Institutional Capital on Trade-Marketing and Environmentally Sustainable Development Policy Making: A Research Model Based on Critical Analysis of NAFTA

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ABSTRACT

The aim of this study is to critically analyze the implications in terms of the relationship between cooperation, conflict, and institutional capital, as well as their interactions with trade marketing and environmentally sustainable development policy making under the framework of NAFTA. The methodology is based on a literature review aimed to create a relationship between the analytical variables in order to obtain a research construct. This research model is used to critically analyze the implications in terms of cooperation and conflict relationships as institutional capital and their interactions with trade-marketing and environmentally sustainable development policy making. It is concluded that, although the existence of NAFTA is severely questioned, its institutional capital has positive effects on the implications of trade-marketing; however, environmentally sustainable development proves to be conflictive and highly contentious, although some positive effects are developing.

KEYWORDS

Environment, Institutional Capital, Marketing, NAFTA, Sustainable Development, Trade

INTRODUCTION

Sustainable development implies the implementation of natural, human, social and institutional capitals. The assets required for sustainable economic development are the different forms of capital. According to Ashby and Carney (1999), these forms of capital are physical, natural, financial, human, social and institutional. The most tangible forms of capital are physical and natural. Physical capital refers to technical capital such as tools, equipment, etc. that work together with natural capital. Financial capital refers to stocks of money. Social capital is an interactional cooperative potential (Zenou, 2009) based on trust. Institutional capital is the set of institutions that give forms and repeatability to these relations (Bénédique, 2009). Institutional capital is an asset related to the implementation of actions in development processes (Garrabé, 2008).

Institutions play a significant role in the sustainable development of nations (North, 1990). Institutions are defined as the formal and informal rules of the game, and transaction costs influence economic efficiency (North, 1981, 1990; Williamson, 1985; Eggertsson & Thrainn, 1990). Institutional capital is related to institutional cost (Chen, 2008). The transformation of institutional capital into
institutional costs creates mobility barriers in different organizational arrangements. Institutions have economic effects on sustainable development which are coined as institutional capital. Institutional capital is the limitations devised by man that shape human interaction, thereby structuring incentives in human exchange, be it political, social or economic (North, 1995, p. 13).

Economic institutions are a form of capital and, as such, are related to institutional capital in terms of the institutional structure of economic production, economic exchange relations and reducing transaction costs. Economic institutions are related to market institutions and are considered as instruments to reduce transaction costs. Institutional economic arrangements drawn by organizations are related to productive and exchange interactions.

The North American Free Trade Agreement (NAFTA) is an economic institution whose existence has been severely questioned by its members, although since its inception it has developed a type of institutional capital formed by relationships of cooperation and conflict. This institutional capital has serious implications in the interactions between free trade and its marketing activities with the environmentally sustainable capital.

Institutional capital from the perspective of ecological and institutional economics is useful to explain theories and strategies of organizations and sustainable economic growth and development (Greenwood and Holt, 2008, p. 446). The new institutional economics (NIE) supports the notions of social capital related to issues of trust (Raiser, 1997, 1999; Raiser et al., 2001) and the informal social processes related to institutional capital to analyze and explain sustainable development (Gatzweiler et al., 2002; Parto, 2003, 2005; Bezanson, 2004; McGranahan and Satterthwaite, 2004).

Institutional capital supports competitive advantage to the organizations and economic institutions. This new theoretical approach provided an explanation of the paths to create a competitive advantage based on characteristics of strategic resources to achieve sustainable development (Huang and Cao, 2016). The presence of institutional capital in the economic production and exchange interaction contexts justifies the economic advantages (Kaji, 1998).

Institutional capital has strong links with market institutions and therefore with marketing strategies and activities, for the creation and transaction of economic capital, financial, physical and natural resources, stocks and flows. Domestic markets generate institutional capital when they improve the dynamic capabilities to respond effectively to the demands of complicated external and internal business environments (Lan, 2011). The practical operation of institutional capital in strategic management and its relationship with competitive advantage is limited from the institutional and resource-based views. From the resource-based view theory, institutional capital is considered as non-material resources.

Thus, the recent renegotiations of the NAFTA that have led to the continuation in the United States, Mexico and Canada agreement (USMCA) has taken advantage of all the institutional capital already built.

The institutional capital approach is used in this study to analyze the relevance of North America Free trade Agreement (NAFTA) institutions in marketing activities and sustainable development. Institutional capital is the determinant for efficiency in marketing activities and sustainable development actions.

**CONCEPTUALIZATION OF INSTITUTIONAL CAPITAL**

From the perspectives of finance and accounting, institutional capital has been defined as the total of the credit union’s regulatory reserve accounts, undivided or retained earnings, special reserves designated for a specific purpose, and net income that has yet to be closed to the retained earnings account. However, this financial and accounting perspective is not relevant for the purposes of this paper.

The concept of institutional capital is relative and contingency-oriented in regard to the function of economic activities and the interactions between enterprises and institutions (Besharov and Smith,
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