Legitimacy, Interest Group Pressures and Institutional Change: The Case of Foreign Investors and Host Country Governments

by

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WP 2002-08

A Working Paper of the
Reginald H. Jones Center

The Wharton School
University of Pennsylvania
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Abstract:

In order to reflect more fully the conflict between the potential for mutual gain and the prospect of divergent interests that characterizes the relationship between foreign investors and host country governments, we add institutional context to the traditional bargaining power perspective. We propose that change in the regulative institutions embodying an initial bargain is more likely to occur when the institutional design process, exogenous changes in circumstance or investor business practices aggravate broader concerns about the legitimacy of the distributional rights enshrined in the institution. Institutional inertia, country-level institutional structures and organizational characteristics may all mute pressures for institutional change.

November 6, 2002

* We thank the International Centre for the Study of East Asian Development, The McDonough School of Business, The GE Fund, The Reginald H. Jones Center for Management Policy, Strategy, and Organization, The Research Foundation of the University of Pennsylvania and The Management Department of The Wharton School for their generous financial support. We thank Mauro Guillen, Steve Kobrin, Bruce Kogut, Dennis Quinn and Andy Spicer for their comments on earlier drafts. We also acknowledge the research assistance of Seth Abramowitz, Jack BeVier, Michael Brownfield, Danielle Demianczyk, Indrani Guha, Matthew Heron, Sophie Hoas, Eugene Kakaulin, Hee Young Kim, Eliezer Klebanov, Michele Konrad, Dan Matissoff, David Morales, Kyu Oh, Ayokunle Omojola, Daniella Polar, Jack Sheu, Bartłomiej Szewczyk, Zhen Tao, Ozveri Teymur and Anna Yen.
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INTRODUCTION

Despite the potential for mutual gains, the relationship between foreign investors and host governments is characterized by divergent interests resulting from the distributional process through which the policymaking apparatus allocates the costs and rewards of investment among various interest groups. While investors are primarily interested in uncertainty reduction so as to maximize returns, governments have more complex preferences shaped by multiple interest-group pressures. Thus, the interaction of investors and governments throughout the investment cycle—i.e. from negotiation to investment to operation—is a protracted one in which a variety of distributional struggles and environmental contingencies can undermine investors’ initial assumptions and calculations.

The bargaining power perspective has produced an impressive body of theory and evidence on investor-government interaction (Boddewyn and Brewer, 1994; Fagre and Wells, 1982; Kobrin, 1987; Poynter, 1985; Svejnar and Smith, 1984), but there are several limitations in its approach. In particular, the literature has not yet met the challenge posed by Kobrin (1979) to identify “which events matter” and how “environmental processes affect investor perceptions,” toward which end he called for “…better definitions of the phenomena, a conceptual structure relating politics to the firm and a great deal of information about the impact of the political environment.” In this paper, we derive insights based on the neoinstitutional perspective to generate propositions regarding the mechanisms of institutional change and the moderating role of country-level institutional structures and organization-level characteristics.

The central insight of the traditional bargaining power perspective is that the balance of “resources controlled by one party and demanded by the other” (Kobrin, 1987: 617) determines the terms under which the investor enters the host country market. Investor bargaining power is
Posited to be at a maximum prior to investment, when the government needs access to scarce capital or technology, and then to decline secularly once an investor sinks capital in the ground or its technology or expertise diffuses (Poynter, 1985; Vernon, 1977). As their bargaining power declines, investors face an increased risk that the government will modify or overturn the initial bargain in order to redirect their returns to a broader set of interest groups (Biersteker, 1980; Fagre and Wells, 1982; Kobrin, 1987; LeCraw, 1984; Svejnar and Smith, 1984).

A significant gap in the existing bargaining power perspective is its inattention to the institutional context of the bargain between government and investor. In the case of private infrastructure investment, institutions of interest to investors include bilateral contracts specifying the financial and operational obligations of government and investor under various contingencies, legally sanctioned market rules, specialized administrative bodies charged with interpreting and enforcing contracts and market rules, and the country-level institutions that govern policymaking and enforcement. Together, contracts, market rules and the specialized administrative body compose a sector-specific “regulative institution” (Scott, 2001: 52). The political risk that investors face—the risk that “politics or political players will have a negative impact on a firm’s asset values, costs or revenues” (Wilkin, 2000)—thus stems from the possibility that political actors will change the sector-specific regulative institution that embodies the initial bargain. Such change may take the form of overturning the institution and replacing it with a new one, formally altering certain terms, or reinterpreting terms.

Neoinstitutional theory contends that “the degree to which an institutional arrangement is misaligned with the interests and needs of its participants” influences the probability of institutional change (Seo and Creed, 2002: 232). Groups or individuals that are dissatisfied with how an institution accommodates their interests are the central agents of such change.
(Greenwood and Hinings, 1996; Holm, 1995; Seo and Creed, 2002; Sjöstrand, 1995). In contexts characterized by widespread consumption of output and a perception of publicness, such as infrastructure (Levy and Spiller, 1994; Spiller, 1993, 1996; Wells and Gleason, 1995), the potential change agents are the organized interest groups (Becker, 1983; Olson, 1965; Peltzman, 1976; Stigler, 1975) most strongly affected by key investor decisions about pricing, labor deployment and new investment. These groups include labor unions; business consumers, including agriculture and heavy industry concerns; and residential consumers organized by political entrepreneurs. When dissatisfied, such groups may militate for institutional change through the policymaking process.

By attaining legitimacy among these groups, a regulative institution increases its chance of survival (Zucker, 1987), or in the terminology used herein, its resistance to change. Legitimacy derives from the institution’s ability to yield pricing, hiring and capacity (or output) outcomes that satisfy affected interest groups’ distributional demands. Layoffs, under-provision of services, poor service quality and high prices all represent outcomes that interest groups may perceive as unsatisfactory, leading them to exert pressure for institutional change. Moreover, because practices that promote distribution typically chafe against the “technical activities and efficiency demands” (Seo and Creed, 2002: 226) supporting investor profitability, high investor profits may compound interest group pressures for institutional change. Even interest groups that are not directly affected by a particular distributional outcome may generate pressure for change if the outcome engages their pre-existing “cultural preoccupations and political biases” (Hilgartner and Bosk, 1988: 63) about what constitutes a legitimate distributional outcome
Thus, institutional change is more likely to occur when there exists a misalignment between the conception of distributional rights enshrined in the prevailing regulative institution and the distributional demands of various interest groups whose approval gives rise to legitimacy.

Whereas the traditional bargaining power perspective depicts institutional change as a deterministic outcome of bargaining between an investor and a monolithic government, we seek to explicate the mechanisms that generate institutional change in the presence of misalignment. We conceive of the policymaking process as consisting of interactions among investors, interest groups that vary in their level of organization (Denzau and Munger, 1986; Lowi, 1969; Olson, 1965; Wilson, 1980) and political actors (Kingdon, 1984; Lau, Smith, and Fiske, 1991). These groups and actors face cognitive limitations; differ in their preferences (DiMaggio, 1988); and are subject to varying normative pressures (DiMaggio and Powell, 1983), institutional constraints (North, 1990: 3) and exogenous influences (DiMaggio and Powell, 1983).

The strategic implications of our model for foreign investors are numerous and complex, sometimes extending those from the traditional bargaining power perspective, sometimes at odds with them. Whereas the traditional perspective advises investors to exploit their strong initial bargaining power to secure the strongest ex ante safeguards possible, such as frontloading their returns, our model suggests that investors exercise caution in exploiting their initial bargaining power by negotiating for regulative institutions that balance profitability with legitimacy, and are

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1 For recent reviews of the literature on the “equity-efficiency” tradeoff see Putterman, Roemer and Silvestre (1998) from an economic perspective and Hicks and Kenworthy (1998) from a sociological perspective.

2 They may be “informationally impacted” (Alchian and Demsetz, 1972; Williamson, 1996) or “boundedly rational” (Hilgartner and Bosk, 1988; Simon, 1961; Williamson, 1996)
thus relatively resistant to interest group pressures for change. Similarly, whereas the traditional perspective advises investors to take ongoing measures such as protecting distinctive technology in order to maintain their bargaining power, our model suggests that investors should exercise caution in their attempts to maintain bargaining power, avoiding business practices whose actual or perceived distributional consequences may be perceived as illegitimate. Furthermore, investors should take heed of forces generating isomorphic pressures that create institutional inertia; the nature and distributional consequences of exogenous shocks; and the extent to which country-level institutional structures and organizational characteristics are likely to moderate the ebb and flow of interest group pressures over time.

We illustrate these arguments with evidence on the recent, widespread transition from public to private ownership and operation of electricity generation assets, often to foreign investors in particular. For much of the 20th century, virtually every country embraced a norm of government ownership through state-owned enterprises (SOEs), which provided political actors with a means of pursuing specific distributional objectives. SOEs’ construction of “white elephants”—large projects with questionable economic justification—promoted both equal access to electricity (Soto, 1999) and full employment (Savedoff and Spiller, 1999; World Bank, 1995). Retail pricing schedules further served to subsidize politically powerful classes of consumers. The system was also used to combat the regressive effects of high inflation by freezing nominal electricity prices, often at a time of sharply increasing real input prices (Baer and McDonald, 1998; Bastos and Abdala, 1993; Soto, 1999).

By 1990, the system of public ownership in many countries had begun to collapse under its own weight, threatening macroeconomic stability and growth. Years of revenue shortfalls and cost overruns had forestalled economically necessary new construction and led to poor
maintenance of existing facilities (International Energy Agency, 1999). Events during the 1980s including fuel price increases, the collapse of the communist bloc, and unprecedented demand growth from the so-called East Asian miracle had combined to create a need for over $100 billion of new capacity, bringing the pattern of decline to a head. The ultimate result was sharply reduced service reliability, and in some cases an outright power crisis including brownouts, blackouts, voltage reductions or usage restrictions. Governments thus turned to privatization in large part because they did not possess the capital to solve their mounting problems within the existing system of government ownership (Bortolotti, Fantini, and Siniscalco, 2000). A growing belief in privatization among international policy elites further bolstered the trend (Megginson and Netter, 2001).

The prospect for misaligned regulative institutions under these circumstances was large. Indeed, the very notion of private infrastructure ownership itself—regardless of the specific governing institutions—conflicted with longstanding distributional norms in many countries. Even though many citizens and organized interest groups in countries suffering from power shortages surely embraced the notion of reform in general, virtually all had spent their lives in a world where government ownership of critical infrastructure was a rarely questioned fact; they not only accepted but expected the politicized pricing, output and sourcing decisions associated with government ownership. Indeed, political actors—with the assistance of multilateral agencies, international financial institutions and international investors—found it necessary to mount public relations campaigns to convince citizens of the need to shift from government to private ownership in the first place. These observations suggest that a broad consensus about the desirability of private ownership and its associated distributional consequences had likely not
emerged at the time of transition, and thus that investors entering the new markets faced serious political risk as a result.

**MECHANISMS OF INSTITUTIONAL CHANGE**

**Roots of Misalignment**

Explication of the mechanisms that underlie institutional change begins with an analysis of the process by which policymakers first enact a regulative institution, for example, to effect a shift from public to private ownership and operation of infrastructure. In the bargaining power literature, the archetypal scenario in which foreign investors enter a host country is one of extreme imbalance, wherein a host country’s need for foreign investors’ scarce capital, technology or management expertise provides investors with relatively strong bargaining power, which translates into favorable terms of entry. The neoinstitutional perspective emphasizes the importance of the process through which this “translation” actually occurs.

The construction of a regulative institution takes place in the legislative arena, which consists of multiple political actors, subject to interest group pressures, making decisions within the constraints imposed by institutional structures (Gely and Spiller, 1990; McNollGast, 1987, 1989; Moe, 1990; Spiller and Gely, 1992; Tsebelis, 2000; Weingast and Marshall, 1988; Weingast and Moran, 1983). The motivation for these actors to secure the foreign investment in question presumably addresses an important need in the host country. Because political actors want to retain office, they seek an expedient solution and may therefore heavily discount the potentially illegitimate distributional consequences of an institution that uniformly insulates investors from adverse outcomes by shifting downside risks to broad-based interest groups.

In such a situation, where the cost of delayed resolution is often high, interest groups that would typically try to intervene in the institution’s design in order to secure targeted benefits for
themselves are more likely to compromise (Alesina and Drazen, 1991; Drazen and Grilli, 1993) or defer to political actors’ “central leadership” (Williamson, 1993). Even in the absence of such compromise or explicit deference, the need for expediency combines with political actors’ cognitive limitations (Hilgartner and Bosk, 1988), as well the expectation that they will no longer be in power when distributional consequences come to light (Barro and Gordon, 1983; Bornefalk, 1998; Landes and Posner, 1975; Olson, 1993) or their perception that they may have opportunities to modify the institution in the future (North and Weingast, 1989), to result in heavy discounting of future distributional consequences.

An institutional construction process characterized by such discounting is likely to yield a regulative institution that is weakly resistant to change. By promoting distributional consequences that are misaligned with the demands of multiple interest groups, such an institution is prone to a perception of illegitimacy and thus pressures for change. High bargaining power therefore creates a challenge for foreign investors (Lyles and Steensma, 1996) rather than conferring a *prima facie* benefit on them, as the traditional bargaining power perspective argues. Specifically, because investors are subject to their own cognitive limitations, they are unable to assess the balance between elevated profitability and legitimacy enshrined in a given regulative institution. As a result, other, more transparent features of the institutional design process that might enhance an institution’s legitimacy are of special significance.

A critical feature is the breadth of a specific institutional design process. Subsequent legitimacy is enhanced when the current policymaking objective is to produce a broad package of regulative institutions spanning multiple sectors, as opposed to a single regulative institution governing investment in one sector. A sufficient (but unnecessary) condition for the former to occur is an economy-wide crisis, and for the latter a sector-level crisis. Because broad reform
efforts undertaken in response to an economy-wide crisis necessarily span multiple sectors, they typically impose short-term costs on a broad set of interest groups with the promise of widespread long-term gains. The structure of such reform necessarily limits the possibilities for transfers from a broad set of interest groups to a single, narrow group. That is, whereas political actors might still prefer to enact the expedient, isolated reforms that are feasible in a “narrow” design process creating isolated sector-level regulatory institutions, the simultaneous implementation (Martinelli and Tommasi, 1997) and linked nature (Tollison and Willett, 1979) of the reforms that they must make in a broad process constrain them from doing so. Conformity among the distributional effects of the reforms emerging from a broad process—enshrined in regulative institutions spanning multiple sectors—directly increases the legitimacy of these institutions (DiMaggio and Powell, 1983). Such reforms may also include an institutionalized role for potentially opposed interest groups in the monitoring or governance of the new regulative institutions (Cowhey, 1993), further bolstering their legitimacy.

Proposition 1a. The probability that political actors will overturn, alter or reinterpret a sector-level regulative institution is higher when the initial institutional design process is narrow in scope.

The crisis conditions under which electricity privatization occurred in many countries set the stage for institutional design efforts that could potentially generate misaligned institutions. The specific institutional design that best reflected these consequences was the adoption by some governments of a narrow policy of bilateral “power purchase agreements” (PPAs) offered to private investors on highly favorable terms either directly or through state-owned utilities (SOEs), typically in the absence of broader market rules. Private investors bore practically no risk under these PPAs other than penalties associated with failure to begin operations by a
specified date and the operating risk itself. As an example, consider the PPA between Hopewell Pagbilao, the first private electricity investor in the Philippines, and NAPOCOR, the Philippine SOE. Under the PPA, NAPOCOR assumed market risk through a “guaranteed offtake” (or “take-or-pay”) clause obligating it to purchase a specified minimum output quantity from the project each year; exchange rate risk through dollar-indexed payments; currency conversion risk through dollar-denominated payments in an offshore account; fuel supply risk through the guaranteed free provision of coal; regulatory risk through an agreement to compensate Hopewell Pagbilao fully for any adverse changes or, at Hopewell Pagbilao’s discretion, purchase the plant at dollar cost plus a minimum guaranteed return; and risk of political force majeur.

An alternative regulative institution that provided for greater legitimacy was a set of sector-level market rules. These rules benefited investors by explicitly limiting the scope of government intervention. However, by tailoring prices to changes in cost and demand conditions over time, they reduced the incidence of potential legitimacy-reducing distributional consequences. The prototype for this approach was a dynamic pricing model accounting for variations in demand and input costs that Chile adopted in 1982. Other countries that followed suit included Argentina, Australia, Bolivia, Colombia, Finland, New Zealand, Norway, Peru, Spain, Sweden, the United Kingdom and the Ukraine (Holburn, 2002).

While regulative institutions that promote adaptability do not guarantee distributional consequences that align with broad interest group demands, they are considerably more robust to change than are PPAs offering blanket guarantees. Evidence for this assertion comes from increasing reliance on the former by countries that initially relied on latter, including Argentina, Brazil, Poland, the Philippines, Thailand, and current and prospective members of the European Union. Indeed, Holburn (2002) finds that foreign investors in electricity generation are more
likely to enter a country with market-based pricing rules than they are to enter one using PPAs due to the high probability that governments will violate the PPAs.

**Institutionalization**

The traditional bargaining power model posits that the initial bargain struck between the government and foreign investors becomes less resistant to change as investor bargaining power declines over time. In contrast, our expanded model suggests that this bargain, embodied in a regulative institution, actually becomes more resistant to change with the passage of time. Indeed, numerous contributions to the neoinstitutional literature point to the persistence of institutions. This persistence originates in various groups that either develop a vested interest in the institution or ascribe greater legitimacy to it as the result of isomorphic pressures.

One group that develops a vested interest in the institution’s survival (Rodrik, 1994) comprises entrepreneurial actors who devise means from which to benefit under the institution, and therefore “fight any attempt to reverse it” (Rodrik, 1994: 82). In Rodrik's focal context of trade liberalization, for example, “outward-oriented policies generate new profit opportunities for entrepreneurs… As new, previously unpredictable export activities appear, a new class of export-oriented businessmen is created” (Rodrik, 1994: 82). A second group that similarly benefits from the existing institution’s consists of bureaucratic actors in various parts of the government, including the regulative institution’s specialized enforcement body (if one exists). The longer the regulative institution persists, the more likely these actors are to devise means through which can benefit from it (Downs, 1966). As a result, they take actions such as hiring likeminded individuals, mounting campaigns for autonomy from political oversight, and providing increased voice for interest groups benefiting from institution, all of which increase the institution’s resistance to change.
The role of organized interest groups subject to “isomorphic pressures” (DiMaggio and Powell, 1983) is especially important in the current context. The legitimacy of an institution grows over time as it comes to possess “a reality of [its] own, a reality that confronts the individual as an external and coercive fact” (Berger and Luckman, 1967). Eventually, the institution enters a mature phase in which it is “retrojected into consciousness in the course of socialization” (Berger and Luckman, 1967: 60-61). At this point, “institutions do not just constrain options: they establish the very criteria by which people discover their preferences” (Powell and Dimaggio, 1991: 11). Empirical evidence on the adoption of civil service reform by U.S. cities (Tolbert and Zucker, 1983), the spread of the multidivisional form among large firms (Fliqstein, 1985) and the spread of total quality management among hospitals (Westphal, Gulati, and Shortell, 1997) shows that “socialization” may overwhelm “cost-benefit” calculations in the choices made by a wide array of organizations.

Interest groups that might generate political pressure for institutional change are thus increasingly likely to perceive a regulative institution as legitimate with the passage of time (Greenwood and Hinings, 1996). To be sure, the most adversely affected groups will continue to lobby for institutional change even as the institution matures; these groups may even become more vocal as the crisis that precipitated construction of the institution fades (Mondino, Sturzenegger, and Taommasi, 1996). However, the likely reduction over time in additional pressure for change from marginally affected and unaffected groups reduces the probability that political actors will attempt to effect such change (Leblebici et al., 1991). Furthermore, a regulative institution’s formal sanction by the “entrenched authorities” in the government may bolster the process of institutionalization, even when the institution’s “legitimacy is challenged by other, less powerful constituencies” (Scott, 2001: 60).
Proposition 1b. The probability that political actors will overturn, alter or reinterpret a sector-level regulative institution declines as the institution matures.

A comparison of the treatment received by private investors in Chile and Argentina illustrates the differential risk that investors face under sector-level regulative institutions characterized by varying levels of institutionalization. Chile was a pioneer in privatizing its electricity sector during the Pinochet regime in the mid-1970s (Estache and Rodrigues-Pardina, 1998; Fischer and Serra, 2000; Philippi, 1991; Spiller and Martorell, 1996). Although the market principles underlying the reforms originally engendered some public discord, debate eventually shifted away from core principles to focus on the regulatory apparatus itself. During the subsequent 30 years, members of Chilean society were socialized under the declared principle that “the state should only assume direct responsibility for those functions which the [people] … are unable to deal with adequately” (Edwards and Edwards, 1991: 93), and witnessed multiple sector-level reforms adopted under the guidance of the “Chicago boys,” further increasing the perceived legitimacy of market principles. As a result of its strong public support, the Chilean system has been fairly robust to change, and for most its history prices “moved almost independently of politics” (Spiller and Martorell, 1996: 119-21), with one notable exception following a 100-year drought in 1998.

Like the Chilean system, the Argentine system adopted in 1992 was also part of a broad reform package intended to reshape the economy in accordance with more market-oriented principles. In fact, the Argentine system is reputed to have been modeled largely after the Chilean system (Lalor and Garcia, 1996): both shared at their core a mathematical, apolitical formula to set prices. Some observers thus initially believed that Argentina’s system would function similarly to the Chilean one, characterizing the electricity market as “relatively
unregulated where producers can charge what the market will bear” (Green, McWilliams, and Pearson, 1995). However, within several years of the system’s introduction, the Argentine government capped the “capacity charge” in the retail price formula in response to political pressure originating in a widespread perception that electricity investors were earning too much (Bastos and Abdala, 1993; Estache and Rodrigues-Pardina, 1998), essentially transforming a price based on long-run average cost to one based on marginal cost. Part of the public sentiment underlying this response is likely the “general sense of injustice” (Lapper, 2002) that Argentineans feel toward many government-sponsored reforms, which they believe “do not reflect society’s point of view” [Ibid.]. The Argentinean system has thus increasingly shifted away from “merit” dispatch under which generators choose whether or not to produce based on the government’s offer price, to “forced” dispatch under which generators are obligated to produce.

Exogenous Changes in Circumstance and Institutional Change

If institutional inertia reduces the likelihood that some groups will create political pressure for institutional change, then what forces actually cause such change to occur? The answer lies partly in exogenous factors. The traditional bargaining power model ascribes a role to predetermined factors such as the organization’s size and a country’s economic growth rate. In our expanded model, additional exogenous factors of interest include negative shocks or broader changes in circumstance that increase the magnitude, scope or salience of the distributional consequences produced by an existing regulative institution, and provide fodder for potential change agents to enfranchise previously unengaged groups in a campaign against the institution’s legitimacy.
It is instructive to distinguish between “creeping” (or incremental) change and “major” (or punctuated) change (Astley, 1985; Jones, Baumgartner, and True, 1998; Romanelli and Tushman, 1994) in this connection. Under “normal” circumstances, disaffected groups seeking change are unable by themselves to exert sufficient pressure for action on political actors who are capable of considering only a limited legislative agenda (Hilgartner and Bosk, 1988; Kingdon, 1984). The development of groups with a vested interest in the institution’s survival and the institution’s increasing legitimacy from isomorphic pressures, as discussed above, further increasing the difficulty of change. Groups seeking change are thus typically able to attain only small adjustments that are less costly for political actors to effect.

Major institutional change requires political participation by a broad range of interest groups (Baumgartner, 2002; Baumgartner and Mahoney, 2002; Denzau and Munger, 1986). By producing the adverse contingencies that political actors discounted at the time of institutional construction, a negative exogenous shock or dramatic change in circumstance provides disaffected groups with powerful images and rhetoric that they may use to enfranchise groups that did not previously regard institutional change as a salient political issue (Hoffman, 1999; Seo and Creed, 2002).

In addition to the disaffected interest groups themselves, other potential change agents may also play a role. One such group consists of “political entrepreneurs” seeking to boost popular support for themselves (Cox and McCubbins, 1993; Jones, 1978; Schneider and Teske, 1992), such as incumbent politicians, opposition politicians and non-governmental organizations (NGOs). These entrepreneurs are particularly active during elections or other periods of political contention. McFarland’s cyclical theory of interest group politics (1991) as well as the broader macroeconomic literature on political business cycles, which emphasizes how political actors
may opportunistically manipulate policy levers under their control for the purpose of electoral gain (Alesina, 1989; Nordhaus, 1975; Rogoff and Sibert, 1988), are both illustrative. A third group of change agents consists of media organizations with political agendas of their own. Such groups are particularly adept at enfranchising previously unorganized groups such as residential consumers, whose support can be quite potent once engaged (Levy and Spiller, 1994; Weingast, 1981).

Change agents use the exogenous shock or change in circumstance as a “focusing event” (Kingdon, 1984: 106) to engage other groups’ pre-existing beliefs about what constitutes a legitimate distributional outcome in the relevant context, e.g., infrastructure. They may further point to the lack of public debate surrounding the initial design of a regulative institution created in response to a pressing government need, as in the archetypal bargaining power situation. Foreign investors make an exceptional target because they have no direct voice in the electoral process and are susceptible to nationalist rhetoric (Kobrin, 1987) and allegations that they disregard domestic consumers; infrastructure investors make an especially good target because they are susceptible to claims that they monopolize public resources (Spiller, 1993, 1996).

An additional facilitator of institutional change following a severe shock or change in circumstance is the increased deference of opposed interest groups—especially those with a vested interest in a regulative institution’s survival—to political actors’ leadership. Such deference makes feasible policy options that would be unachievable under normal conditions (Fernandez and Rodrik, 1991). Nelson (1990), for example, argues that crises may shift the relative influence of various interest groups that would otherwise be able to block policy change. More formally, Alesina and Drazen (1991) and Drazen and Grilli (1993) demonstrate the
potential for crises to facilitate agreement among interest groups on the allocation of the short-
term costs of policy change by increasing the costs of inaction.

**Proposition 1c.** The probability that political actors will overturn, alter or reinterpret a
sector-level regulative institution is higher after an exogenous change in circumstance
that change agents may use to illuminate misaligned distributional rights that the
institution enshrines.

One prominent example of an exogenous a change in circumstance is a macroeconomic
crisis. Argentina again provides an example: after the 2001-02 financial crisis there, President
Duhalde, clearly attempting to bolster political support for himself, cited the extraordinary profits
earned by foreign infrastructure investors as justification for the imposition of a retroactive
emergency profits tax (Esterl, 2002).

The 1997 East Asian financial crisis provides another example. Investors in several
Southeast Asian countries had obtained PPAs with many of the same terms at the Hopewell
Pagbilao PPA, including guaranteed offtake clauses committing SOEs to pay for some minimum
level of electricity at a predetermined price. The need for this electricity—and governments’
ability to pay for it—declined sharply after the crisis. To citizens and interest groups in these
countries, which were already experiencing social and political strife as a result of the severe
economic downturn, PPAs obligating cash-strapped government entities to pay private
generators for unneeded electricity appeared extremely inequitable. In Thailand, political
entrepreneurs both within and outside of the government collaborated to crystallize this
sentiment and halt or suspend existing investment policies. Thai Senate Speaker Meechai
Ruchupan, for example, attacked the government’s ongoing privatization of various components
of the electricity generation sector, and also the PPAs themselves for giving away too much to
foreigners. Several officers of state-owned enterprises with a clear vested interest in the *status quo* mobilized opposition by making direct appeals to Thai nationalism, leading to mass demonstrations in Bangkok against foreign ownership of previously state-owned assets. The privatization of the largest state-owned generating company (EGAT) was delayed indefinitely when labor associations threatened a national strike to protest the increase in social instability and poverty that they alleged would result from layoffs made by private owners.

Sector-level shocks in other countries have produced similar consequences. Examples include the retail price effects of a hundred-year drought in Chile in 1998 (Basanes, Savvedra, and Soto, 1999); the 2000-01 global spike in the price of natural gas in Hungary; and the 2001-02 drought in Brazil. In each of these cases, a sudden, unanticipated increase in input prices led to an upward adjustment in wholesale and retail prices according to provisions of the PPAs or market rules. Citizens responded angrily, arguing that private investors—especially those who had recently been profitable—should not be able to pass the cost of the shock through to consumers. Governments responded by suspending existing pricing formulae and imposing price or output controls.

**Investor Business Practices and Institutional Change**

As should be evident from the analysis thus far, our model expands the traditional bargaining power perspective’s emphasis on the *ex ante* conditions under which a bargain is struck to include the *ex post* execution of the bargain, a strategic implication of which is that investors seek sector-level regulative institutions that balance strong ongoing profitability with legitimacy. A second strategic implication is that investors conduct business practices that maintain this balance during the *ex post* execution phase. Practices that promote high profits at the expense of distributional consequences perceived as illegitimate may provoke a backlash.
against the sector-level regulative institution governing the investor’s ongoing relationship with the government.

The process through which such a backlash transpires is similar to that occurring in response to an exogenous shock or change in circumstance. Change agents point to specific business practices in order to focus public attention on an alleged inequity that previously unengaged groups may consider illegitimate. These practices are easily identified and taken out of context, and in some cases provide images as dramatic as those as those that major shocks and crises do.

Consider some of the specific practices that the traditional bargaining power literature recommends to protect infrastructure investors from political risk (Moran, 2000; Wells and Gleason, 1995). One such practice is the substitution of debt for equity, which reduces an investor’s financial exposure. However, this practice also raises the a project’s rate of return, which can be framed as *prima facie* evidence of inequity. Similarly, the front-loading of risk through high “required” returns in the early years of a project’s operation may reduce the risk that investors will not recoup their investment, but may also produce higher service prices that can be labeled as “exploitative.” Other practices include the use of foreign partners to spread risk, which may feed the perception that a project is not “local” enough; and the use of government guarantees or commitments to pursue international arbitration, which may be characterized as “special treatment.” More routine practices such as laying off excess labor or soliciting competitive bids from foreign as well as local input suppliers also make suitable targets.
Proposition 1d. The probability that political actors will overturn, alter or reinterpret a sector-level regulative institution is higher when investors undertake business practices that change agents may frame as producing misaligned distributional consequences.

One example of nominally routine business practices leading to pressure for change comes from Brazil. Support for the privatization program there waned substantially after a blackout in Sao Paulo during the Christmas holiday in 1997. Record heat and a poor pre-privatization maintenance history were certainly contributing factors, but the press and the public focused largely on the 40 percent reduction in personnel (some of whom had to be rehired to teach existing workers how to repair jury-rigged transformers), as well as the utility’s record profits and weak regulatory supervision (Moffett, 1998). Another example comes from Hungary, where the state-owned utility MVM launched a campaign criticizing the supply security and performance of new market entrants. In Buenos Aires, customers who had been without power for almost a week of high temperatures following a fire at a power station operated by the Chilean firm Edesur marched in the streets nightly banging pots and pans and setting tires and an automobile on fire (Zadunaisky, 1999). An engineer interviewed by the news media claimed that the delay in reinstating power was caused by Edesur’s laying off of thousands of skilled Argentine workers like himself (Valente, 1999).

Even business practices that foreign investors undertake explicitly to enhance their legitimacy may later create pressure for change following an exogenous change in circumstances. Investors in Consider Malaysia and Indonesia, for example, took on host country partners with privileged political access, as recommended by the traditional bargaining power literature. This practice does not appear to redistribute returns away from local interests in any way; in fact, it might well be perceived as “spreading the wealth” from a successful project.
Electricity investors in Malaysia who were closely linked to the Matathir government through local partners benefited from these ties somewhat following the 1997 East Asian Financial Crisis. For example, despite widespread doubts regarding its economic viability, the largest IPP project in Malaysia (the Bakun hydroelectric project) continues to resurrect itself, due in no small part to the friendship between its chairman Ting Pek Khiing and the Prime Minister (Financial Times Business Limited, 1997).

In Indonesia, however, the same practice ultimately backfired and magnified investors’ exposure when a political transition occurred. In May 1998, B.J. Habibe replaced President Suharto, who had been in office for 38 years. In order to increase political support, Habibe and a series of subsequent presidents undertook a high-profile campaign against the corruption, cronyism and nepotism (“KKN” in local parlance) that had characterized the Suharto regime. All 27 private power contracts were subsequently abrogated when the Indonesian state audit agency reported that it had “found indications of corruption, collusion and nepotism” in the bidding for and operation of the contracts (Dow Jones International News, 1999). The practices that foreign investors had chosen to protect themselves from political risk thus became substantial liabilities as the result of entrepreneurial political actors’ efforts.

INSTITUTIONAL MODERATORS

As discussed in the previous section, the magnitude and scope of interest group pressures for institutional change must attain some “threshold” level in order for such change to appear on the policymaking agenda and ultimately occur. The existence of this threshold derives from the inherent cognitive limitations that political actors face. The actual “cost” of a given change, measured by the amount of time and attention that political actors must expend in order to effect it, depends on the configuration of the country-level institutions—most prominently the internal structures of and relationships among the legislature, the executive branch, the judiciary and
regulatory agencies—that govern the policymaking process itself (Moe and Caldwell, 1994). Configurations that increase this cost impede change, effectively mitigating interest group pressures for change (Tiller and Spiller, 1999), while structures that reduce the cost facilitate change, effectively increasing the potency of such pressures. The neoinstitutional perspective thus augments the traditional bargaining power model’s list of country-level determinants of “renegotiation” by incorporating the institutional configuration of policymaking as a determinant of the “threshold” level of interest group pressure needed to generate institutional change.

Analysis of the effects of country-level institutional configurations on the incidence of policy change derives from the regulative pillar of neoinstitutional theory, including contributions from economic history (North, 1990; North and Weingast, 1989); formal political economy models (Dixit, 1996; Laffont, 1999); and qualitative evidence from recent policy shifts in infrastructure sectors (Levy and Spiller, 1994; Spiller, 1993) and elsewhere (Gely and Spiller, 1990; Gilligan, Marshall, and Weingast, 1989; McNollGast, 1987; Weingast and Moran, 1983). Such institutions are usefully characterized in terms of checks and balances, including both *de jure* characteristics such as constitutional separation of powers as well as *de facto* characteristics such as the extent of partisan heterogeneity within and across branches of government. Institutional configurations with stronger checks and balances require agreement across a broader range of political actors to effect a shift in policy, increasing the effort required of any given political actor to change an existing sector-level regulative institution. In contrast, configurations that concentrate political power in the hands of a single actor facilitate change. A
given level of interest group pressure is thus more likely to result in institutional change in the former case than it is in the latter (Henisz and Delios, 2001; Henisz and Zelner, 2001).  

Empirical evidence demonstrates the effects of institutional veto points on policy stability and is suggestive with respect to the stability of sector-level regulative institutions. Hallerberg and Basinger (1998), for example, find that in response to tax cuts enacted by the United States in the 1980s, other OECD nations with fewer *de facto* veto points lowered their tax rates by a greater amount than did countries with a larger number of such checks and balances. Franzese (1999) and Treismann (2000b) find that countries with more veto points have more 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), which posits that countries with a larger number of policymakers have more difficulty allocating costs and are more likely to create expenditure-increasing logrolls, is also consistent with the veto player logic (Alt and Lowry, 1994; Persson, 2001; Poterba, 1994; Roubini and Sachs, 1989).

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3 In this regard, the government’s problem with respect to the terms of infrastructure provision is analogous to the time consistency problem faced in choosing the level of capital taxation. The government seeks to pledge favorable service terms (low tax rates) to induce investment but these pledges are not credible as the government has an incentive to redistribute the investor returns once capital is sunk in the ground (Fischer, 1980; Kydland and Prescott, 1977). The literature on time consistency in monetary policy is also closely related (Auernheimer, 1974; Barro, 1983; Fischer, 1977). Consistent with the arguments that we make here, these literatures suggest that institutional mechanisms such as constitutional limits on retroactive taxation or the formation of independent central banks that generate credible commitments on the part of the government help minimize the time consistency problem.
For investors assessing the institutional configuration governing the policymaking process in a given country, recognition of the interplay among different governmental bodies is particularly important. For example, a veto point that constrains executive discretion on a constitutional basis, such as an independent legislature, may be entirely controlled by the executive’s party (Henisz, 2000), effectively negating the constitutional separation of powers. MacIntyre (2001) provides illustrative evidence from Malaysia at the time of the 1997 Southeast Asian Financial Crisis: the Parliament there appeared to have a fragmented party structure which would have impeded a rapid response, but in fact the government party controlled many of the ostensibly independent parties, generating a homogeneous preference structure and providing for a rapid set of changes. Even when partisan preferences in a legislative chamber are truly heterogeneous, the collective nature of the body may well mean that partisan checks and balances are less effective than are those provided by freestanding institutional actors such as regulatory agencies or judiciaries (Crepaz, 1998, 2002).

Even these latter sorts of checks and balances must be scrutinized, however. For example, a regulatory agency or sub-federal entity that is not monitored or constrained by other governmental bodies is prone to corruption and overspending (Blanchard and Shleifer, 2000; de Mello Jr., 2000; Rodden, 2002; Treisman, 2000a; Wibbels, 2000), and likely to be more susceptible to interest group pressures for “reinterpretation” of the terms of a regulative institution.

**Proposition 2.** *Holding interest group pressure for change constant, the stronger the effective checks and balances created by the configuration of country-level institutions governing the policymaking process, the lower the probability that political actors will overturn, alter or reinterpret an existing sector-level regulative institution.*
An example of the effect of country-level institutional veto points on the treatment of investors is the differential government treatment of private electricity investors in Thailand and the Philippines relative to that of investors in Indonesia and Malaysia following the 1997 financial crisis. At the time of the crisis, the 393-seat lower house of the Thai legislature was divided among 10 parties. This heterogeneity of partisan affiliations ensured that any new policy proposal or change in the status quo policy required the approval of multiple parties with their own competing interests. Similarly, the Philippine post-crisis government faced a razor-thin majority that relied on the support of independents and other allies in both chambers, as the controlling party held 110 of 221 seats in the lower legislative chamber and 10 seats in the 22-seat senate.

The institutions in Malaysia and Indonesia looked quite different. The Prime Minister of Malaysia at the time of the crisis, Dr. Mahathir, had been in power since 1982, and his party, United Malays National Organization, had been in power since Malaysia gained its independence in 1965. Moreover, several of the ostensible opposition parties in the Parliament had been created by the United Malays National Organization and voted with it as members of the National Front Coalition. The situation in Indonesia was even more clear-cut: President Suharto was elected by a People’s Consultative Assembly to which he had appointed 575 of 1000 members, and his Golkar Party controlled no less than 64 percent of the remaining elected members, who constituted the lower legislative chamber. In neither country was the judiciary considered truly independent.

Investors in Thailand and the Philippines, with their stronger institutional safeguards, fared relatively well following the crisis. In Thailand, investors had assumed the exchange rate risk under their original PPAs, but the Thai government actually chose to assume a larger
fraction of the costs of the currency depreciation than it had to under the contracts. Similarly, in the Philippines, the government chose to absorb the costs of demand shortfalls by honoring its contractual commitments to various IPPs, despite the fact that this meant mothballing several state-owned generating facilities and procuring electricity at prices that were sometimes substantially higher than the SOE’s internal generation cost. Later, after absorbing substantial losses as a result of this policy, the government did exert pressure on IPPs to accept reduced contractual commitments, but it was just pressure—not fiat.

Electricity investors in Malaysia and Indonesia experienced much less favorable treatment once the financial crisis began. In 1997, the Malaysian government announced the suspension of its largest IPP contract (the 2,400 Bakun hydroelectric project). The SOE asked for assistance from the remaining IPPs to help meet its growing financial obligations to them; requested that the government place on hold all new IPP projects, including those with government approval and signed PPAs (Global Power Report, 1998); and called for a 90-day deferment for payments to IPPs along with a 12 percent reduction in existing PPA payments. In Indonesia, the government announced in September 1997 that it would postpone or review infrastructure projects worth a total of more than 50 trillion rupiah (US $6 billion), leading to the postponement of 13 projects and the review of six more (out of a total of 26). In March 1998, the SOE sent a letter to its IPPs informing them that, “…in light of the current monetary crisis… payment for purchase of geothermal steam and electric energy… will be in rupiah with an exchange rate of US $1 = 2,450 rupiah” (Far Eastern Economic Review, 1998). The actual exchange rate at the time was 10,000 rupiah / US $1.

In addition to the configuration of country-level institutions, the relationship between the central government and state- or provincial-level governments also moderates the behavior of
political actors facing interest group pressures to change existing sector-level institutions. In particular, as the burgeoning literature on veto players summarized above highlights, not all federal systems include both the power of the state to check the center and the power of the center to constrain the state. Instead, states or provinces often exist as sources of unchecked political power.

Brazil provides an example in the form of a dispute between Itamar Franco, the former President of Brazil and newly-elected provincial governor of Minas Gerais; and Southern Corporation and AES, which together purchased the local utility CEMIG in 1997. At issue was a shareholders’ agreement that required approval of eight of 11 board members to make major strategic decisions. AES and Southern together hold four board seats, effectively giving them veto power despite their minority shareholdings. Franco issued a temporary injunction suspending AES’ and Southern’s board seats. According to Luiz Fernando Rolla, CEMIG’s investment relations manager, Franco wanted “to undermine the President’s authority and to be selected as the Presidential candidate for the PMDB (an opposition political party) for the next election… He doesn’t care if the state is damaged by his strategy” (Euromoney, 1999). AES and Southern initially defeated the temporary injunction, then lost that case on appeal to a state court, and then finally had their board seats reinstated by a federal court but without the original blocking rights. The inability of the national government to check the arbitrary, populist actions of Franco was a primary factor in the decision by Duke and AES to suspend their participation in an auction for the state utility Cesp Tiete later that year.

Another institutional relationship that moderates the behavior of political actors is the relationship between the regulator and the upper branches of government, in particular, the extent to which a regulator is able to check the behavior of political actors in these branches and
vice-versa. Where the regulatory authority lacks autonomy, it cannot serve as an effective check on policymakers motivated to promote unfavorable policies toward investors. The Hungarian experience is a case in point. Legislation passed in 1994 created the Hungarian Energy Office (HEO), charged among other things with making pricing recommendations to its overseer, the Ministry of Industry and Trade (MIT). However, numerous design features limit the HEO’s independence, including MIT’s authority to set the HEO’s budget and appoint directors with no fixed term and no specified appointment or dismissal criteria, HEO’s lack of authority to issue general decrees, the absence of any appeals mechanism for regulated firms, and a civil service pay scale (Stern, 1999). Additionally, new capacity (including that resulting from plant refurbishment, extensions to the life of a plant or capacity upgrades) must be approved by Parliament, the Cabinet or the Ministry depending on its size (Newbery, 1998). As a result, “it can reasonably be argued that the HEO is essentially a Ministry regulator masquerading as a UK style regulator” (Stern, 1999). Incidents such as a ministry-mandated reduction in the real price of electricity during the run-up to the 2002 election—in opposition to the HEO’s recommendation—illustrates the potential for change in the absence of sufficient checks and balances.

**ORGANIZATIONAL CHARACTERISTICS**

To what extent do individual organizations differ in the level of political risk that they face? The traditional bargaining power perspective links an organization’s size, export potential and technology to the rate at which its bargaining power declines, and thus the likelihood that it will be subject to adverse treatment by the government at a given point in time (Kobrin, 1987). In contrast to this “invariably passive and conforming” (Oliver, 1991: 146) depiction, in which the organization simply “responds” to the government’s altered demands, neoinstitutional theory suggests mechanisms by which organizations may exploit their distinctive institutional traits ex
post to engage in “interest-seeking, active… behavior” [Ibid.] aimed at insulating themselves from institutional change. The more active depiction of the organization under this conception provides a considerably stronger basis on which to build a theory of organizational strategy.

Organizations confronting the risk or reality of adverse change in sector-level regulative institutions confront strong pressures to maintain legitimacy by acquiescing to such change (Oliver, 1991: 160-161). Because the enforcement mechanism for regulative institutions is the coercive power of the state (Scott, 2001: 52), the penalties for noncompliance are both tangible and severe (Oliver, 1991: 168). At the same time, the imposition of a new or modified regulative institution intended to meet broader distributional demands significantly restricts an organization’s discretion in key decisions such as “resource allocation, product or service selection, resource acquisition or organizational administration (i.e., hiring, compensation, promotion)” (Oliver, 1991: 166). The prospect of substantial economic loss from conformity to the external mandates of the state thus creates strong pressures for organizations to resist institutional change.

Specific characteristics of an organization affect its ability to engage in such resistance. One such characteristic is the organization’s interorganizational linkages. Although these are typically viewed as determining the diffusion or adoption of new organizational forms (Marsden and Friedkin, 1993), they are significant in the current context in the degree to which they provide an organization with channels into the policymaking process. Strong direct or indirect ties to relevant political actors—especially those who control resources sought by an organization—permit organizations to craft “side deals” with these actors for special contract terms or individualized exceptions to adverse changes in sector-level regulative institutions. Organizations lacking such ties are at a distinct disadvantage, not only because they cannot
exploit the ties for defensive purposes during a period of institutional flux, but also because a
well-connected competitor’s gain during a period of institutional upheaval may have a direct
adverse impact on them.

A second characteristic is an organization’s information-based resources and capabilities
(Boddewyn and Brewer, 1994). Given the difficulty of assessing complex, evolving institutions,
managers who can look to their own past experience for an analogue to guide their current search
for an organizational response (Geertz, 1978; March, 1988), or for accumulated learning (Baum
and Ingram, 1998; Baum, Li, and Usher, 2000), are better equipped to make sound decisions
under conditions of uncertainty. For example, Henisz and Delios (2001) find that prior
experience in a specific host country reduces an organization’s sensitivity to cultural or market
differences. Lyles and Steensma argue that as a result of the wide diversity of regulative
institutions governing infrastructure projects, investors’ management of their relationship with
the government is an important organizational capability and key “factor of success” in such
projects. (Lyles and Salk, 1996: 70)

**Proposition 3.** *Holding pressure for change constant, the use of appropriate
organizational linkages and distinctive knowledge lowers the probability that political
actors will overturn, alter or reinterpret an existing sector-level regulative institution*

The Czech Republic provides an example of the value of strong direct ties to the
organization that possesses them, and the difficulties experienced by organizations that do not
themselves possess such ties but whose competitors do. Oftentimes a “privileged” organization
such as a long-standing incumbent, an SOE or its privatized progeny, or a national champion
possesses the strongest ties to relevant political actors. In the Czech case, the government’s
desire to secure a high sale price for CEZ, the previously state-owned monopoly generator, is
widely believed to be responsible for the promulgation of a new schedule of allegedly inflated prices that independent private generators must pay to CEZ for “ancillary services” (Financial Times Business Limited, 2000).

Indirect ties that may help moderate the organization-specific impact of institutional change include rating agencies, international banking syndicates, equity owners, government-sponsored political risk underwriters (e.g., OPIC, the Export-Import Bank, COFACE, ECGD, MITI etc.), multilateral lending agencies (e.g., the Asian Development Bank and the International Finance Corporation) and home country governments. Investors have different levels of access to these entities as a result of their size, extent and quality of historical interactions, past campaign contributions and the like. A prominent example of the manner in which an organization may employ such indirect ties in an attempt to alter a policy outcome involves Texas-based Enron Corporation’s investments in Argentina. A former regulatory official there (now a Congressman) claims to have received a phone call from George W. Bush, the son of then President-elect George H.W. Bush, which delivered “a subtle, vague message that [helping Enron] could help us with our relationship to the United States” (Corn, 2002).

Evidence of the value of an organization’s experience profile in moderating adverse changes in sector-level institutions comes from Holburn (2002) who finds evidence suggesting that organizations that have previously operated under rate-of-return regulation are better equipped to manage rate review, while organizations with experience in wholesale market competition are better able to manipulate prices under complex market rules. Similarly, organizations with experience in countries with a specific institutional profile (e.g., centralized political decision-making or a strong independent regulator) enjoy a comparative advantage in other countries with similar institutional structures.
CONCLUSION

We have sought in this article to augment the traditional bargaining power perspective by taking into account the institutional context in which bargains are struck and changed. In contrast to the traditional perspective’s depiction of bargaining as a one-shot deterministic interaction between an investor and a monolithic government, our model depicts bargains as the outcome of a policymaking process consisting of interactions among investors, organized interest groups, citizens and political actors, all of whom face cognitive limitations; differ in their preferences; and are subject to varying normative pressures, institutional constraints and exogenous influences. Our approach thus broadens the traditional perspective’s focus on ex ante conditions by building a “recursive, iterative model of institutional change” that combines consideration of “top-down processes” allowing higher-level structures to shape “the structure and actions of lower-level actors” with that of “counterprocesses… [allowing] lower-level actors and structures [to] shape the contexts in which they operate” (Scott, 2001: 196-197).

The specific points of distinction between our expanded model and the traditional perspective are numerous. In our model, the bargain between government and investor assumes the form of a regulative institution rather than remain devoid of institutional content. A web of implicit contracts among political actors, interest groups and foreign investors substitutes for the bilateral dependency between investors and government. Legitimacy augments relative dependence as a determinant of change. Institutionalization replaces secular decline. Country-level institutional structures and organization-level characteristics augment the traditionally acknowledged determinants of change.

Our expanded model also introduces core constructs that have no counterpart in the traditional perspective. “Events that matter” (Kobrin, 1979)—exogenous changes in circumstance or specific investor business practices—illuminate misalignment between the
distributional rights enshrined in a prevailing regulative institution and the distributional demands of various interest groups whose approval creates legitimacy. “Environmental processes” (Kobrin, 1979) play a key role, especially that through which change agents exploit misalignments and thereby encourage marginal or unorganized interest groups to exert pressure for institutional change.

While we have developed our model in the context of infrastructure, we believe that the arguments easily generalize to other “politically salient” industries such as telecommunications, natural resource extraction, heavy manufacturing, finance, health care, and education, rendering them (we hope) of broad interest to managers, policymakers and academics alike. Indeed, the distinctive characteristics of these industries—and their implications for investor strategy—are often underappreciated. For example, in a newspaper article appearing in the mid-1990s, one Paine Webber analyst stated, “What do you think about Coca-Cola selling Cokes in China? Then Houston [Energy] can sell electricity in Brazil. End of story” (Boisseau, 1996). The framework that we have developed here clearly reflects the fallacy of such statements.
REFERENCES


