

# **From the Obsolescing Bargain to the Political Bargaining Model**

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**For presentation at the annual meetings of the  
Academy of International Business  
Stockholm, Sweden, July 2004**

# Outline

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# I. Introduction

Widely held view among IB scholars is obsolescing bargain model (OBM) has outlived its usefulness because:

- ❑ MNEs and host country governments seldom negotiate entry conditions (except local-level financial incentives).
- ❑ Entry bargains -- if they occur -- seldom obsolesce.

We argue OBM does have long term usefulness as a theory of MNE-state relations once the emphasis on 'entry' and 'obsolescing' is removed.

OBM should be reconceptualized more broadly as a **political bargaining model (PBM)** where MNE-state relations are modeled as **iterative political bargains** negotiated over **variety of industry-level government policies**. PBM can be a powerful tool for analyzing MNE-state relations – with **OBM as a special case**.

## II. Obsolescing Bargain Model (OBM)

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- Model of MNE-Host Country (HC) relations in developing countries, especially natural resource MNEs.
- Bargaining relationship between MNE and HC is function of both parties' goals, resources and constraints.
- Goals assumed to be conflicting, but game is positive sum so both parties achieve absolute gains.
- Relative gains depend on relative bargaining power.
- Outcome favors MNE, but bargain obsolesces over time. Rate of obsolescence depends on relative resources and constraints.

# III. Political Bargaining Model (PBM)

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- A. Goals and Relative Stakes
- B. Relative Resources
- C. Relative Constraints
- D. Bargaining Power
- E. Outcome



Look at each in turn.....

## A. Goals and Relative Stakes

	<b>The Obsolescing Bargain Model</b>		<b>The Political Bargaining Model</b>	
	<b>MNE</b>	<b>HC</b>	<b>MNE</b>	<b>GVT</b>
	MNE-HC goals conflictual. Bargain potentially positive sum.		MNE-HC goals differ and are typically cooperative. Bargain positive sum.	
<b>Goals</b>	Market or resource seeking goals.	Economic, social and political goals, focusing on national welfare.	MNE wants access to HC's location-bound CSAs. Organizational legitimacy, efficiency and market power goals.	HC wants access to MNE's non-location-bound FSAs. Goals vary by host country. Importance of national competitiveness.

## A. PBM: Goals and Relative Stakes

- **MNE goals**

- Shift from knowledge exploitation to knowledge seeking FDI. Less contribution to host country (Chung 2001).
- Liability of foreignness and need for organizational legitimacy in the host country. Importance of institutions and relational resources (Kostova & Zaheer 1999).
- Shift from natural resources and manufacturing FDI to FDI in knowledge-intensive services and back office functions. Upscaling of FDI overseas.

## A. PBM: Goals and Relative Stakes (cont'd)

- **HC Goals**

- Vary by type of host country (developed, emerging, transition and developing).  
Institutions & cultures influence HC goals.
- Public sector corruption - cannot assume host country goal is to maximize national welfare. Two-level negotiations (official and unofficial). (Rodriguez, Uhlenbruck & Eden, forthcoming).



## A. PBM: Goals and Relative Stakes (cont'd)

- **(Dis)similarity of MNE-HC Goals**

- Shift from confrontation to cooperation between MNEs and host country governments with focus on national competitiveness..... Bargains easier to reach? (Dunning, 1991)

but backlash from disenfranchised groups in some emerging markets (Vernon's 1999? "eye of the hurricane" is over?)

## A. PBM: Goals and Relative Stakes (cont'd)

- **Size of the Stakes**

- For the HC: vary by type of host country and over time. Big emerging markets attracting lots of FDI will see any one project as “small potatoes”; not true for small, developing countries.
- For the MNE: Open door policies to FDI create multiple opportunities for FDI.
- Suggests both parties have more alternatives and therefore lower opportunity costs.

## B. Relative Resources

	<b>The Obsolescing Bargain Model</b>		<b>The Political Bargaining Model</b>	
	<b>MNE</b>	<b>HC</b>	<b>MNE</b>	<b>GVT</b>
<b>Resources</b>	FSAs of the MNE. FDI is a bundle of capital, technology and managerial skills.	CSAs of the host country (economic, social and political) that attract FDI.	MNE transfers non-location-bound resources that are property-based and tacit/relational-based.	HC offers location-bound resources (property-based and relational-based).

## B. PBM: Relative Resources

- **MNE Resources** – are rare, hard to imitate, have no direct substitutes and enable firms using these resources to pursue opportunities or avoid threats (Barney 1991):
  - Property-based resources – traditional MNE FSAs offered to host country. Better IPR regimes encourage MNE willingness to transfer technology.
  - Tacit resources – more important but harder to transfer to host country.
  - Relational resources – strategic alliances and/or bus-gvt linkages. How a HC tap into these resources?

## B. PBM: Relative Resources (cont'd)

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- **Host Country Resources**

- Traditional CSAs offered by host country – market access, cheap labor – less a source of competitive advantage now?
- What are the location-bound assets that are rare, hard to imitate, have no direct substitutes? What does the HC bring to the table?
- Locational tournaments and ‘open door’ FDI policies make it more difficult for HCs to offer distinctive resource packages.

## B. PBM: Relative Resources (cont'd)

### ● MNE-HC Valuation

- Value placed on resources depends on the ***other party's*** desire/need and its alternatives.
- Larger number of alternatives, on both sides, suggests lower valuations.
- Emerging & transition economies more risky – suggests lower valuation by MNEs - “wait and see” (Rivoli & Salorio 1997?).
- Greater institutional distance suggests higher transaction costs and lower valuation.

## C. Relative Constraints

	<b>The Obsolescing Bargain Model</b>		<b>The Political Bargaining Model</b>	
	<b>MNE</b>	<b>HC</b>	<b>MNE</b>	<b>GVT</b>
<b>Constraints</b>	Economic and political constraints, both domestic and international.		Economic, political and institutional constraints. Governance inseparability constrains outcomes. International institutions and home governments can affect outcomes.	

## C. PBM: Relative Constraints

- **MNE and HC Constraints**

- Previous contracts constrain new contracts – governance inseparability – inability to switch modes or to add new modes (Argyres & Leibeskind 1999).
- Both MNEs and HCs affected by governance inseparability. Constrained by existing bargains:
  - Government membership in multilateral institutions (Ramamurti 2001)
  - MNE membership in strategic alliances.



## D. Bargaining Power

	Obsolescing Bargain Model		Political Bargaining Model	
	MNE	HC	MNE	GVT
Bargaining	Bargain over MNE entry. Subsequent bargains with same firm(s) over access to HC resources, contribution to HC and ability to repatriate profits.		MNEs and governments bargain over public policies in industry-specific issue areas.	
MNE Strategies	Focus on preventing opportunistic behavior by the host government.		MNEs use economic and political strategies, lobbying for legitimacy in order to overcome liability of foreignness. MNE-HC relations can be strengthened through organizational legitimacy, political accommodation, resource complementarity and personal relations.	

## D. PBM: Bargaining Power

- **Potential Bargaining Power**
  - Bargaining power comes from ability to withhold resources desired by other party.
  - Relative resources determine potential bargaining power.
  - Resource complementarity raises valuations and generates more cooperative relations (Luo 2001).

## D. PBM: Bargaining Power (cont'd)

PBM bargains can incorporate:

- Multiple MNEs – first movers and latecomers (Eden & Molot 2002). Studying relations between different groups of MNEs important part of story.
- Multiple policies -- issues where MNEs can influence policy. Issue linkage across policies, and MNE political strategies important factors here.
- Multiple governments - home and host, levels of host, regional governments, multilateral governments.
- Non-governmental actors (NGOs) -- can also influence (and help enforce) public policy bargains.

## E. Bargaining Outcome

	<b>Obsolescing Bargain Model</b>		<b>Political Bargaining Model</b>	
	<b>MNE</b>	<b>HC</b>	<b>MNE</b>	<b>GVT</b>
<b>Outcomes</b>	<p>Outcomes measured by percent of ownership retained by the MNE. Outcome depends on relative goals, resources and constraints. Initial bargains favor MNE and then obsolesce over time.</p>		<p>Outcomes measured by which party most closely achieves its goals. Outcome depends on the parties' relative goals, resources and constraints. Governance inseparability, firm rivalry and liability of foreignness are key variables affecting bargaining outcomes. Other governments and international institutions are important intervening variables.</p>	

## E. PBM: Bargaining Outcome

- In OBM, “outcome” was typically measured by the percent of ownership retained by the MNE over time.
- In PBM, “outcome”
  - should be measured by the gap between each party’s first best goals and the final decision.
  - May need to be measured over multiple decisions and time periods.
  - For the MNE - should be measured by impact on firm performance. For the HC - by impact on national competitiveness.

# III. Discussion

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We argue **PBM is superior to OBM** because:

- PBM handles **wider variety of issues** than OBM.
- PBM is **not dyadic** like OBM. PBM can include negotiations among multiple MNEs, domestic firms and governments over a public policy issue.
- PBM **includes OBM as a special – and useful --case.**

# IV. Conclusions

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- OBM – as it was originally conceptualized -- has outlived its usefulness....but, the core idea that goals, resources and constraints affect bargaining outcomes is still valid.
- A broader perspective – the **Political Bargaining Model (PBM)** -- that focuses on public policy issues involving multiple MNEs and governments, building on OBM, can be a valuable theoretical lens for analyzing MNE-state relations in the 21<sup>st</sup> century.