Received: 27 October 2021 | Revised: 2 May 2022 | Accepted: 3 May 2022

DOI: 10.1002/gsj.1444

SPECIAL ISSUE ARTICLE

GLOBAL STRATEGY JOURNAL WILEY

Navigating three vectors of power: Global strategy in a world of intense competition, aggressive nation states, and antagonistic civil society

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Abstract

Research Summary: Global strategy must negotiate three vectors of external power: State policies (that often conflict across national boundaries), the demands of civil society, and market pressures. The global strategies of corporations must reflect their two enduring and non-replicable advantages—innovation and flexibility. These qualities are essential in the face of increased government regulation together with intensification of non-market strategies as well as improving responses to the increased exigencies of international competition. A radical reappraisal of global strategies is therefore necessary. The global strategies of corporations here are analyzed using the "governance triangle" that examines governance through coordination (the role of the state), governance through competition (the market), and governance through argumentation (civil society). Future global strategies must contend with this web of constraint.

Managerial Summary: This paper suggests that managers need to recognize the web of constraints surrounding their strategic decisions. The three key vectors of external power are the state and government regulation, the power of civil society exercised through argumentation, and competitive action. Recognition of increasing pressure from the three vectors of power is the first step in reformulating global strategy. A wider acknowledgement and inclusion of stakeholders and increasing non-market strategic activity are no longer optional but are mandatory. Navigating these constraints suggests a new web of opportunity where the true long-run advantages of successful firms—flexibility and innovation—can be implemented.

KEYWORDS
global strategy, multinational enterprises, governance, regulation, non-market strategy

1 | INTRODUCTION AND THESIS

The objective of this paper is to examine the novel constraints on global strategy that arise from protectionism, anti-globalization rhetoric, and practice together with the anti-corporate movements that have arisen, not least in the wake of COVID-19. Global strategy must negotiate State policies (that often conflict across national boundaries) and the demands of civil society as well as increasing market and competitive pressures. This amounts to a new global business environment. We can characterize these forces as three vectors of power: Governmental regulation and oversight, increasingly vocal civil society judgments, and the pressures that firms face from the seas of markets that surround them. These trends are taking place in a global economy that is increasingly fractured into blocs that do not attempt to harmonize their business environments or to welcome cross-bloc activity—indeed, they aim to discourage interaction for "techno-nationalistic motives" (Petricevic & Teece, 2019). A radical reappraisal of global strategies is therefore necessary.

This paper examines the new exigencies of global strategies in the face of increased regulation from Government, the increasingly vocal pressures from civil society, and intensifying global competition (see Section 2). This coincides with a deepening fracture in the global economy between "China" and "the West," where even the underpinning technologies of global trade—the internet—is being splintered by state pressures (examined in Section 3). Radical reappraisals of strategy are called for in organizational structures of firms, the structure of their global value chains, their "non-market" and human resource strategies (these strategies are outlined in Section 4). This will require greater degrees of innovation and flexibility than heretofore.

2 | THE GOVERNANCE TRIANGLE

The governance of corporations is heavily influenced by the external vectors of power arising from the market, the State (or States for multinational enterprises (MNEs)) and civil society. This has always been true. This paper outlines the impact of the intensification of the external power vectors on companies, particularly multinational enterprises, where these pressures are multiplied by the impositions of multiple governments and national civil societies, together with the problems of having to operate in several different (and increasingly fragmented) national markets. Abbott and Snidal (2008) describe a "governance triangle" that attempts to illustrate the interaction between "the state," "civil society," and "the market" as governance mechanisms (Figure 1). This is useful because it integrates governance through coordination (the role of the state), governance through competition (the market), and governance through argumentation (civil society) and allows discussion of their interaction—through "regulatory capture," lobbying and the role of pressure groups. Contemporary MNE strategies thus need to reconcile the potentially conflicting demands from (often antagonistic) State policies and (ever more vocal) civil society, whilst also dealing with competitive market pressures. The external pressures from these three vectors of power necessitate internal reorganization, new strategies and changes in the boundaries of firms.

2.1 | Transnational new governance

Corporations, including MNEs, operate within a web of rules and signals. Only some rules emanate directly from Governments, others arise from compliance with standards, customer expectations, product accreditation, suppler demands, and civil society norms. Signals that come from all of the corporations' stakeholders are not only expressed as price signals but also through means such as social movements, ownership changes, and lobbying. Corporations are not passive receivers of rules and signals; they also make them. The fundamental conception of transnational new governance is of a combination of business, non-governmental organizations (NGOs), and private regulatory bodies in novel combinations creating innovative institutions that apply transnational norms through predominantly private, voluntary standards (Abbott & Snidal, 2009). The role of individual states and intergovernmental organizations is largely to act as orchestrators of an emerging international regulatory system. This implies a much more decentralized system of "regulation" and the use of "soft law" to complement mandatory "hard law" (Abbott & Snidal, 2009, p. 509).

There are an increasing number of concrete examples of "New Transnational Governance" involving MNEs. One example arises from the global reach of credit rating. The transnational

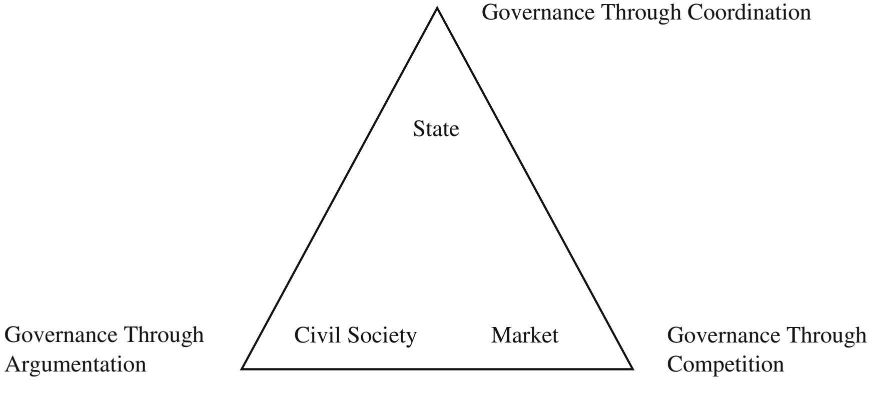

FIGURE 1 The Governance Triangle. *Source*: Adapted from Abbott and Snidal (2008)

financial credit rating regime relies heavily on private credit rating agencies (Moody's, Standard and Poor's, Fitch). These private, for profit, corporations produce ordinal rating systems that effectively regulate the pricing and availability of credit to both public and private organizations. The integration of cross-border financial markets has made rating of the credit worthiness of financial institutions more consequential. Increasingly detailed regulation is implemented by market actors (Sinclair, 2005). Indeed, rating has become a transnational form of private regulation as nation states have to take account of (private) rating agencies' decisions. Rating agencies “are changing the norms and practices of commercial and public life around the world” (Sinclair, 2005, p. 174), to the extent of altering policy choices even of national governments. This growth of non-state authority is a challenge to global governance even though the services of credit rating agencies are enlisted on behalf of states to manage their own domestic capital markets “in order to increase transparency and cheapen the cost of lending” (Sinclair, 2005, p. 175). Such outsourcing of regulatory judgment (White, 2010) is an issue of policy that requires evaluation through the prism of the New Transnational Governance.

The emergence of transnational new governance as a conceptual approach and as a practical solution reinforce the analysis of this paper. Attention to the network of signals, rules, standards, and formal regulations presents the future of research on an international policy regime for foreign direct investment and MNEs (Buckley, 2018c).

2.2 | The State: Governance through coordination

It is arguable that the two most successful and long-lived forms of secular organization are the multi-national firm and the nation state. Naturally, the two institutions both cooperate and conflict. In managed capitalist societies, the balance of power oscillates between them, moderated by the influence of civil society.

The role of government has become more salient following the large-scale, almost universal, action to protect jobs, and economic activity in the wake of the global financial crisis and the COVID-19 pandemic. This has accentuated recent trends, notably the extensive role of states in resolving the global financial crises of the 21st century. However, the pandemic has resulted in wider government involvement in most, if not all, nation states, in particular as a result of the following three policies.

1. The conditionality of loans and grants to companies increases government leverage over the economy (examples include provisions that corporations do not pay dividends and restrain executive pay, regional targets and “net zero” emissions).
2. Governments may continue to play an enhanced role in the economy. The conversion of loans to equity is a key possibility.
3. The issue of repayment conditions for loans and grants and its timing are crucial. This has implications for taxes (both corporate and individual), for public sector spending (which is unlikely to decline particularly in health and care services), and for government budgeting.

Internationally, revenue authorities are likely to increase auditing and be stricter on compliance. Policies such as BEPS 2.0 (tax base erosion and profit shifting) and stricter rules on international transfer pricing were in place before the crisis and are likely to be tightened.

One crucial question here is how far States have the capacity to carry out their enhanced roles. Monitoring compliance to new regulations, laws and standards of behavior is a huge task and, on this issue, hangs a great deal. Government sponsorship of "Environmental, Social, and Governance (ESG)" goals is rising—India insists on a proportion of revenue being spent on "good causes." Other nations may follow.

The COVID-19 pandemic accelerated the formal and informal regulations to which corporations are subject. The purchase of vaccines and personal protection equipment (PPE) has vastly increased the purchasing power of the State. The rising public and private debt that has acted as emergency loans in the pandemic recession leads to the likelihood of increases in taxation, including corporate taxes in the future. The balance between the public and private sectors may be permanently tilted away from the latter. The rise of the "biosecurity state" raises further issues, not only for citizens but also for companies. The "precautionary principle" that the State should do no harm has resulted in "lockdowns," curfews, border closures, and "vaccine passports." There are further proposal for digital identity cards with temperature data and potential travel restrictions—these are common in China but their widespread global adoption would restrict corporate behavior, affecting exports, direct investment, and location of activity and personnel. The key issue here is the potential irreversibility of these restrictions.

Additionally, there has been a rise in "Techno-nationalism"—state-centered national competition based on "strategic industries," a new arms race between a "Chinese" economic bloc, and an American centered one (Petricevic & Teece, 2019).

2.3 | Civil society: Governance through argumentation

Business faces reputation challenges from civil society and strategic pressure from activist investors seeking ESG (environmental, social, and governance) objectives. The emphasis on "stakeholders," to include not only owners, but also employees, customers and wider civil society, changes strategic goals, and corporate policies. Internationally, this can lead to conflicts between domestic shareholders and foreign stakeholders. Corporate social responsibility (CSR) becomes crucial in achieving legitimacy. The strategies by which MNEs seek and maintain legitimacy both at home and in foreign locations are of growing importance (Henisz & Zelner, 2005; Kostova & Zaheer, 1999; Suchman, 1995).

Corporate political activity (CPA) has become essential in protecting the interests of corporations and this raises particularly strong issues where international operations are concerned, because of potential clashes across national political divides. The rise of the function of "corporate diplomacy" (Henisz, 2014) is evidence of the importance of non-economic strategies (Boddewyn, 2016). The role of (largely private) "standards" and compliance with societal norms has become central to viable global strategies. Of particular importance here are the UN's "Sustainable Development Goals" (SDGs). The vexed issues of trade-off between these objectives make global strategy complex—and the potential multiplicity of goals can have internal political consequences for management, including the top management team. Identifying trade-offs and synergies among competing goals globally becomes a core issue of global strategy.

Although the most salient macro-governance mechanisms as constraints on corporate behavior are government regulation and the actions of the capital market, this paper examines the impact of the three forces of "the governance triangle" (Abbott & Snidal, 2008). The influence of the market, through competition, and government, through regulation, are perhaps more obvious than the effect of civil society, through argumentation. It is arguable that this type of governance is increasingly prevalent and effective. Corporations exist within civil society and civil society exercises a role in the governance of corporations. Indeed civil society exercises "governance through argumentation" (an additional element of governance in addition to governance through the market and governance through state coordination). This governance mechanism operates not only through non-governmental organizations but also through social movements such as the cooperative movement, the mutuality movement (Kay, 1991), and pressures from religious and other morally based organizations (the Quakers are a longstanding example). Lobbying organizations and social pressure groups are increasing "augmentation" pressures on corporations on a global basis. The "Green" or environmental movement is an example of governance by argumentation and its impact can be seen directly in the change of strategy by the former oil major BP. In a series of interviews, the incoming Chief Executive of BP admitted that his job is "socially challenging" and that recruitment would be difficult if the company had not set the objective of becoming a "net zero carbon emitter by 2030," a stance immediately praised by Greenpeace and the United Nations (Shah & Collingridge, 2020). The announcement was also well received by the Stock exchange, partly, at least, illustrating the power of the "environmental, social, and governance" (ESG) investment lobby. It is important here as elsewhere, to distinguish between substantive and symbolic action. So called "greenwashing" is a symbolic adhesion to environmental goals that should be differentiated from real change.

Policies and targets ("carbon targets") interact with public opinion pressure to force companies to become more environmentally friendly. There is considerable evidence, in both the popular and academic press, that the late 2010s saw a profound "zeitgeist shift" toward ESG strategies by large swathes of companies, especially larger companies. Younger people seem to have the strongest preference for value-based behavior in business, although it is, as yet, untested what they collectively would sacrifice, if sacrifice is necessary to achieve their aspirations. There is however, much anecdotal evidence that young job seekers will bias their search toward "ethical companies."

2.4 | The market: Governance through competition

Corporations are islands of control in seas of markets (Robinson, 1931) and this is true for all elements of the global value chain. Consequently, all the internalized links in global value chains (GVCs) are subject to market pressure. The potential for outsourcing of activities threatens integrated control and the widening range of potential outsourcers and locations (Liesch, Buckley, Simonin, & Knight, 2012) increases the incentives to "mark to market." The capital market, too, can be predatory with hedge funds and other financial vehicles seeking to earn rent by breaking up integrated companies. This may be in the interest of better long-term resource allocation but it can have negative short run effects. It is also a major spur to efficiency and innovation.

Focus on the other two vectors of power should not diminish the increasing role of competition in driving global strategy. Technological developments, increased ease of entry into large swathes of industries, increased entrepreneurial activity, and the rise of new competitors form emerging markets make market pressure ever more salient in strategy formulation and implementation.

2.5 | The MNE as an externalizing machine?

"The modern corporation has increasing proved to be an 'externalizing machine' adept at pushing costs on to others while raising prices, limiting competition, suppressing wages and erecting barriers to market entry for others" (Norman, 2018: 291). The ability of modern corporations to outsource activities—particularly problematic ones has led to the focus of demands for social responsibility to be transferred away from just the focal firm to the whole of the (global or regional) value chain. Thus, corporations have to extend their responsibility beyond the activities they own to those that they orchestrate (Buckley, 2011, 2018b). Even CSR activities can be externalized. There is virtue in having independent checks on compliance of all the GVC with declared CSR practices—as long as the audit is truly independent. Nevertheless, the premium on the internalization of activities that are core to the corporation—innovation and branding, flexibility combined with a genuine embeddednesss in host economies—remains crucial. The limits on outsourcing remain bounded by these criteria.

3 | THE FRACTURE IN THE GLOBAL ECONOMY

The opportunities and threats to MNEs arising from a resurgent role for governments and increasingly assertive civil society is accentuated by the rise of China as a global superpower. Perhaps the most salient issue for global strategy arising from the challenge of China is the fracturing of a previously integrating world economy into rival "camps" (Buckley, 2020, 2021; Petricevic & Teece, 2020; Teece, 2020). The fracture extends to the internet, to standards (China intends to impose its own through "China Standards 2035"), to trade and investment rules and particularly to national "control" of technology. However, it is not only the state intervention element of the governance triangle that is impacted by the fracture in the global economy. Civil society pressure on both sides of the fracture are intensified—to exclude Chinese products made or connected with Xinjiang on one side and increased pressure to exclude imports into China exacerbate the divide. There are also profound changes required in global value chains to adjust to the market pressures when first choice supply bases are prohibited by protectionist policies or altered consumer preferences.

Governments, even after accusations of genocide, have to cooperate, notably in the areas of control of pandemics and climate change policies, otherwise "beggar–thy-neighbor" tactics defeat the global commons. Consequently, the fracture is by no means complete and, as we shall see, MNEs in either bloc cannot completely disengage from the rival bloc. Isolating technology nationally, whilst fostering innovation in a market driven society is not easy: "maintaining an open, free market economy while defending your brightest and most innovative young companies from being snapped up before their time – potentially to your long term detriment-is a tricky line to tread" (Pagnamenta, 2020, p. B2).

The fracture poses additional problems for the design of international strategies. Whether companies focus on just one part of the fractured global economy or whether they adopt strategies to traverse the fracture, including multi-domestic operations, cartels, and externalization is a massive issue in future strategic design for MNEs (Enderwick & Buckley, 2020; Petricevic & Teece, 2019).

3.1 | The "Splinternet"

Data is a critical resource in the modern world. The control of data is a key target of Governments and corporations. The rise of the internet made data on private individuals a major battleground between companies and Governments. Much of this information was granted free to tech companies in the initial stages as a return for connectivity, privileged access to rewards, and price reductions. Now its value is recognized and possession has become much more contested. Access to the private data of one country's national by foreign companies and governments caused political consternation and fuelled protectionism. Political interventions, including "the Great Firewall of China," have splintered the previously largely globally integrated internet into several politically determined domains. However, cross holdings, the existence of shared interests, and information exchange are the beginnings of partial coordination across the fracture and the potential rise of cross-fracture internet cartels.

O'Hara and Hall (2019, p. 1) say, "the internet is open and interoperable, designed for growth. It is a network of networks, so we can talk about an 'internet of internets.'" Technologies embodying different values can live in proximity, and several potential "internets" might together constitute the global internet. O'Hara and Hall (2019) posit four co-existing "internets" that have the requisite ethical vision, technological realization and sufficiently powerful institutional support to survive. They co-exist, in uneasy peace, each having ideals and engineering implementations backed by regulation and standards. The first may be termed the "Silicon Valley open internet," envisaging the free flow of data, as both a philosophical and engineering ideal ("Open internet"). Second is the "Brussels bourgeois internet," also cherishing freedom, but within a framework of rights and good faith. The European Union is a prime mover, using the muscle of its Court of Justice to assert data-protection rights or copyright protections well beyond its jurisdiction. Third, the "commercial internet," promoting data holders' property rights, and free-market co-ordination. The US Supreme Court has generally upheld this position, although it is under pressure from trustbusters in the US and elsewhere. The fourth is Beijing "paternal internet," a means of implementing social ideals. Most prominently, China's internet is a means not only of security and censorship, but also crowdsourcing social credit, and gathering data for effective artificial intelligence (AI) associated with Alipay (Alibaba) and WeChat Pay (Tencent). There is also a fifth model, which is less a vision than a parasite, yet the extent of its disruptive power makes it influential on internet governance: the Moscow "spoiler model," encompassing the hacking ethic, and exploiting the free flow of data. Russia in particular has engineered an ideological space for cynicism and conspiracy theories. There is a dialectic between these models—all have their attractions, even the last, and none is held purely or exclusively by any nation or organization. They compete in courts, standards bodies, and public opinion (O'Hara & Hall, 2019).

3.2 | Global value chains and the global factory

In addition to pressures from states and civil society, global companies face rising levels of VUCA (volatility, uncertainty, complexity, and ambiguity) (Buckley, 2020) some of which can be attributed to State action, some to the increasing demands of civil society. In building sustainable global value chains, multinational companies have adopted a "global factory" structure (Buckley, 2018; Buckley & Ghauri, 2004) to take advantage of the increasing "market for market transactions" (Liesch et al., 2012), locational differentials in markets and input costs, and the variety of choices of governance including internalization and externalization through contract. The global factory structure maximizes flexibility and allows innovation (Buckley, 2018). These two characteristics are the key weapons in global strategy that allow MNEs to flourish in the new conditions of "slowbalization."

There are many influences on the design and redesign of GVCs. The desire for resilience in times of increased volatility and uncertainty leads to the building in of slack and duplication against contingencies. The fractured global economy may lead to dual provision across the fracture. Servitization is increasing—a car is now "part machine and part subscription service" and GVCs have to reflect the need for service provision, not all of which can be remotely sourced.

Civil society pressure on ethical monitoring of GVCs comes from both ESG activist investors and "ethical" consumers—expressed through market demands. Companies cannot ensure "perfect" GVCs but they can institute regular monitoring, and set milestones and a transparent timeframe for improving practices.

4 | STRATEGIES

4.1 | Government and regulation

Death and taxes are inexorable facts of existence. So is regulation. In transnational new governance, not all constraints on MNEs are public or State regulation. Private regulation through designated standards, accrediting bodies, certifications and goals are critical drivers of strategic goals for companies—and these can conflict or coalesce when international operations are considered.

A new twist has been added to the role of government in corporate regulation and that is techno-nationalism, the desire to protect "strategic industries" that are becoming increasingly widely defined, combined with the policy response to anti-globalization sentiments.

MNE have to approach embeddedness as a policy tool. Regarding their subsidiaries in particular as being fully embedded in host countries and fully engaged in host institutions is essential, rather than regarding foreign outposts as dots on a global map.

4.2 | Civil society pressure

Investment in the green economy and the blue economy (the ecology of the oceans) presents opportunities for MNEs. Pressure from civil society and policy initiatives have put the United Nations' Sustainable Development Goals firmly on the global strategic agendas of MNEs. A combination of social and political pressure and consumer support is a powerful combination of forces pressing for greater green and blue projects. Global harmonization of standards (particularly environmental, social, and corporate governance goals [ESGs]), investor pressure, and increasing attention to corporate accountability mechanisms are further influences on global supply networks. The wider role of civil society pressures on the configuration of GVCs in response to human rights abuses and "modern slavery" is a critical example of the influence of civil society on GVCs and MNE strategy. The way forward is to set clear ESG targets with transparent, concrete plans to reach them. Fund managers have sought a role to oversee these plans and strategies on ESG compliance must manage the important stakeholders.

The stakeholder agenda is expanding, and activist investors expect involvement/engagement in environmental, social, and good governance issues and are alert to strategies that promise, but do not deliver, the corporate changes that they expect ("greenwashing"). In strategic management research terms, it is imperative that the potential trade-offs between performance and CSR be investigated from all angles and in a variety of contexts.

4.3 | Market pressures

The third aspect of the governance triangle should not and cannot be ignored. Market pressures on strategic choices are inexorable. Firms cannot ignore supply issues, consumer demand, or competition. All these forces are transmitted via market signals—prices. Market pressure on Global Value Chains is relentless as international completion and "the market for market transactions" expands (Liesch et al., 2012). This is the cost imperative that has to be balanced by compliance to regulations and the demands of civil society.

4.4 | New corporate strategies

The changed environment calls for top managers to investigate new organizational structures. Potential candidates are multi-domestic operations, the use of cartels rather than ownership modes of foreign operation (such as foreign direct investment and mergers and acquisitions) (Buckley, 2021; Buckley & Casson, 2021), and regional, rather than global, strategies (Enderwick & Buckley, 2020).

Non-market strategies are likely to be more prominent as insurance policies mitigating risks that are also cheap in capital and time. An example of non-market strategies are corporate political activities that protect against challenges from vocal sections of civil society, for example, support for "Black Lives Matter." Companies need to develop both their non-market strategy (to deal with stakeholders) and corporate political strategies (to deal with the governments).

At a lower strategic level, processes that encourage innovation and flexibility are central for long run survival. Flexibility and innovation strategies are not always orthogonal. There may well be trade-offs between flexibility, that requires multiple locations and operations versus innovation, which may mandate large scale and concentration of activities (in R&D for example). Therefore, it is not just the top management "strategic" decisions that are important in the implementation of a successful whole company response to external pressures. Understanding of the changed environment and formulating the correct response becomes the responsibility of all managers and this is a key argument for empowerment and spreading information throughout the company to those closest to the points where changes in the business environment impinge.

5 | CONCLUSION—ADAPTING GLOBAL STRATEGY

This paper has argued that analyzing global strategy as impacted by government regulation, an increasingly vocal and critical civil society and growing competitive pressure is no more than a first approximation. In reality, government, civil society, and markets represent the networks of constraints on strategic choices, sometimes overlapping, sometimes contradictory, sometimes reinforcing each other. This web of constraint must be part of the calculus in any construction of strategic decision-making. The web of constraint is however also a web of opportunity for new strategies that recognize new realities. MNEs will seek these opportunities through new organization responses, such as multi-domestic structures and cartelization, through new strategies mitigating risk and capitalizing on growth such as through no-economic strategies and "green" and "blue" investments but, above all, by innovations in products, marketing, services, and distribution. This suggests that a range of policies are possible in meeting the challenges. Strategies of "adaptation" accept the environment and mitigate the adverse effects by modifying strategic decisions and using flexibility (in GVCs for example). Strategies that drive change use innovation to forge new directions by engaging with governments, influencing civil society, and creating new products, processes and forms of consumer engagement (using social media in innovative ways). Most MNEs will adopt a mix of both approaches.

The global strategies of corporations must thus reflect their two enduring and non-replicable advantages—innovation and flexibility. Adaptability, and the processes that underlie these virtues, are vital in the hostile environment of increased market pressure, between the rock of regulation and the hard place of civil society scrutiny. Innovation maintains the raison d'être of the MNE and maintains its dynamism. These two characteristics are also helpful in containing the pressures of civil society, by adaptation to the requirements of public demands and to governmental pressures—for example, by producing new products (such as vaccines) and services (support to public health policies).

Recognition of increasing pressure from the three vectors of power is the first step in reformulating global strategy. A wider acknowledgement and inclusion of stakeholders and increasing non-market strategic activity are no longer optional but are mandatory. Navigating these constraints suggests a new web of opportunity where the true long run advantages of successful MNEs—flexibility and innovation—can be implemented at all levels of the firm to capture opportunities.

ACKNOWLEDGEMENTS

The author would like to thank Gabriel Benito and two anonymous referees for their useful comments on earlier drafts.

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How to cite this article: Buckley, P. J. (2022). Navigating three vectors of power: Global strategy in a world of intense competition, aggressive nation states, and antagonistic civil society. *Global Strategy Journal*, *12*(3), 543–554. https://doi.org/10.1002/gsj.1444