The Effects of Government Protectionism: An Awareness, Motivation, Capability Approach

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Firms in developed countries frequently struggle with low-cost foreign competition. This is somewhat perplexing given the historical advantages firms have in developed countries. We examine how these firms respond to market entry by low-cost foreign competitors. Their responses and outcomes vary depending on the government's degree of intervention. Using the global steel industry as an example, the awareness, motivation, capability (AMC) framework is used to structure firm decision-making. We find that applying the AMC suggests that firm responses depend on government trade interventions, thus recommending firms and their governments integrate their efforts to enhance beneficial outcomes for firms and society.

Keywords: government protectionism, global competition, trade intervention, awareness, motivation, capability framework

INTRODUCTION

Competition is a dynamic process (Barnett and Hansen, 1996). Firms initiate actions and respond to other firms' actions on an ongoing, evolutionary basis. In addition, the external environment provides many changing factors for firms to consider (Zajac and Bazerman, 1991). Many of these factors affect firms in multiple industries, but there are also factors within a firm's industry that can be the primary impetus for strategic responses (Porter, 1980). Interestingly, firms often respond in different ways to similar stimuli. Part of this difference stems from the uniqueness of each firm, including their idiosyncratic resources. Other causes of differential responses include factors such as managerial decision-making and geographic differences (Warrian, 2016; Shefter, 2002).

A good example of an industry that continually faces significant changing factors in the external environment is the global steel industry (Watson, 2022). Thus, we are focusing on this industry to explicate the varying influences on firm competition and firm and societal outcomes. The industry has experienced sizable export efforts and government intervention techniques that have strongly influenced firm behaviors (Schifman, 2018). The combination of longevity and ongoing competitive threats this industry has faced provides a good picture of the effects of global competition, government intervention (Bhagwati, 1988), and firm response that can help decipher beneficial outcomes for firms and society. Thus, our research question is, how do firms in the steel industry respond to low-cost foreign competition?

Global Competition in the Steel Industry

At over $900 billion in revenue and growing (Grandview Research, 2022), the global steel industry has played a sizable role in economic growth over time. The industry continues to be cyclical, and dependent on large industries that use steel. The industry's ups and downs have also been exacerbated by various countries' (e.g., China, India, Brazil) periodic efforts to expand capacity and engage in import dumping as part of an effort to gain market share (Halberstam, 1986). Moreover, many of these countries pollute excessively relative to other producers (Hersh and Scott, 2021). Dumping has resulted in significant negative financial impacts to steel producers via depressed steel prices, as well as layoffs and other economic pressures. As a result, trade disputes have escalated during these periods. In particular, the U.S. steel industry has seen numerous complaints about foreign steel being subsidized and dumped in U.S. markets (Aggarwal et al., 1987).

The negative financial implications on U.S. steel companies of foreign dumping and other factors have increased their survival mentality. Steel companies must act to survive (Crandall, 1987). One of the responses to performance declines is to innovate in ways that could benefit performance. For example, product and process innovations are often sought to increase revenue and reduce costs as well as limit pollution (Schifman, 2018). The heavy fixed-cost nature of the steel industry combined with the structural makeup of key customers (e.g., automobile industry) creates a step function type of change focus in addition to a less-pronounced incremental change approach. When these types of changes are implemented, key investments must be made that have dramatic effects on production processes and output. This is called a punctuated equilibrium model type of change (Romanelli and Tushman, 1994). Up until the point of change, global capacity levels can significantly affect pricing (and motivate dumping).

Consequently, characteristics of the steel industry and the types of markets its companies serve have led to a price-sensitive industry with many countries' political aspirations guiding governmental influence on the industry (Meyer and Tucker, 2022). Decades of governmental intervention have been used to create as well as minimize steel industry effects on nations' economies. This has resulted in a frequent absence of fair trade, and ambiguity around what fair trade would look like (Kuttner, 2023). Thus, the natural economic implications of supply and demand forces are partially replaced by artificial forces which can have both positive and negative effects (Crandall, 1987). Since innovation is a key component of growth and economic prosperity, it will be our key area of interest in this research. Specifically, we will examine how governmental intervention influences the degree of innovation.

Effects of Global Competition on Domestic Firms

In part, because of the heavy weight of its products, the steel industry tends toward being a regional business. The primary regions are the Americas, Europe, and Asia (Hersh and Scott, 2021). For the most part, these geographic areas can supply the steel demand of customers in their regions. However, intentional growth efforts of countries, like China, disrupt the regional equilibrium tendencies by creating surplus capacity and disposing of it in other regions. From 2000 to 2020, global production capacity more than doubled, while the capacity utilization rate remained steady at 74-75%. This increase in surplus comes from the formation of new steel suppliers and the growth of existing ones. Governmental support of these firms can more than offset the shipping costs of steel to other regions, thereby creating available low-priced steel in these other regions. Loss in market share by the domestic and regional steel suppliers hurts their revenue and lowers their capacity utilization and economies of scale.

Reductions in economies of scale increase production costs, but it is not the only cause of cost differentials among regional steel suppliers. Wage differentials can cause labor costs to be significantly higher in Western countries. Advances in technology can offset this disadvantage to some degree. Other cost differentials can come in the form of increased environmental and social changes. For example, pollution control and employee safety expenditures can lead to significant extra costs for Western firms (Hersh and Scott, 2021).

LITERATURE REVIEW

Global Competition

Innovation continues to be increasingly important in globally competitive industries (Marchi et al., 2018). New entrants from other global regions can provide rivalry that is based on lower costs (Yourdon, 2005), new approaches (Magee, 2007), strategies, and resources. This often leads to lower costs and prices as well as new types of products. Protectionism is often associated with the lower cost of imported goods that are generally equivalent to domestic goods in most product characteristics. For example, with steel the products may be similar in type, corrosion resistance, fatigue strength, tensile strength, and other properties. Therefore, the driving issue for protectionist efforts is the cost differential. The presumption is that lower costs will attract a sizable number of customers such that the domestic firms' relatively higher prices will significantly decrease sales. What receives less attention are non-cost features, such as product innovation, that differentiate domestic and foreign goods.

Why Is Protectionism Considered by Governments?

One of the key ideas behind a free market is that competitors will formulate and implement strategies that they believe give them that best chance for success. This typically involves creating new products, services, and cost efficiencies in ways that surpass their competitors' efforts (Porter, 1980). Ultimately, the firms that do a better job at these efforts will gain a competitive advantage and be able to potentially maintain it for some period (Porter, 1985). Incumbent and newer firms may have differences in viability and potential stemming from prior investments (or lack thereof) and actions that both foster and constrain future actions (Major et al., 2016). These are often referred to as core capabilities and core rigidities, and can have a pronounced effect on the performance of firms (Leonard, 1995).

In industries, such as the global steel industry, economic and political goals of countries can lead to governmental interference with free trade (Chorev, 2007). Governments may financially support domestic firms which increases the cost of imports that compete with domestic firms in an effort to protect these firms while they grow (Boise State Online, 2022). For example, there have been hundreds of orders for illegal dumping and distorting subsidies. These efforts are often considered unfair by foreign firms and frequently result in foreign governmental responses that further deteriorate the free trade concept (Napoleon, 2022). In addition to being considered unfair, they intensify the normal revenue and cost pressures that exist in most industries. Unfortunately, even when justifiable governmental interventions are implemented, foreign producers are frequently able to avoid the ramifications by moving steel production to other countries. The following section highlights some critical antecedents that affect revenue and costs of firms, and potentially lead to increased governmental interference.

There are several reasons for governments to utilize protectionism (Wraight, 2019). First, a government may want to initiate a domestic industry to increase infrastructure, employment, and its overall economy. Some countries, especially those that are considered less developed, attempt to grow their economy at a faster rate than would normally occur. One way to do this is through an integrative role of government. This includes the government selecting and promoting an industry in which to create organizations that would produce and sell goods and services. This effort typically includes an increase in infrastructure and manufacturing facilities that both create jobs, thus boosting the economy. Although not everyone agrees with economic benefits, due, in part, to less product choice (Gold, 2018) and potential higher prices negatively influencing downstream organizations (Gregg, 2023). New organizations often suffer from the liability of newness, and are, therefore, initially less competitive than incumbent rivals. To encourage the organization's growth, the government may offset the organization's early operating losses by artificially reducing its costs or increasing its revenues by a variety of means.

Relatedly, a second reason for a government to use protectionism is to protect an existing domestic industry from foreign competition (Kenward, 1987). For similar reasons to governments helping initiate an industry, protectionist efforts can be used to help an existing industry weather (hopefully) temporary problems that could shrink organizations. Oftentimes, this is done as a temporary measure designed to enable the industry to recover and catch up to foreign competitors. The logic for doing so may include

leveling the playing field for domestic competitors as they face foreign competitive threats. A longer-term focus may seek to reap other benefits, such as increased national security or a reduction in economic penalties to citizens or the overall economy.

A third reason for protectionist measures being taken is political (Warrian, 2016). Helping organizations in a variety of industries can create or maintain jobs in a politician's home region. Individuals who personally benefit from this job creation/expansion are more likely to vote for the candidate who assisted in their employment. This self-serving rationale is problematic in many ways. For one, it can create a costly program for taxpayers and consumers. Second, it can motivate additional protectionist efforts by other countries and regions. This *helping one by hurting another* lessens free trade and can create animosity between those positively and negatively affected.

Overall, to address these issues, governmental protectionism comes in many forms, such as quotas, tariffs, and grants/loans (e.g., Sec. 232 Import Measures – 1962). The intended consequences primarily focus on a reduction in foreign competition to level the playing field or provide time for domestic companies to develop into effective competitors. This goal provides several positive outcomes for the domestic economy in the short-term. In 2018, implementation of some of Sec. 232 Import Measures resulted in increased U.S. domestic steel production and financial performance for U.S. firms. Moreover, upgrades and manufacturing efficiencies saw increased investment of over $15 billion (Hersh and Scott, 2021).

Firm Responses to Eschewing and Usage of Government Protectionism

Firms in industries that face detrimental foreign market entry respond to government protectionism, or a lack thereof, in a variety of ways (Chorev, 2007). The response depends on a variety of factors, such as the reason for the market entry and the type of protectionism provided. Foreign market entry may be initiated because of competitive advantages present in foreign firms, or it may be due to unfair acts such as dumping. To combat either reason, a domestic firm may desire protectionism to provide relief from the dumping efforts or to provide time to enhance its own competitiveness. One common approach is to invest in innovation to improve products and processes so that greater value-added is achieved. Of course, if the reason for foreign market entry is primarily a competitive advantage, a government may be less likely to offer protectionism. Instead, governments would expect affected firms to improve their competitiveness through innovation and other value increasing practices.

As far as the type of protectionism being implemented, tariffs and other related efforts can directly affect product prices. This can quickly even the playing field for domestic firms, thereby enabling them to continue operations with little change. Foreign governments may balk at the implementation of tariffs and other protectionist efforts, which may result in their own protectionist measures being implemented. A tit-for-tat tactic often arises from those countries negatively impacted by foreign governments' interventions. This can occur and remain within a single industry, or it can migrate to other industries. For example, steel and aluminum trade disputes between the U.S. and the EU led to the EU placing a 25% tariff on U.S. whiskey imports. This resulted in a drop in U.S. whiskey exports of 18% from 2018 to 2021 (Goodkind (CNN), 2022).

Other types of assistance, such as grants and loans, may be more indirect and provide the means for firms to initiate competitive responses to foreign market entry. This can jumpstart competitive improvements rather than lead to a reliance on tariffs or other measures that support the maintenance of negative cost structure differentials. These differences, if left unchecked, enable continued higher prices which may hurt consuming industries. However, studies show that there is minimal to no impact on steel-consuming industries. Most of the studies on investment appear to focus on the amount of investment made toward production and plant efficiencies. Little has been said concerning innovation investments that could create new and better products (Elliott, 2023).

Awareness, Motivation, and Capability Framework

Organizational growth and other changes are often limited by managers' perceptions of opportunities, their willingness to act on them, and their ability to successfully pursue them with extant resources (Lockett, et al., 2011; Penrose, 1959). In addition, the competitive strategy aspect of environmental response (Porter,

1980), and the action and response nature of dynamic competition (Chen, 1996) have elements consistent with the awareness, motivation, and capability (AMC) framework. The AMC can be used to outline how firms arrive at their behaviors, including initiation and response. The AMC describes how firm behaviors are influenced by the degree of awareness, motivation, and capability that is present. It is necessary for all three elements to be present before a related firm behavior occurs. The AMC arises from Vroom's (1964) expectancy theory and has been used by a variety of researchers to explain firm behaviors such as reducing knowledge leakage to competitors (Bloodgood and Chen, 2022), engaging in rivalrous actions (Chen et al., 2007) and environmental sustainability (Schniederjans and Khalajhedayati, 2021).

Awareness

Awareness is the perception and acknowledgment of something. It does not necessarily have to be consciously enacted, because tacit and explicit environmental cues can both trigger behavior (Nelson and Winter, 1982). The strategy literature (e.g., Porter, 1980, 1985) implicitly and explicitly recognizes the role of awareness. Factors in the external environment, including competitor behavior, must be perceived to evoke a response by a firm (Spender, 1989). Competitive responses, such as those associated with perceived competitor product first-mover success and product imitation, can vary dramatically between industries (Oster, 1990). Some of the strategic literature even focuses on ways to avoid being perceived or recognized as a threat (Yoffie and Kwak, 2002), or how to ensure a threat is maximally perceived by (potential) competitors. Thus, accurate competitive intelligence creates valuable awareness and an advantage over competitors (Asghari et al., 2020).

Motivation

In addition to awareness and capability, the AMC presents motivation as one of the three elements required for firm behavior. Motivation is regarded as a willingness to engage in a behavior (Siemsen et al., 2008). There are numerous conditions and goals, such as survival, growth, reputation, and financial performance, that can motivate firm behaviors. These conditions and goals are affected by issues such as competitor resource differences (Barney, 1991), competitor attacks (Porter, 1985), human resource needs (Black et al., 2024), and market acceptance (Moore, 2014). Additional motivation can come from a desire to be similar to competitors when high uncertainty is present (Petkova, 2016). In this case, competitors may be imitated to gain or maintain legitimacy (Westphal, 1987) rather than maximize profitability (Symeou and Kassinis, 2024). Although an external condition can drive change, it does not always invoke a perceived need to adapt by engaging in innovation in an organization (Posen and Levinthal, 2012).

Capability

The AMC highlights that firms that are aware and motivated to engage in a behavior must still be capable of the behavior before they can engage in it (Chen, 1996; Turner and Pennington, 2015). Organizational resources create capabilities commonly viewed as a prerequisite for effective action (Barney, 1991; Siemsen et al., 2008). Included in organizational resources is the knowledge necessary to guide an action, with the knowledge-based view positing that knowledge is the ultimate resource (Grant, 1996; Spender, 1996). Organizational resources can be bought, or they can be developed with the most valuable being fostered over time (Dierickx and Cool, 1989).

Innovation

Considerable effort toward innovation-seeking can help generate new products and processes (O'Brien, 2020). Successful innovations are important for competing organizations to gain and maintain a sustainable advantage. Innovation efforts can range from an evolutionary process like strategic renewal (Floyd and Lane, 2000) to more revolutionary processes. In both cases, battling inertial forces and responding to current situational factors (Major et al., 2016) to guide an organization toward a more competitive position is the goal. Relatedly, Ahuja and Lampert (2001) discussed how three types of problems can inhibit organizational innovation. These problems included the maturity trap (mature is preferred), propinquity trap (closest solution is preferred), and the familiarity trap (familiar is preferred).

Complex interdependencies within organizations and with their environment can make effective change difficult (Clement, 2023). For example, slow-changing environments create a greater need for resource efficiency, while more creative efforts are needed in fast-changing environments (Perez-Freije and Enkel, 2007). In addition, research and development expenditures may help create innovations more in some organizations than in others depending on related actions simultaneously carried out by an organization (Demirel and Mazzucato, 2012).

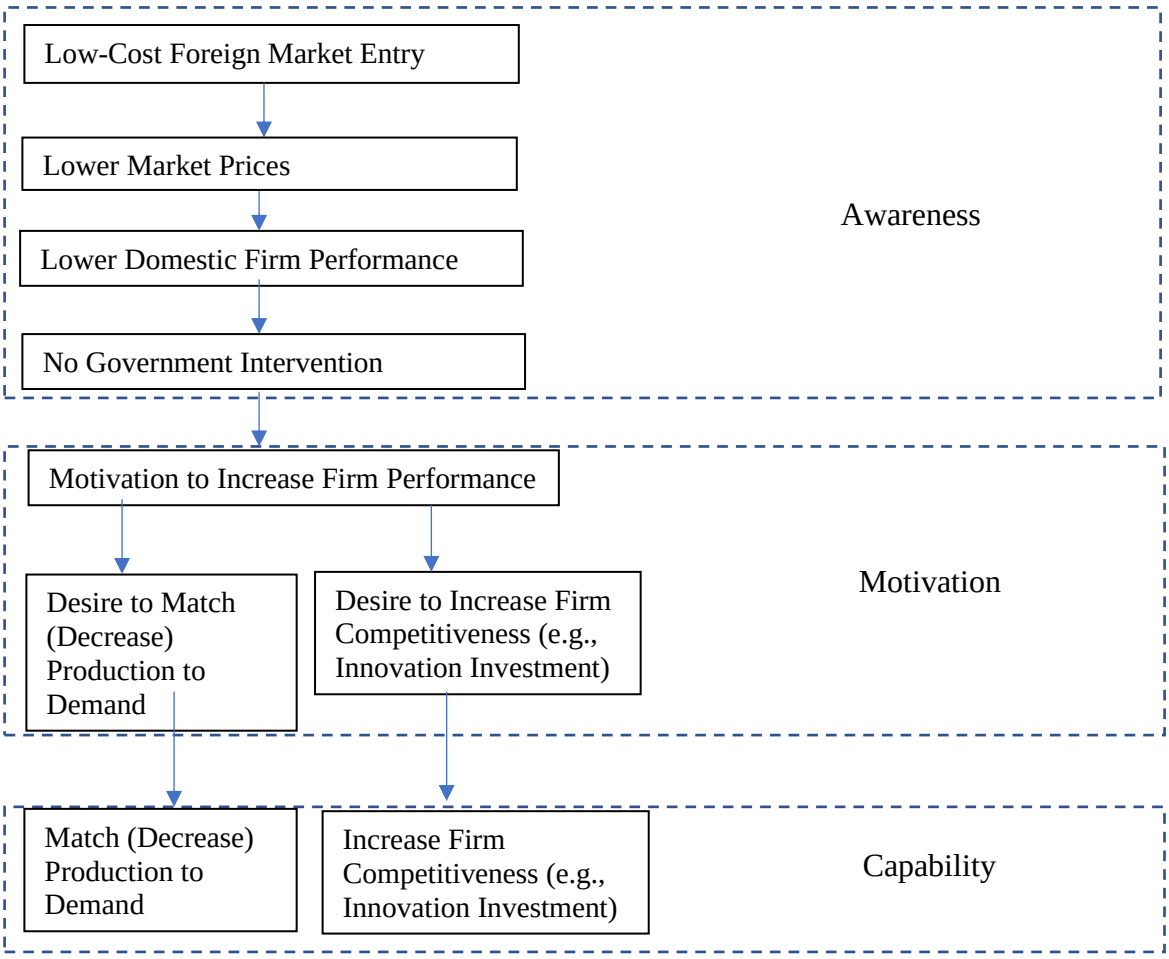
From a performance standpoint, organizations that engage in innovation that relies on new combinations and emphasis of existing organizational resources are more likely to achieve sustainable competitive advantage (Morrow et al., 2007). This is consistent with the findings of Zhang and Rajagopalan (2010) who identified an inverted-U relationship between strategic change and organizational performance. They showed that slight to moderate changes in strategic change enhanced performance while changes greater than moderate led to reduced performance. They theorized that this was due to the combination of beneficial adaptation and disruption that change provides. Innovation is particularly important for domestic firms as it can support key advantages in productivity increases, which can more than offset labor cost penalties relative to foreign competitors (Yourdon, 2005).

Theory and Application

Integrating the AMC with the reality of domestic firms facing low-cost foreign market entry and the potential of government intervention provides insight into the resulting firm behaviors and outcomes. Figure 1 provides an AMC-based process model for firm response to low-cost foreign market entry without government intervention, while Figure 2 has an AMC-based process model that reflects the inclusion of government intervention.

Figure 1 illustrates the primary market and firm elements associated with awareness, motivation, and capability during low-cost foreign market entry with no government intervention. For awareness, we are most interested in what the firm perceives that could subsequently influence its behavior. The initial cue would typically be the market entry by low-cost foreign competitors. For these competitors to be considered engaging in threatening behavior, they would need commensurate products at lower prices such that there is downward pricing pressure in the marketplace. These lower prices harm domestic firms who must subsequently lower their prices to maintain market share or accept less market share while maintaining prices for the near term. The resulting loss of sales and profit margin will reduce firm performance (Kang, 2002). Firms will be completely aware of these effects as they arise. Furthermore, without government intervention, the perception of continued performance reductions if maintaining the status quo occurs will likely make it apparent that a competitive problem is present. The combination of significant competitive events like this, along with concurrent technological change can heighten awareness in organizations to take competitive action (Van de Ven and Garud, 1994) such as process and product development. Accurate and reliable perception of events and technological change is critical for awareness to be constructive in leading organizations toward new beneficial change rather than repetition of past actions (Alberti et al., 2012).

FIGURE 1
PROCESS MODEL OF FIRM RESPONSE TO FOREIGN COMPETITIVE ENTRY WITHOUT SUBSEQUENT GOVERNMENT INTERVENTION



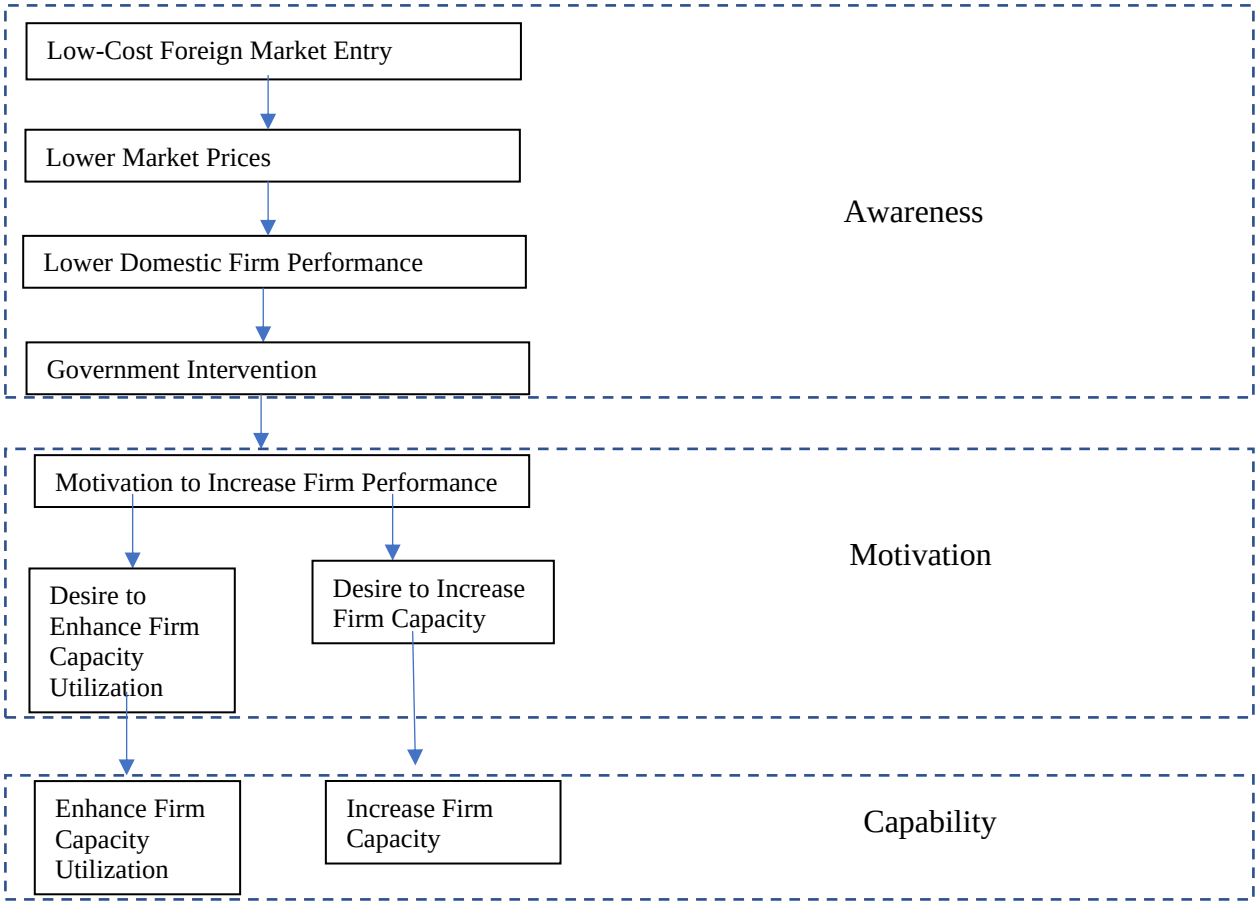
The awareness that a significant competitive problem has arisen, along with resulting performance declines (Boeker, 1997), motivates firms to attempt to increase their performance. This motivation can be augmented by a desire to improve the organization enough to engage in trade in foreign countries (Halberstrom, 1986). As shown in the motivation portion of Figure 1, the motivation to improve has both short-term and long-term facets. In the short term, a firm can emphasize matching its production levels with apparent demand. Most likely this will involve a reduction in production. Doing so will decrease costs and excess inventory. In the longer term, a firm can focus on enhancing its competitiveness by investing in innovation that can either lower costs or increase the value of its products to enable better pricing. Of course, this may be part of an ongoing Red Queen competition just to maintain competitiveness (Barnett and Hansen, 1996; Barnett and Pontikes, 2008), rather than achieve substantial growth.

Awareness matters in developing initiatives and strategies, but capability can limit the flexibility needed to accomplish them (Bayon and Aguilera, 2021). Being capable of successfully matching demand and increasing investment in innovation is more likely when a firm has had experience in those areas. Experience creates knowledge (Nelson and Winter, 1982), and along with other resources such as human and financial, a firm has a reasonable chance of realizing its goals. Firms with little to no experience with production reductions and innovation may find themselves making errors or missing opportunities that can help them succeed. Organizations can benefit from using more formal systems to direct innovative efforts

(Turner and Pennington, 2015). Formal systems are also developed and refined over time as experience accumulates. Thus, capability becomes a critical piece of effecting these efforts. Organizations, however, need to be cognizant of learning traps that can develop from prior experience that can cause ineffective responses to more novel situations (Lant and Mezias, 1990). Furthermore, the potential inability to fund innovation and other change initiatives can limit sought after organizational change (Carreira and Silva, 2010).

Figure 2 starts out with a similar process as Figure 1 until we get to the stage where the government intervenes. Firms easily become aware of government intervention designed to assist their industry. Thus, awareness of increased foreign competition and decreased market prices and firm performance is offset by the awareness of the government engaging in interventionist measures. Thus, the competitive problem that had started to materialize is lessened and results in an awareness that the firm's performance will not suffer significantly.

FIGURE 2
PROCESS MODEL OF FIRM RESPONSE TO FOREIGN COMPETITIVE ENTRY WITH SUBSEQUENT GOVERNMENT INTERVENTION



Firms that perceive an acceptable or favorable competitive situation (e.g., after government intervention), are less motivated to make significant improvements to enhance their competitiveness (Porter, 1980). Many firms are functioning in a suboptimal way, and are no longer growth oriented (Audretsch, 1995). Instead, these firms may desire to maintain typical firm performance by attempting less risky tactics (Latham and Braun, 2009) like optimizing firm capacity utilization and firm capacity provide more performance certainty and attract investment (Watson, 2022). These types of efforts are likely to show

quicker and more reliable paybacks than investments in innovation. Thus, to navigate the less-critical, less-threatening environment, a firm is more likely to attempt easier and more cautious efforts that do not put the firm at risk like innovation investments might.

Again, experience with optimizing capacity utilization and capacity, which is often done continually, can lead to knowledge in those areas. Use of this knowledge can become routinized because of its frequent application, thereby resulting in an almost automatic initiation and potentially a dynamic capability (Anand et al., 2009). One way that this works is through the alignment of strategic planning with knowledge-building routines (Araújo et al., 2022). Conscious arguments against staying the course, and instead investing in innovation, are likely to be met with a lack of enthusiasm and ultimately rejection. Measures successfully used in the past are likely to be repeated out of habit and a desire to do what one is or was good at accomplishing. This is akin to core rigidities (Leonard, 1995) that can act to reduce the range of firm behaviors. Typically, core rigidities are consistent with the gravitation toward efficiency that organizations face, which conflicts with the unbalancing that is needed for flexibility and change such as that found with innovative efforts (Eisenhardt et al., 2010). Unbalancing is less likely to be initiated when there is little understanding of the need for change (Becker, 2010), which tends to be the case when significant performance declines are not present (e.g., when government intervention assists domestic firms).

Enhancing Firm Responses to Market Entry by Foreign Competitors

Applying the AMC to market entry by foreign competitors illustrates different firm responses to the implementation, or lack of, of government protectionism. As indicated in Table 1, the AMC application shows that motivation is significantly affected by whether the government initiates protectionist efforts. *Without* protectionism, firms are likely to see performance declines, and are thus motivated to match production levels to demand in the short run and to invest in innovation to increase competitiveness in the long run. The attribution that a decline in competitiveness has occurred is critical for the appropriate investment decisions to be made (Repenning and Sterman, 2002). In addition, these investments involve significant risk due to uncertainty, and they point out the need for resources and capabilities to effectuate successful product or process innovation. A lack of sufficient resources to invest in innovation is a credible argument by firms who are facing significant performance declines that will likely continue without government intervention.

TABLE 1
FIRM RESPONSE TO FOREIGN COMPETITIVE ENTRY WITH SUBSEQUENT GOVERNMENT INTERVENTION AND NON-INTERVENTION

		Firm Investment in Response to Low-Price Foreign Competition	
Investment	**Innovation**	High	Low
	Capacity Utilization	Low	High
		No Government Intervention	**Government Intervention**
		Degree of Government Intervention	

On the other hand, the AMC application shows that *with* protectionism, firms lose some motivation to innovate (Elliott, 2023). Instead, because the signal that the firm is uncompetitive is not sufficiently received, these firms gravitate toward optimizing firm capacity and its utilization in an effort to enhance firm profits in the short run. There is less fear of a lack of competitiveness when profitability remains steady. There is also the issue of core rigidities involving activities surrounding capacity and its utilization (Leonard, 1995). These actions are frequently engaged in and are thus more likely to continue without significant financial losses disrupting them. Even when there is some decline, which generally occurs as foreign market entry begins, firms may exploit rather than explore since success traps induce doing more of the same (Walrave et al., 2011) as cognitive processes are restricted.

To improve firm responses to foreign competitor entry, we can use the AMC as a guide to viable efforts. For awareness, a primary issue is to make sure domestic firms acknowledge that their competitiveness, or lack thereof, is at the root of the problem. It may not be the only problem, but it must be addressed for long-term viability. Red queen competition, that exists in numerous industries, illustrates the iterative and continual efforts by competitors to outdo one another in an effort to gain a competitive advantage (Barnett and Pontikes, 2008). In many industries these advantages are often short-lived, but improvement efforts prevent a competitor from falling further behind. This type of competition should make it clear to managers that paying attention to external environmental cues is a precursor to effective response. For example, changes in product demand in the form of quantity and product characteristics create threats and opportunities that need to be assessed and realized (Gajdzik and Wolniak, 2022).

Dumping efforts by foreign suppliers, or even just overcapacity in general, will create low prices (Bhagwati, 1988) and partially motivate domestic firms to "do better" to be able to compete. Domestic firms may not always be able to rely on governmental intervention to get prices of foreign steel back up. So, they must improve to be prepared either way. Typical responses along the lines of reducing costs in the short run and product and process innovations for improvement in the long run, vary in their weight as shown in Table 1. Instrumental to awareness is the identification of trends. For example, seeing favorable customer response to foreign goods can inform domestic firms about customers' product preferences (so the domestic firm will begin to make better choices, e.g., when US car manufacturers started to downsize vehicles and increase quality). Furthermore, identifying behavioral trends of foreign competitors is important. For example, if they initially produce lower grade steel and then move to higher quality steel, a domestic competitor may have to react to this trend. In the auto industry, Japanese automakers began making luxury vehicles under a separate brand (e.g., Toyota/Lexus). This was done, in part, to enhance profitability per vehicle to offset a reduction in the quantity of exported vehicles. These types of trends can act as an indicator to domestic firms as to what types of responses they might want to consider.

One approach to enhancing awareness in organizations occurs when they have an entrepreneurial orientation (EO). EO captures how a firm makes decisions, especially those that are entrepreneurial. EO is part of how a firm is organized (Wiklund and Shepherd, 2003), and the processes it utilizes (Eisenhardt and Martin, 2000). Firms utilizing an EO take risks to be innovative and proactive (Wiklund, 1999) while trying to be first to market (Zahra and Covin, 1995). To get ahead of competitors, paying significant attention to external factors, such as trends, is critical. An EO makes a firm perpetually aware of current and potential future conditions. Thus, creating an EO in a firm can assist with establishing an ongoing, high degree of awareness.

Improving motivation of organizations to invest in innovation appears somewhat clear from a theoretical viewpoint. Government protectionism interferes with the natural economic desire to have an organization-based competitive advantage (Kenward, 1987). Protectionism gives the illusion that a domestic organization can compete, however it is not usually on valid economic grounds. Organizations more easily measure their competitive standing by looking at their financial performance, which can be artificially enhanced through protectionism. The easiest and quickest way to increase performance in the short run may be to restart shuttered production capacity. This cost to restart production, however, can take away money for investing in innovation, so firms may be less motivated to invest in innovation when production is being restarted.

Of course, not all organizations look at performance the same way. Some may focus more on aspiration level or performance gaps rather than simple performance levels (Park, 2007). These differences can complicate, and potentially benefit, motivation. For example, if short-term performance drops because protectionism is not initiated, deficient performance can easily heighten motivation to improve. However, if protectionism occurs, the performance levels may be maintained enough to not increase motivation to invest in innovation, for example. Alternatively, if the government tied protectionist efforts to a requirement that organizations increase their long-term aspiration levels there may be an increase in desire to invest in innovation. Steel firms in the U.S. have been able to make some changes in steel products and the processes used to create them (Watson, 2022). Thus, it is possible for these firms to innovate and be successful.

In addition to awareness and motivation, an organization's capability can be improved in many ways. With government intervention, the primary argument has been that it enables organizations to have the resources to invest in new competitive strategies. This would include product and process innovations that decrease costs or increase product value to customers. Even though organizations pursue the global advantages their capabilities might support (Hitt et al., 2016), the mere existence of resources, however, does not ensure that they will be used or recombined successfully. In many cases, arriving at the point of needing government intervention could be an indicator of suboptimal strategy formation or implementation. Government intervention can result in more timely restarting of production, which can increase available funds for potentially investing in various initiatives that create value (e.g., economic rents) (Makadok, 2001).

Without government intervention, resources become more of an issue for organizations facing low-cost foreign competition. Performance declines create an increased focus on survivability in the short run. This places long-term investment as a secondary objective. Innovation investment is commonly viewed as having a potential future payoff, and is, therefore, less likely to be prioritized. One option is to raise additional capital for investment. There may be sufficient uncertainty and risk to make this a difficult challenge. With a strong enough future strategy, however, some organizations facing these challenges may be able to succeed via debt or partnering with other organizations who may benefit from the organization's survival and future prosperity. A second approach would be to further develop any dynamic capabilities the organization may possess (Oliver and Holzinger, 2008). These capabilities allow for extensive flexibility that is useful for matching the external environment to increase fit (Teece et al., 1997). For instance, an organization facing increased economic pressure from extensive low-cost foreign competition may be able to move its engineers from capacity improvement to product redesign effectively because they have been cross trained throughout their careers.

DISCUSSION

Although a simultaneous focus on awareness, motivation, and capability provides a fairly comprehensive analysis of how and why firms might respond under foreign market entry and government intervention and non-intervention. There are still other factors to consider that can influence these responses. We were able to provide explanations of firm response in these conditions in a way that increases understanding of these responses, and potentially provides predictive power.

Short-term and long-term orientations can differentially affect elements of the AMC (Turner and Pennington, 2015). As illustrated here, the motivation to engage in innovation is higher when there are financial losses to consider. This is especially true when the losses are thought to stem from competitiveness detriments. Government protectionism may hinder or decrease foreign entry (Yourdon, 2005), thus limiting domestic firms' financial losses, which may cause a focus on capacity and its utilization to continue rather than investment in innovation.

Managerial Implications

For practitioners, one key goal is to heighten awareness concerning the reason for performance declines when low-cost foreign competitors enter the domestic market. If the entry is deemed fair in that competitiveness is the primary driver, a domestic organization benefits in the long run if it perceives the threat as a competitiveness issue whereby the domestic organization is at a competitive disadvantage (Elliott, 2023). This perception provides an impetus for figuring out how to improve competitiveness rather than just focusing on short-run financial performance. This is still challenging, of course, because of the significant uncertainty present and the risks involved (McKelvey, 1982) in making major investments like product and process innovation.

A tendency exists for firms to do what they know as a default behavior. When organizations exhibit competitive disadvantage, it can be due to a lack of investment in the future. Changing to more investment for future innovation may require unlearning before successful adaptation can occur (Becker, 2010). Some organizations are apt to be better at this than others. De Massis et al. (2018) identified several organizational

traits, such as having a long-term view and self-financing, that enable an organization to succeed even with limited resources. Awareness, motivation, and capability all need to be addressed before useful change transpires.

Besides industry managers, government practitioners also have a role to play in improving global trade (Cho, 2005), and as identified by the AMC. Regarding awareness, government officials can assist managers in more fully understanding the situation they are in when low-cost foreign competitors enter the market. Governments already try to establish the degree to which the market entry is competitive or not. When it is not, such as when a foreign government assists domestic organizations, the domestic government can enforce trade agreements which provide government intervention. When the market entry is valid and competitive, a domestic government can clarify this to the domestic organizations while it refuses to intervene, which helps to avoid increases in market prices (Watson, 2022). This refusal will then act to motivate the organization to enhance its competitiveness through such actions as innovation investment in products and processes. Thus, increased competitiveness can accrue through reshoring manufacturing (Liang and You, 2023). Managers who realize the lack of competitiveness is the problem will then need to make sure the members of their organization also have this understanding. This motivation can prompt organizations members to assess a variety of options designed to advance the organization's competitiveness. With this motivation, the capabilities needed to implement the planned improvements are more likely to be obtained. Thus, with the organization aware of what needs to be done, motivated to do it, and capable of implementing it, an increased likelihood of success is evident.

Research Implications

Some implications for researchers include the increased importance of including all three elements of the AMC when studying competitive behavior. One factor to consider is the political environment within organizations. Potential organizational changes, such as focusing on technological innovation, may be limited because top managers in power may be more interested in their own interests (Valorinta et al., 2011). Part of this can stem from internal politics that create and utilize power differentials to maintain control (Halberstam, 1986) which can potentially interfere with the important goal of innovating to obtain fit with the external environment (Su et al., 2023). For example, from a motivation standpoint, an organization's bonus structure may reward top managers for achieving short term targets that are inconsistent with long-term enhancements that require upfront capital investment. Relatedly, awareness and capability could be impacted by the degree of EO present and the ability of top managers to assess and understand recent knowledge advances (Bouncken et al., 2016). Researchers should also consider what role complements may play when investigating organizational capability (Bloodgood, 2019).

Moreover, top management teams that have a high absorptive capacity are likely to engage in more exploration, as compared to exploitation (Rosenkopf and Nerkar, 2001). Exploration assists with innovation outcomes and builds additional technological capabilities that can increase awareness of new knowledge (Lavie and Rosenkopf, 2006). For researchers, this set of relationships provides complexities they must integrate into their research. The resemblance to positive feedback loops provides linkages that will require appropriate analyses to delineate causal connections (Zhou and Wu, 2010).

Researchers will need to investigate the tendency for firms to increase inertia, rather than enhance exploration. Increases in knowledge can become integrated and solidified into top managers understanding such that future learning may be impaired and result in increases in exploitation (Levinthal and March, 1993) that repeats (Benner and Tushman, 2003). This points to the need for additional research based on the knowledge-based view of the firm in order to identify specific knowledge-oriented questions that shed light on innovation under these conditions (Soral et al., 2023). In addition, changes in top management should be included by researchers when investigating innovation and change. Inertia can be broken ahead of competitors in complex and volatile industries as new leadership better anticipates the need for change via perceptive awareness (Schoemaker et al., 2018). The relationships between absorptive capacity, exploitation, and exploration will need continued study to better understand these complex relationships.

CONCLUSION

This application and analysis of the AMC on firm decision making during foreign market entry by low-cost firms describes how domestic firms respond to this market entry and what the subsequent outcomes will be. We showed how the AMC framework can help illustrate when and why firms will respond differently to the presence and absence of government protectionism. For governments interested in improving the competitiveness of domestic firms in these conditions, the analysis suggests that they be judicious in engaging in protectionism because it can have deleterious effects on domestic firms in the long run. Moreover, political interests should be managed to avoid unnecessary protectionism just for the sake of short-term political gains. In addition, researchers investigating government protectionism and firm actions should consider including economic and political factors in their studies to ensure more comprehensive analyses.

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