic motivation for the creation and maintenance of relationships between actors. The extension of this study to international business similarly precludes the simplifying assumption that the local institutional context equally supports all forms of business activity regardless of the type of technology, the identity of the investors, the mode of organization and the relationship between the investors and the host-country government and, more broadly, its polity. Thus the study of business activity which is already an inherently interdisciplinary activity concerning the organization of economic activity among individuals grouped in teams, firms, alliances and networks now spans the disciplinary boundary of political science as well.

The first insight deriving from this integration is the importance of differences in local institutional contexts for core questions of international business including the determinants of investment location, organization and performance. Based on a review of this literature, one might conclude that the field of international business research has successfully incorporated and contributed to state-of-the-art disciplinary research regarding the importance of national institutional context for economic activity.

If we accept that managers and researchers should be interested with not only cross-sectional but also time series variation in institutional context, however, confidence regarding successful contribution to and even integration of disciplinary work rapidly breaks down. The second body of work that I review draws largely from the disciplines of political economy with limited applications to international business. This literature examines the determinants of change in the local institutional context. Such capabilities while always of strategic value are of particular importance for international business as the ability of organizations to predict, plan for and adapt to such change both influences the ability of an organization to select, organize and attain peak performance across the portfolio of local institutional contexts that they face and also assists an organization within a given institutional context particularly when, as is often the case, institutional change is more prevalent in the host country than the home country market.

The Impact of Institutional Context on Entry, Entry Mode and Exit[1]

To successfully deploy its resources in a new country, a multinational firm must identify and contend with numerous differences between the host country market and the markets in which it has previously operated (Beamish, 1988, Hymer, 1976, Martin,

[1] This section substantially draws upon Henisz and Delios (2002).

Swaminathan, & Mitchell, 1998, Zaheer, 1995). A recent study that examined regulations of entry in 75 countries found that the official procedures and costs required to start a new business varied from as few as two procedures (Canada) taking two days (Canada) and 0.4 per cent of average per capita income (New Zealand) to as many as 20 procedures (Bolivia) requiring up to 174 days (Mozambique) and 263 per cent of average per capita income (Bolivia) (Djankov, Porta, Silanes, & Shleifer, 2000). Such differences may be the result of differences in the relative costs of contracting for the acquisition of needed factors of production or for downstream sales (Fisman & Khanna, 1998, Granovetter, 1995, Khanna, 2000, Khanna & Palepu, 1998, Khanna & Palepu, 1999, Khanna & Palepu, 2000a, Khanna & Palepu, 2000b, Khanna & Palepu, 2000c, Khanna & Rivkin, 2000, Nee, 1992), the protection of intellectual property (Lee & Mansfield, 1996, Oxley, 1999), the payment of taxes (Grubert & Mutti, 1991, Harris, Morck, Slemrod, & Yeung, 1993, Hines, 1998), the acquisition of government licenses and the payment of fees, the prevalence of corruption (Wei, 2000) and the means and feasibility of exit. Even where laws and regulations appear similar, differences in legal systems can have important differences in such relevant outcomes as the protection afforded to shareholders versus creditors or minority investors (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1998, La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1999).

Cultural differences between nations also can influence multinational entry strategies. For example, substantial evidence of cross-national differences in such factors as “administrative practices and employee expectations” (Kogut & Singh, 1988:414) or the adoption of three paradigms of organizational management: scientific management, human relations and structural analysis (Guillén, 1994), illustrate the difficulty with which models of management are transferred from one nation to another (Guillén, 2001). Empirical evidence supporting these differences is found in the studies of Hamilton and Biggart (1988) on the industrial arrangements and organizational strategies employed in the economies of South Korea, Taiwan and Japan, and in Biggart and Guillén (1999) who looked at the evolution of the auto industry in South Korea, Taiwan, Spain and Argentina.

Institutional differences between nations magnify difficulties in collecting, interpreting and organizing the relevant information necessary to mount a successful entry. Markets that are similar in political structure, factor market structure or culture pose less uncertainty, relatively lower costs of entry and, therefore, lower hurdle rates of return. Investors are hence more likely to enter countries where the future policy regime is relatively easy to predict (Bennet & Green, 1972, Gastanaga, Nugent, & Pashamova, 1998, Green & Cunningham, 1975, Henisz & Delios, 2001, Loree & Guisinger, 1995, Root & Ahmed, 1978, Stobaugh, 1969, Vernon, 1977, Wei, 2000). Relatedly, investors are more likely to enter countries that are culturally similar, and have similar organizational structures (Hanson, 1999, Loree & Guisinger, 1995).

The impact of institutions on entry strategies can extend beyond the choice of where to invest to include the design of local operations. For example, firms that perceive hazards emanating from policy uncertainty can take hazard-mitigating actions designed to shift the decision calculus of the potential expropriating government. Such a shift should seek to either raise the political and/or economic costs (lost revenue, employment and future investment) to asset or revenue expropriation, or lower the benefits (the value of seized assets or revenue stream and the nationalist political reaction) from expropriation.

As an example of a hazard mitigating strategy, a multinational can form a partnership with a host country firm. In such a partnership, the host country firm would also suffer in the event of an expropriation of a foreign subsidiary's returns or its assets because of the subsidiary's dependence on a continuing relationship with its parent firms for its complementary assets. In exchange for ownership in the foreign subsidiary, a host country partner provides a valuable service. Host country firms tend to use, on average, a greater percentage of domestic inputs. Because of superior information regarding the availability of, terms of and procedures for acquiring goods in the domestic market, host country partners rely more heavily than the multinational on domestically-sourced labor, intermediate products and trading partners. While a multinational may pay to acquire this form of local information, pursuing such a strategy raises production costs relative to domestic firms.

Depending on the size of this cost wedge, a multinational shifts some positive quantity of inputs from domestic to international sourcing. Expropriation of the assets or revenue stream of a joint venture between a multinational and a host country partner will therefore result in a greater expropriation of assets or revenue streams owned by domestic constituents than expropriation of a solely foreign venture. As more domestic constituents are implicated in the expropriation, a partnership between a multinational and a host country firm is, on average, politically more costly to expropriate for the government than a solely foreign venture.[2] Gatignon and Anderson (1988), Hill, Hwang and Kim (1990), Agarwal and Ramaswami (1992), Oxley (1999), Delios and Beamish (1999), Smarzynska (2000) and Henisz (2000) provide empirical evidence supporting this link between market entry mode choice and the degree of policy uncertainty.[3] Similarly, Goodnow and Hansz (1972), Davidson and McFetridge (1985), Kogut and Singh (1988) and Erramilli (1996) find an analogous link between cultural proximity and the choice of entry mode.

A growing body of work examines the organizational strategies adopted by local firms to surmount the "institutional voids" present in many institutional contexts. In the absence of such specialized market intermediating institutions in the realms of financial, labor and product markets, local firms may follow one of three strategies. First, they may increase their horizontal scope in business group structures so to share these intermediating functions within a loosely coupled organizational rubric commonly referred to as a business group. Khanna and Palepu (2000c) find a diversification premium in the Indian context where intermediate markets are relatively underdeveloped. Chang and Hong (2000) use a more direct test of the benefits of internalizing missing markets by demonstrating performance benefits to Korean chaebol that share financial

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[2] This hypothesis is strongly supported by the only available empirical study (Bradley, (1977). The author finds that expropriation of joint ventures exclusively between foreign multinationals is eight times as likely as expropriation of joint ventures that involve local partners.

[3] Henisz (2000) demonstrates that this relationship is conditional upon the nature of the assets under the purview of the overseas subsidiary while Delios and Henisz (Delios & Henisz, 2000) argue that the strength of the linkage is inversely correlated to a firm's relevant experience.

and intangible assets. Exploiting variation in missing markets within a country over time as opposed to internalization across firms within a country, Khanna and Palepu (2000b) demonstrate that the performance benefits associated with group membership decline over time in Chile during a period in which intermediate markets were developing rapidly. Foley (2001) uses a similar set of arguments to argue that multinational corporations are able to use internal capital, labor and intangible assets to surmount host-market inefficiencies in those markets.

Second, they may cluster geographically to provide incentives for specialized private intermediaries to develop locally despite their general absence from the national economy. By collocating, a group of firms may create economic incentives for specialist intermediaries to develop. Michael Porter (1998, 2000) has recently advocated the development of such clusters as a development strategy for emerging economies.

Finally, they may seek ties to intermediating institutions in other countries either directly (i.e., accessing foreign capital or labor markets) or indirectly (i.e., by allying with foreign firms). Guillén (2000) argues that business group structures are particularly beneficial when government policies limit access to key resources either domestically and internationally and finds support for this hypothesis across a sample of nine emerging markets. Siegel (2003) finds that local firms with political connections of particular importance in the current Korean political context are dramatically more likely to form alliances with US, European and Japanese multinationals. Siegel (2002) considers the reputation effects of listing an ADR on the New York Stock Exchange. The requisite information or capabilities may also be present within the focal firm as evidences by the results of Delios and Henisz (2003b) who find that firms with more experience in countries with high political hazards are less sensitive to such hazards in their entry decisions. Henisz (2003b) develops the arguments for the existence of political hazard mitigating capabilities more fully in the context of private investment in electricity generation.

In addition to organizational characteristics, the type of assets chosen for overseas investment may vary across different institutional structures. Empirical work that has adopted a case study approach provides strong support for the hypothesis that long-lived and/or politically visible investments such as those in infrastructure sectors will be particularly sensitive to a country's institutional environment (Bergara Duque, Henisz, & Spiller, 1998, Caballero & Hammour, 1998, Crain & Oakley, 1995, Dailami & Leipziger, 1998, Daniels & Trebilcock, 1994, Grandy, 1989, Levy & Spiller, 1994, Levy & Spiller, 1996 , Ramamurti, 1996, Savedoff & Spiller, 1997, Spiller & Vogelsang, 1996, Williamson, 1976). Two recent efforts to extend this logic to panel datasets in telecommunications (Henisz & Zelner, 2001) and electricity (Henisz & Zelner, 2002) have also found strong support for the hypothesis that political institutions that fail to constrain arbitrary behavior by political actors dampen the incentive for infrastructure providers to deploy capital and, *ceteris paribus*, yield lower levels of per capita infrastructure investment.

The sequence of investment within a country may also vary in the institutional environment. Delios and Henisz (2003a) argue that the internationalization’s literature assumptions regarding the evolution of investment types proceeding from a sales subsidiary to a joint venture to a wholly-owned manufacturing facility is contingent upon the primary source of uncertainty being derived from the marketplace as opposed to the policymaking process. Where the latter dominates, the hazard mitigating benefits of local production as opposed to local competition argue for reversing this order and beginning the within country sequence of investment with a manufacturing facility.

Regardless of the entry mode or type, unstable policy regimes and culturally dissimilar markets are likely associated with performance penalties relative to their more stable or familiar counterparts. Carroll and Delacroix (1982) find higher mortality rates for newspapers in Argentina and Ireland during periods of political unrest. Zaheer and Mosakowski (1997) find that the failure rates of foreign firms in the financial service sector are higher in more tightly regulated and less globally integrated markets. Li and Guisinger (1991) find an analogous relationship between cultural proximity and survival as do Barkema, Bell and Pennings (1996) and Barkema and Vermeulen (1997).

Institutional Change and International Business

Given the importance of the formal and informal institutional context for the location, organization and performance of international business activity, managers must concern themselves not only with variation in that institutional structure across countries but also across time. Specifically, investors often need to understand not only the current institutional structure and its stability over time but also its likely path of evolution. Managers must be able to unpack the policymaking process and identify the key interest groups and coalitions that interact within the formal political structures to militate for change. Broadly, the relevant literature that examines this question can be broken down into two components which emphasize, respectively, the supply- and demand-sides of the process. Efforts to bring these literatures together particularly in an empirical context are extremely limited and scarcer still if that context is limited to one in which economic actors are centrally implicated. As a result, my review will largely focus on identifying key findings in the relevant disciplines and their potential impact on current research in international business.

Supply-Side Constraints on Institutional Change

On the supply-side of the process, a growing body of literature linking political institutions and economic outcomes has asked whether institutions that offer “some credible restrictions on the state's ability to manipulate economic rules to the advantage of itself and its constituents" (North & Weingast, 1989:808) can overcome what Weingast has labeled “the fundamental political dilemma of an economic system.” Namely, “a government strong enough to protect property rights is also strong enough to confiscate the wealth of its citizens.” (Weingast, 1993)

That confiscation may take the form of outright expropriation of assets or of a revenue stream from those assets but more commonly involves changes in the policy regime that intentionally or unintentionally have the result of altering the value of the revenue stream generated by private sector assets. Examples include changes in tax policy, regulations or procedural requirements. While such actions are often far removed from the expropriation of property, plant and equipment, they still impact the decisions of private actors especially those that include long-lived up-front investments with substantially reduced value in their next best use (Pindyck, 1991).

An important early contribution to our understanding of how political institutions can provide a credible commitment to property rights comes from the work of positive political theorists such as Thomas Gilligan and Keith Krehbiel (1980) and Kenneth Shepsle and Barry Weingast (1987) who examined the role of the committee structure of the US Congress in controlling the problem of voting cycles (Riker, 1980) expected in a democratic legislature. The property rights in question were political rather than economic but the principle that the structure of political institutions affects policy outcomes extends far beyond the Washington beltway. In order to identify the reasons underlying the much observed and often described existence of committee power, these theorists diverged from the case study approach of earlier literature and adopted simple spatial models of political interaction to derive structure-induced equilibria in the political process. They demonstrate the importance of the agenda setting and last-mover rights held by the committees in the determination of policy outcomes. They tested their theoretical framework by predicting and testing for shifts in policy outcomes after shifts in majorities on relevant committees (Gilligan, Marshall, & Weingast, 1989, Shepsle, 1986, Weingast, 1984, Weingast & Marshall, 1988, Weingast & Moran, 1983, Weingast, 1981).

Subsequent work in the field of positive political theory has built outward from these simple early models to test for the relative importance of these and other hypotheses[4] on the structure of Congressional committees (Groseclose, 1994a, Groseclose, 1994b); and to incorporate other political actors including the President (Ferejohn & Charles, 1990, Gely & Spiller, 1990, Spiller & Gely, 1992), bureaucracies (Gely & Spiller, 1990, McNollGast, 1987, McNollGast, 1989, Schwartz, Spiller, & Urbiztondo, 1994, Spiller, 1990, Spiller & Gely, 1992) and the courts (Cameron, Segal, & Songer, 2000, de Figueiredo & Tiller, 1996, Gely & Spiller, 1990, Gely & Spiller,

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[4]. See especially Krehbiel (1991) on information specialization and Kiewit and McCubbins (1991) and Cox and McCubbins (1993) on party delegation.

1992, Songer, Cameron, & Segal, 1995, Songer, Segal, & Cameron, 1994, Spiller, 1992, Spiller & Gely, 1992, Spiller & Tiller, 1996, Spiller & Tiller, 1997). More recently, a few authors have taken preliminary steps to extend the spatial modeling of political action to political systems outside the United States (Baron, 1998, Bawn, 1999, Bottom, Eavey, Miller, & Victor, 2000, Moe & Caldwell, 1994, Mueller & Pareira, 1999, Palmer, 1995, Ramseyer & Rasmusen, 2001, Spiller & Vogelsang, 1996) or to multilateral bargaining games (Butler & Hauser, 2000, Kreppel, 2000, Richards, 1999, Tsebelis & Garrett, 2000).

The primary result from this literature is that policy outcomes are a function of political structure. The possession of veto power over a final outcome is among the most important of the structures under study as it limits the range of discretion by other political actors. Specifically, any single actor with authority to set policy acts knowingly that the final policy outcome must be within a range of policies that satisfies all actors with veto power. Therefore, rational behavior dictates the choice of the most preferred policy not subject to a veto.

This logic is the basis for an analysis of cross-nation variation in political institutions used to predict variation in the investment and profitability of telecommunications companies in a series of case studies assembled in Levy and Spiller (1996). The authors isolate a small set of institutional variables that, across their sample of five countries, explain much of the variation in firm performance.

First, in the absence of an independent judiciary (one whose authority over contracts between private and public entities is not subject to political intervention), governments are unable credibly to commit without external assistance. Any promise, legislation, contract or rule can easily be reneged upon without the recourse of an appeal to an independent party.[5] Such societies, which include absolutist monarchies, centrally planned economies and single party totalitarian states can be characterized by Louis XIV's famous dictum 'L'etat, c'est moi'.[6] By contrast, the existence of an independent judiciary gives citizens and firms an independent forum to which they can appeal arbitrary, capricious or self-serving rulings by the state and whose own rulings they may have confidence will be enforced by that state. Levy and Spiller (1994) point out that, in the absence of judicial independence, efforts at establishing judicial reform should precede efforts at privatization or, if privatization must be enacted for political reasons, governments should rely on third-party commitment mechanisms such as those provided by multilateral institutions.

A related line of inquiry emphasizes the preference dispersion of actors within a given veto player. For example, the work of George Tsebelis concludes "the potential for policy change decreases with the number of veto players, the lack of congruence (dissimilarity of policy positions among veto players) and the cohesion (similarity of policy positions among the constituent units of each veto player)" (Tsebelis, 1995). Thus the existence of an institutionally independent actor with the ability to act as a check on its peers is less relevant for investors where the preferences of the actor that inhabit that institution overlap with the preferences of the actors that it purportedly checks. Such overlap may be expected in cases where one body elects or appoints the other such as is the case for the executive in a Westminster Parliamentary government or regulatory or

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5. An earlier but thoughtful related treatment is provided in Berman (1983).

6. 'I am the state.'

judicial actors that serve at the pleasure of the current executive. Electoral rules that influence the composition of political actors relative to the polity are also relevant in this regard.

These theoretical insights are supported by a number of empirical studies that examine the responsiveness of policies to certain exogenous shifts in the economic or policy environment or examine long-term trends in fiscal or monetary policy. For example, Hallerberg and Basinger (1998) find that in response to the policy innovation of tax cuts enacted by the United States in the 1980s, other OECD nations with few de facto veto points lowered their tax rates by a greater amount than countries with a larger number of such checks and balances. Franzese (1999) and Treismann (2000) find that countries with more veto points have stable levels (either high or low) of government deficits and inflation respectively. The vast literature on political determinants of budget deficits (see Persson and Tabellini (1999) for a recent review) that posits that countries with a larger number of policymakers will have a more difficult time allocating costs (tax revenue) but will be more likely to generate policy logrolls that increase spending (expenditure) and thus generate larger deficits is also consistent with the underlying logic presented here especially to the extent that it isolates the fiscal response to exogenous shocks (Alt & Lowry, 1994, Persson, 2001, Poterba, 1994, Roubini & Sachs, 1989).[7] Henisz (2003a) builds upon this prior research set primarily in OECD countries by

[7] See Heller (2001) for an alternate set of theoretical arguments and empirical evidence highlighting the potential in Parliamentary democracies for party discipline to dominate logrolling thus allowing for a negative relationship between bicameralism and budget deficits.

showing that across a sample of as many as 92 countries over as many as 23 years, checks and balances are negatively associated with the volatility of fiscal policy.

Institutional development may directly reduce uncertainty over the future policy regime and provide investors with recourse in the event of arbitrary or capricious behavior thus encouraging investment but there are also several plausible indirect channels leading from better developed institutional structures to more favorable policy outcomes. These include fostering the development of a strong and independent press (Dyck & Zingales, 2001), an improvement in the availability and efficiency of provision of public goods (Boix, 2001, Esfahani & Ramirez, 1999, Roller & Waverman, 2001, Tanzi & Davoddi, 1997), curtailment of corruption possibly through better monitoring and enforcement (Mauro, 1997, Tanzi & Davoddi, 1997), better rather than more stable or predictable economic policies (Ahn & Hemmings, 2000, Collier & Gunning, 1999, Frankel & Romer, 1996, Nelson & Singh, 1998, Sachs & Warner, 1995) and financial market development (Bekaert, Harvey, & Lundblad, 2001, Levine, Loayza, & Beck, 2000, Levine & Zervos, 1998, Rajan & Zingales, 1998).

The dramatic progress of this literature in international political economy points to a gap in the analogous literature in international business. As surveyed in the previous section, researchers have increasingly acknowledged the importance of the political process for entry and organizational decisions as well as performance outcomes. That acknowledgement of importance has not, however, kept up with the theoretical and empirical advances in conceptualization and measurement of the institutional environment. Rather than continue to use subjective evaluations by country experts which are subject to biases analogous to those faced by stock analyst ratings based both on their backward looking nature and on the herd like behavior of experts, scholars are increasingly turning to objective measures of the checks and balances of the political system[8] as well as of the media, financial market development and policy stability. These measures offer substantive gains on the more widely used surveys as managers are basing their behavior not on the past outcomes realized in a country but the likely future outcomes which are based on underlying institutional structures rather than past trends that may be influenced by a host of exogenous factors unlikely to continue in the future. The gap between perceptual or subjective and these objective measures is likely to be particularly large at the peak of a bubble or at the apex of an investment cycle. This upward bias at the riskiest moments should give investors and researchers serious cause for concern.

Demand-Side Pressures for Institutional Change

In addition to these supply-side factors measuring underlying structural characteristics of a country's institutional environment, interest group theories or distributive theories of politics emphasize the demand-side determinants of policy and institutional change. One area of scrutiny is the impact of heterogeneity in the strength of interest groups defined along geographic, industry, market segment, class, racial, ethnic or religious dimensions on their ability to influence policy outcomes. The level of sophistication in this analysis varies widely including simple predictions regarding positive associations between interest group concentration, size and profitability and the

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[8] See, in particular, http://www-management.wharton.upenn.edu/henisz/ for the political constraints dataset and http://www.worldbank.org/research/bios/pkeefer.htm for the Database of Political Institutions.

incidence (Dickie, 1984, Masters & Keim, 1986, Salamon & Sigfried, 1977) and success (Esty & Caves, 1983, Rehbein & Lenway, 1994, Yoffie, 1988) of lobbying activity by organizations in the US context.

More sophisticated efforts drawing on single country case studies of policy change or large scale econometric analysis of the determinants of armed conflict, apply expected utility theory to model the effects of interest group preferences, salience and capabilities. Researchers begin by surveying well-informed practitioners and policymakers regarding their own preferences, salience and capabilities as well as those of other relevant interest groups. Remaining groups are similarly surveyed and the information is entered into a unidimensional expected utility framework to generate predictions about the policy favored by the median interest group. Such models have substantial intrinsic appeal and high success rates, as evidenced in published analyses of the post-Khomeni political transition in Iran (Mesquita, 1984), the Latin American debt crisis (Kugler, 1987), Italian budgetary negotiations (Beck & Mesquita, 1985), the Middle East conflict (Mesquita, 1990), the end of the Cold War (Mesquita, 1998), German monetary unification (Mesquita & Organski, 1992), the 1992 French referendum on Maastricht (Organski & Mesquita, 1993), South African electoral reform (Berman & Abdollahian, 1999), the risk of nuclear proliferation to Taiwan (Mesquita, Morrow, & Wu, 1993), the Spratly Island conflict in the South China Sea (Wu & Mesquita, 1994), the post-crisis reforms in Korea (Root, Abdollahian, Beier, & Kugler, 1999) and (tellingly given subsequent events) a critical appraisal of the likelihood that the 1993 accord with North Korea would substantively constrain North Korea's nuclear ambitions (Newman & Bridges, 1994). The success of thee efforts, as is always the case, depends crucially on the quality of the data entered into the modeling framework. Of particular concern is the models' omission of the supply-side of the policymaking process which could cause generate erroneous indicators of pivotal actors or decision points unless respondents are incorporating information on the policymaking structure into their survey responses.

Another line of research holds interest group characteristics constant and examines the link between the macroeconomic or social conditions faced by interest groups as a whole and the strength of lobbying for policies that insulate a given interest group from adversity. Examples include the endogenous trade policy literature (Magee, Brock, & Leslie Young, 1989) and the related international studies which posit a link between openness and the depth of the welfare state (Adsera & Boix, 2001, Alesina & Wacziarg, 1998, Rodrik, 1998).

Researchers in social movement theory examine the conditions under which individuals and interest groups not directly implicated in a policy debate or adversely affected by economic and social conditions may still be mobilized for the purpose of a campaign to change or defeat a proposed change in institutional structure. Key insights here include the importance of framing an issue such that relatively uninformed or apathetic parties interpret the debate with reference to better established preexisting beliefs and biases. A prominent example from the field of international business is the invocation of national competitiveness frames by advocates in the standard setting debate for high-definition television (Dowell, Swaminathan, & Wade, 2002). One of the most powerful examples of such frames is the normative principle of fairness which requires "like treatment of like cases" (Zajac, 1995). Henisz and Zelner (2003) draw upon such frameworks in their examination of the determinants of change in the emergent institutional structures that support private sector investment in electricity generation.

Research that highlights the demand-side determinants of institutional change call attention not merely to the structure of existing institutions but the structure of the interest group coalitions that support them, the macroeconomic and social conditions that can lead to interest group support for radical policy change and the framing devices that can enhance the likelihood of such militancy for a given interest group structure and economic and social environment. Beyond scattered case studies, international business research has devoted little systematic attention to these forces and their impact on institutional change within existing and potential host countries.

Conclusion

If the defining characteristic of international business research is its cross-border nature, such research should incorporate recent findings from relevant disciplines on the nature of the institutional environment that constitutes a nation state and its impact on cross-border economic transactions. The review provided here argues that while integration has proceeded well regarding the impact of cross-sectional variation (i.e., the differences in the nature of business transactions across nations with varying institutional environments), research on time series variation (i.e., the differences in the nature of business transactions when the supply-side structure of the institutional environment or demand-side forces are likely to generate future change in that institutional environment) remains limited. Future research in the field should both draw upon and contribute to the growing body of international political economy work that speaks to the importance of national institutional environments for economic outcomes with an emphasis on the role that international business can have on the development of national institutions over time.

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