Advancing Nonmarket Strategy Research: Institutional Perspectives in a Changing World

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ADVANCING NONMARKET STRATEGY RESEARCH:

INSTITUTIONAL PERSPECTIVES IN A CHANGING WORLD

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Executive Overview

Nonmarket strategy is now well established as a legitimate field of research. In this paper, we review the dominant paradigms in contemporary nonmarket research and report on the key insights and findings from those perspectives. We use this review to suggest that the integration of institutional and strategic perspectives provides a logical path for the continued development of nonmarket strategy research going forward. Looking ahead, our premise is that institutional perspectives will have an increased relevance to nonmarket scholarship, particularly with the increasing importance of emergent economies to international business. As companies are required to invest more in nonmarket practices, and adapt those practices to unique country contexts, we anticipate that research will increasingly draw from multiple conceptual paradigms and perspectives.

This journal symposium has its origin in a panel organized by two of the authors of this paper for the Strategic Management Society 2011 annual meetings in Miami, Florida. The symposium, titled "Integrating Market and Nonmarket Strategy: Institutional Perspectives in a Multi-polar World," represented an effort to refocus research attention on the phenomenological aspects of institutions and their relevance to the nonmarket environment and nonmarket strategy (NMS). At the time we were aware of the growing interest in understanding institutions in nonmarket environments, but we believed that the field of nonmarket research—more specifically NMS—suffers from somewhat of an identity problem.

Several traditions and approaches inform the study of NMS, including research on corporate political activity (CPA) (Hillman & Hitt, 1999; Hillman et al., 2004; Keim & Zeithaml, 1996; Lawton, McGuire, & Rajwani, in press; Schuler, 1996; Schuler et al., 2002; Zelner et al., 2009), public administration (Boyne, 2002; Rashman et al., 2009), and, more recently, the social and environmental obligations of firms as they interact with their external stakeholders (Boddewyn & Doh, 2011; Husted & Allen, 2010; Yaziji, 2010; Yaziji & Doh, 2009). However, these multiple approaches to the nonmarket raise the question of how firm–environment interactions vary in different institutional conditions (Henisz, 2000). We believed that an institutional perspective, broadly defined, could offer a unifying structure for organizing and positioning the range of disparate contributions to the study of the nonmarket environment and NMS.

The institutional perspective has gained momentum in exploring NMS (Henisz & Delios, 2004; Henisz & Zelner, 2003a). Thus, taking a broad institutional perspective, this introductory paper seeks to synthesize and integrate some of these disparate literatures to inform contemporary strategic challenges that emanate from political and social actors in nonmarket environments. The article incorporates some of the relevant institutional strands in the NMS literature to date, emphasizing especially the importance of social and economic institutions in constraining and facilitating nonmarket activity. This emphasis on institutions affords an opportunity to tie together some of the strands of the existing NMS literature while extending that NMS literature in novel and innovative directions. The contributions in this paper highlight and reinforce the relevance of governmental and nongovernmental actors at multiple levels of institutional analysis.

In approaching this opportunity, we argue that strategies for the nonmarket environment are—and should be—inextricably and inexorably linked to traditional strategic rationales and approaches, and that many of the theories and perspectives that have been used to inform market-oriented strategies can be adopted and incorporated into understanding strategies for the nonmarket. More specifically, we suggest that pairing and integrating the institutional perspectives, which tend to shed light on macro-level environmental conditions and challenges, and traditional strategy theory, which tends to inform industry, firm, and group behavior, provides a novel and useful organizing framework for understanding the range of NMS perspectives. Hence, this article proposes a wider and more inclusive approach to—and domain of—strategic management than has typically been defined and applied.

This introductory paper is divided into three main sections. First, we summarize how the three main institutional perspectives can be leveraged to inform nonmarket strategy from a macro/country/contextual point of view. Second, we review three main strategy perspectives that can inform nonmarket strategy from industry, organization, and individual points of view. We select and highlight how nonmarket scholars have applied or largely drawn upon those theories in their exploration of nonmarket phenomena. We then suggest how the other three articles in this symposium, to some degree, combine macro-level institutional perspectives with micro-level strategy arguments, by positioning these papers at the intersection of these two overarching approaches. Finally, we suggest paths for future nonmarket research, with particular focus on institutional factors.

Institutional Perspectives on Nonmarket Research

The nonmarket environment differs from the market environment in several important respects. First, the market environment consists mainly of suppliers, customers, and competitors. The nonmarket environment, on the other hand, can be characterized primarily by the social, political, legal, and cultural arrangements that constrain or facilitate firm activity. Second, in the market environment firms typically compete for resources, revenues, and profits, while the nonmarket environment considers broader dimensions of impact and performance such as ethical behavior, policy attainment, and social responsibility. Firms are competing in their nonmarket environment principally with private interests within their industries or across other industries, but also collaborating and competing with political and social actors.

The strategies developed by firms in the nonmarket environment are a means to affect outcomes such as superior profits (Baron, 1995; Baron & Diermeier, 2007). More important, an NMS maps the institutional situation to a set of possible *nonmarket* actions, such as building coalitions, lobbying legislators or regulators, making campaign contributions, and providing information to affect institutions that might defend or create revenues, while a market strategy maps the industry structure to a set of *market* actions, such as pricing, quality improvements, or product differentiation. Both of these strategies can provide a competitive advantage relative to market rivals, but both scholars and managers need to understand the institutional factors in more detail in nonmarket research.

The nonmarket context also has a darker side, where corruption and immoral practices can dominate. This is a result of rent-seeking behavior often endemic in nonmarket strategy, which can include everything from legal forms such as lobbying to illegal forms such as bribe paying. Dishonesty and exploitation can thus determine the nature of a nonmarket strategy. This is particularly evident in many emerging markets, where high levels of corruption are the norm.

There is undoubtedly a reflexive and interactive relationship between the market and nonmarket environments. For most firms, nonmarket forces can affect economic as well as political and social performance (Baron, 1995, 1997). More important, nonmarket rent-seeking behavior includes such activities as lobbying a legislator or regulator, litigating a case in court, making campaign contributions, and mobilizing social actors to support or oppose a strategic initiative. Building on this point, we explore the fundamental question of how NMSs should be developed. This question is important as it relates to both the interests and the institutional boundaries of the firm.

Hotho and Pedersen (2012) provide a comprehensive synthesis and review of institutional theory as it relates to international business (IB) research. Here we draw on that review in our analysis of how institutional perspectives can inform NMS. Hotho and Pedersen (2012) begin by noting that scholars of politics, law, economics, sociology, and management have offered varied conceptualizations of institutions and their impact. Further, they suggest that this diversity of perceptions "implies that institutional approaches differ in their explanatory power in that they address and explain fundamentally difference facets of social life (Hotho & Pedersen, 2012, p. 238).

NMS, like IB, is a field that draws on several disciplines and is concerned with multiple levels of analysis, and so it is only natural that different traditions of institutional theory inform NMS (Hotho & Pedersen, 2012). We begin by looking at the multifaceted concept of NMS that still seems underdeveloped, misunderstood, incorrectly applied, and inappropriately implemented. Some scholars would argue that new learning and developments in NMS must continue to evolve to be useful for managers. In that spirit, we offer a rejoinder to Baron's seminal 1995 article, which identifies that for managers, the key challenge is in understanding the political, social, regulatory, and cultural environment if they are to have a more strategic approach to the nonmarket environment.

Building on Baron's (1995) ideas, when we examine the NMS literature using institutional theory, three distinct patterns emerge to inform the NMS field. At first glance, the research is embedded in multiple yet discrete institutional perspectives and levels of analysis (at times intertwined and overlapping) to explain the phenomenon. As Hotho and Pedersen (2012) point out, however, there is a widely understood division of this literature into three somewhat distinct strands or streams. In the IB area, for example, they note that the papers in a 2008 *Journal of International Business Studies* special issue on "Institutions and International Business" draw on these three specific institutional approaches: new institutional economics (Clougherty & Grajek, 2008), neo-institutional perspectives (Orr & Scott, 2008), and national business systems (Jackson & Deeg, 2008) and that is the basic classification we adopt here.

Hence, given our IB emphasis, we follow this three-strand approach in our classification of the institutional theory literature relevant to NMS. Rather than seek to be exhaustive in our discussion of each strand, we map the key insights and their value to NMS, drawing on Hotho and Pedersen's (2012) review. We acknowledge that these categories are not fully discrete nor discriminant. Indeed, given that they all fall under a broad "institutional" school, their overall orientation emanates from similar traditions, levels of analysis, and perspectives. Nonetheless, we believe it is useful to examine some of the distinctive contributions of each to NMS, recognizing that these distinctions are relative—not absolute—ones.

New Institutional Economics

As Hotho and Pedersen (2012) suggest, one dominant institutional perspective that has gained traction in IB and that is equally relevant to the NMS literature is the new institutional economics (North, 1990). A principal feature of new institutional economics is a focus on the role of economic and industrial organization, and the role of political governance in developing and maintaining these institutional structures, with the effect of influencing the process of national development and adaption. New institutional economics arguments can also be found in the NMS field, where political and regulatory uncertainty shape the nonmarket strategy choices and market entry decisions of firms (Bonardi et al., 2006; De Figueiredo, 2009). Management studies here have placed particular importance on national and international markets with high uncertainty, where economic development can strain traditional institutional arrangements.

As Hotho and Pedersen (2012) observe, the role of institutional arrangements in economics drew increasing attention in a variety of disciplines in the 1980s and 1990s through the work of North (1990) and Williamson (2000). New institutional economics suggests that the nature of exchange processes is dependent on the rationale of agents, regulations, and specificity of the context. The institutional rules and regulations affect the profits firms make (North, 1990) and the productivity of countries and the firms in those countries (Hotho & Pedersen, 2012). For instance, Singapore is consistently ranked as one of the most open economies and best places to do business due, in part, to the predictability of its political and regulatory system. Conversely, Venezuela ranks low in terms of political and regulatory certainty and its economic condition reflects that status.

Taken from the vantage of the new institutional economics tradition, institutions affect firms' ability to maintain a competitive advantage, especially as they enter new markets. This is due to institutional frameworks having various impacts—particularly added cost and increased uncertainty—on firms setting up new operations in home or host countries. Dependable, stable, and predictable host country institutions, therefore, help to reduce economic costs and level of uncertainty (Hotho & Pedersen; North, 1990). They also contribute to creating strong capital markets (Hillman et al., 1999). However, the quality of the institutional frameworks depends on the experience of firms with policy-makers and the opportunity firms have to learn from others in the nonmarket environment (Bonardi et al., 2006). Ring et al. (1990) further suggested that the effect of the institutional environment on the firm is also a function of industry structure. In essence, the nature of the industry, including its hierarchy and competitive structures, further determines the impact of the institutional context on individual firms. Consequently, strategies deployed by management are a function of the degree of institutional impact on the firm and the firm's strategic predisposition toward the nonmarket environment (Ring et al., 1990). As Jacobson et al. (1993) suggested, the ways managers of multinational enterprises (MNEs) structure economic transactions will limit the costs resulting from institutional interventions. They argued that the traditional focus on the dyadic relationship between supplier and buyer misses sources of transaction costs. This is important because conceptualizing economic transactions as embedded in a nonmarket context will help firms maintain their position and competitiveness.

Neo-Institutionalism

Reflecting a general understanding of the three institutional traditions, Hotho and Pedersen (2012) introduce a second institutional perspective as neo-institutionalism, sometimes referred to institutional or organizational sociology. This tradition places primary emphasis on social structures and relationships that occur within societies—both formal and informal—and how these structures define and shape broader systems and the role of organizations within them. These external social pressures produce tendencies for organizations to resemble one another; as DiMaggio and Powell said, "There is such startling homogeneity in organizational forms and practices" (1983, p. 148). In this example, a given ecosystem of firms adopts isomorphic NMS to respond to common institutional pressures and in so doing, influences political actors collectively (Lawton & Rajwani, 2011). Subsequently, the national-level and subnational-level pressures maintain diversity in those NMSs adopted by firms, as seen in Table 1, unlike the comparative capitalism and national business systems perspectives.

NMS studies using neo-institutional perspectives consider the social obligations—and strategies—of firms as they interact with their external stakeholders (Boddewyn & Doh, 2011; Husted & Allen, 2010; Yaziji, 2010; Yaziji & Doh, 2009). We find that conceptualizing NMS with stakeholders or social actors reaffirms its place in the institutional field. More important, NMS has fully included key stakeholders, going so far as to explain the enforcement of public policies. Therefore, instead of firms being seen as the product of socially prescribed and institutional pressures, they are seen as social structures that exert agency and pressure on their institutional environment.

Civil society norms and actions dictate the investment climate and policies of government and therefore shape firms' foreign market choices. For example, establishing a business may be more expensive in a more developed economy than in an emerging one because of the various actors involved. A key element of this neo-institutional perspective is that societal actors have demonstrable effects on the competitive advantage of firms and the competitive dynamics of industries and can affect profitability (MacAvoy, 1992). NMS scholars have offered a variety of theoretical routes to address the role of civil society (Yaziji & Doh, 2009). The neo-institutional scholars within the NMS field have addressed issues around responsibility of social and political actors. More specifically, the responsible behaviors here refer to the kind of effects of responsible social relationships with specific actors that affect firm performance.

Firms are viewed not as separate from but as embedded within the social environment in which they operate (Hillman & Hitt, 1999; Holburn & Vanden Bergh, 2008). Here, some NMS scholars have viewed interactions with institutional actors as obstacles to be avoided or overcome (Getz, 1997). Scherer and Palazzo (2011) used the term "political CSR" to describe the growing role of private firms as active participants in emerging forms of global governance. This role is not new—at least not for Western multinationals. Researchers studying NMS are increasingly interested in understanding how firms from emerging markets deal with social forces that constrain political actors and influence policy outcomes.

Firms often do not fully understand or know how to deal with institutional forces that affect political actors and therefore respond with NMSs that may be obsolete or ineffective. An example can be seen in the difficulties British Airways (BA) faced because of European Commission demands during its initial moves toward a merger with American Airlines. These demands—specifically to sell a sizable number of landing slots at Heathrow Airport—had been underestimated by BA. BA's overconcentration on British regulatory authorities (versus those in the United States and at the supranational level) meant that the company neglected to build and leverage an active political relationship with the increasingly assertive European supranational authority. Consequently, the airline's slow adaptation to the shift in authority from London to Brussels hampered its strategic moves to build global competitive advantage.

Moreover, the institutional conditions and underlying philosophy of a region or country may determine firms' preferred approach to NMS. For instance, the European Union (EU) and the United States have fundamentally different approaches to creating and enforcing competition rules. This is due to the EU's primary emphasis on consumer interests and protection, compared with the U.S.'s chief concern with a level playing field for companies to compete. U.S. firms such as American Airlines, GE, Honeywell, and Microsoft have all fallen foul of this difference in emphasis, with the European Commission basing its competition policy decisions more on consumer choice impact than on business imperatives and corporate logic.

National Business Systems

The third dominant institutional theory perspective is the national business systems approach to NMS (Whitley, 1999, 2007), a perspective that overlaps somewhat with the previous two views, but focuses on a somewhat different—and more specific—set of questions, namely to explain the persistence of differences among national economic systems. In the 1990s, some institutional studies attempted to explain why internationally based patterns of economic and social factors persisted (Hall & Soskice, 2001). They did so by stressing the importance of differences in actor and stakeholder relationships cross-nationally, and how this power variation is used through formal and informal institutions (Djelic, Nooteboom, & Whitley, 2005).

NMS scholarship remains hobbled by a thin account of institutions and their effect on business performance, especially in understanding the impact of institutional differences across jurisdictions and the impact of these differences on performance (Jackson & Deeg 2008). Even explicitly comparative studies develop only a superficial understanding of how different institutions and their contexts interact with firms—what Jackson and Deeg referred to as generic conceptions of influences that exist across all institutional settings (2008). This is problematic due to sociopolitical structures that help give an account of the nonmarket environment faced by firms. Governments worldwide are responsible for inputs to a national business system (human capital through schooling; resource use through legal systems), and the current lack of sophisticated study of these institutional arrangements prevents scholars from appreciating how, for example, Brazil or India develops world-class firms.

Overall, research focused on national business systems tries to explain why, in an era of globalization, distinctive, nationally based patterns of economic life persist. Moreover, studies using this perspective have sought to identify distinct forms of national business systems and understand their resilience in the face of the homogenizing pressures of globalization (Whitley, 1999). They have done so by stressing the importance of power in social relationships in developing NMS and how this power is used through formal and informal institutions (Djelic, Nooteboom, & Whitley, 2005). Other studies have built on the political relationships by incorporating a national business systems approach into their analysis (Sun, Mellahi, & Thun 2010; Sun, Wright, & Mellahi, 2010). For instance, Sun, Mellahi, and Thun (2010) identified the mechanisms of how political embeddedness interacts with national business systems in determining competitive advantages. Their longitudinal study unravels the mechanisms that lead to the declining, and even negative, value of foreign investors, strengthening political embeddedness in the Chinese economy as a result of changing status and legitimacy of local political actors with whom these firms have developed ties.

Many papers using this perspective identify the comparative nature of business systems. Jackson and Deeg's (2008) call for more comparative work revolved mainly around greater awareness of international settings, specifically that Japanese and European institutional settings need to be cross-examined. The work on emerging markets has tended to concentrate on how institutional voids shape firm development and operations (Khanna & Palepu, 2005). Other comparative work has drawn attention to the political role of Western firms as providers of community services (e.g., education and social services) in emerging markets (Boddewyn & Doh, 2011). Peng (2003) and Dieleman and Sachs (2008) noted that the weak or fluid nature of institutions in emerging markets suggests that political activity for firms revolves around social networks and the exploitation of family or other social connections.

This is a complex international process, as the work of Dieleman and Boddewyn (2012) shows. In studying the relationship of the Salim Group—a large Indonesian business group—with the Suharto regime, they noted the complex internal arrangements within the group designed to manage multiple facets of its relations with the Indonesian government. This work draws attention to the potential liabilities of political ties and the need for emerging market firms to create buffering mechanisms to insulate the firm from adverse effects if the political situation becomes less favorable. Table 1 captures the three distinct institutional perspectives previously outlined and indicates how each informs the field of NMS research.

Insert Table 1 here

Strategy Perspective on NMS Research

The preceding section illustrates our focus on institutional effects at different levels, highlighting three cross-cutting theoretical strands that underpin the strategy perspectives on and approaches to nonmarket research. The role and impact of institutions on strategy vary depending on home or host country, industry, strategic group, and firm specificity. In strategy theory, we also identify three dominant variants that allow us to delineate the operationalization of NMS. These perspectives are *industrial organization, resource-based* and *network.* Much of the work in NMS studies draws on one or more of these theoretical approaches, implicitly or explicitly intertwining them with some sort of institutionalism. We elaborate on each of these perspectives in the next sections.

Industrial Organization Perspective

Much of the research in NMS adopts an industrial organization (IO) lens. Beginning with the classic Mason (1939) and Bain (1968) perspectives on industrial organization, strategy scholars, notably Porter (1980), have argued that industry composition and dynamics are critical variables to understanding competitive success. Although Porter's five-force model did not explicitly acknowledge the role of government, he and others did note how government could influence a number of the forces, for example, by creating higher barriers to entry through regulation or other means. In his subsequent work, which applied industrial organization theory to national economies, Porter (1990) fully acknowledged the role of government, especially in stimulating development of industries to help them become nationally and then globally competitive.

Public policy, regulation, and social preferences affect the overall attractiveness of an industry and the competitive forces and dynamics within it. More important, studies have leveraged formal economic models of NMS to incorporate repeated rounds of strategic choices and political uncertainty, with the primary role of NMS being shaping initial expectations and thus influencing the joint market and nonmarket equilibrium choices of the firm (Baron, 2001). Baron (1997) suggested that firms can overcome political uncertainty and the liabilities associated with specific industries in the political and regulatory environment by developing specific NMS—lobbying, campaign contributions, and so on—to influence regulatory decisions. According to Baron, firms sometimes opt for international expansion rather than product diversification due to intensified competition and significant industry regulation.

The nonmarket environment highlights that governments, activists, and the media have become adept at holding companies to account for the social consequences of their actions. In response, IO studies have looked at NMS as being an inescapable priority for business leaders in every country (Baron, 1995). Strategic theories of CSR (McWilliams, Siegel, & Wright, 2006), which assert that a company's social practices are integrated into its business and corporate-level strategies, are integral to NMS. Baron (2001) coined the term "strategic CSR" and argued that companies compete for socially responsible customers by explicitly linking their social contributions to product sales. The strategic perspective on CSR underscores the potential benefits of being viewed as a good corporate citizen and the potential differential effects on firms with different characteristics and profiles. Reinhardt (1999) explicated these opportunities with respect to environmental strategies, building on Porter (1980) to introduce three basic approaches to strategic CSR: a product differentiation strategy, a low-cost strategy, and a strategic interaction strategy. Only the strategic interaction strategy falls within the area of nonmarket strategy. The other two fall squarely within the realm of market strategy, but highlight the importance of this area for firms.

More recently, scholars concerned with the industry environment for NMS have questioned why firms encounter difficulties in developing strategies to address the regulatory and social elements of their given industry and market contexts. Porter and Kramer (2002) proposed that the main cause of this difficulty is a divergence of economic interests and ethical objectives in business operations. Although Porter and Kramer (2002, 2006, 2011) did not use the term "nonmarket strategy," they did argue that value chain opportunities that can benefit society and/or the environment can also create market opportunities. They noted that the tension between these different goals is common in highly regulated industries. More fundamentally, lack of empirical confirmation of a positive correlation between the two is a causal factor in the strategic failure of companies to address the interplay and impact.

Porter and Kramer (2002, 2006) argued that corporate philanthropy—an NMS—could be better aligned with CSR practices and leveraged more effectively to enhance a firm's competitive advantage. They posited that philanthropy strategy should not be used solely as a way to enhance the firm's corporate reputation, but should be employed more strategically. An example of strategic corporate philanthropy would be a firm supporting education programs in the local community that would subsequently enhance the skill base of the potential future employees available to the firm. Tata Group has done so very effectively in

India. For example, Tata has engaged legislators to introduce policies that would make books and pencils available for free to every child to encourage social mobility and economic vitality.

Although NMS can have positive effects on the firm and its environment, it can sometimes be counterproductive. This is true for two reasons. First, NMS may pit business against society, when in reality the two are interdependent. Second, it pressures companies to think of NMS in generic ways instead of in the way most appropriate to their individual business strategies. Some approaches to NMS are so disconnected from market strategy as to obscure opportunities for companies to benefit society. Porter and Kramer (2006) suggested that if corporations were to analyze their opportunities for social legitimacy using the same frameworks that guide their core business choices, they would be in a stronger position to pursue their market and nonmarket activities in a more integrated fashion. They also proposed a new way to look at the relationship between business and society that does not treat corporate growth and social welfare as a zero-sum game. They suggest that NMS should be viewed as an opportunity rather than as "damage control."

We argue that the NMS adopted by firms can be cost-effective and a charitable deed. However, it can also be a potent source of innovation and competitive advantage. For instance, the competitive dynamics and growth strategies of airlines are curtailed by public policy requirements and intergovernmental agreements on route access and expansion. In Western European and North American markets, pressure from civil society has resulted in more stringent environmental controls and legal requirements imposed by national, international, and supranational regulatory authorities. easyJet, a leading European airline, has been influenced and even pressured by these authorities, but has also sought to embed social factors into its NMS to address and even preempt some aspects of regulatory influence that constrain its commercial success. For instance, easyJet is working with aircraft and component manufacturers to develop what it has dubbed the "easyJet ecoJet," aimed at cutting CO2 emissions by 50% by 2015. easyJet is one of the first airlines to outline in detail the environmental requirements that must be met by the next generation of short-haul aircraft.

Resource- and Capabilities-Based Perspective

An emerging perspective in the NMS field is that brought by resources and capabilities in firms and strategic business units. Building on the resource-based view (RBV) of the firm, the concept of organizational capability has emerged as a primary explanatory framework of competitive advantage (Ethiraj et al., 2005; Teece et al., 1997). A number of scholars have suggested that firm resources and capabilities can be integrated into the nonmarket environment, notably in respect to relations with politicians or regulators (Bonardi et al., 2006; Capron & Chatain, 2008; Frynas et al., 2006; Lawton, Rajwani, & Doh, in press; Oliver & Holzinger, 2008) and social actors (Hillman et al., 2004; McWilliams & Siegel, 2011), as shown in Table 2, below. However, some critics of these NMS studies based on the RBV of the firm have said they are not paying attention to the managerial coordinative processes and capabilities by which firms assemble and leverage political resources to build robust NMS (Dahan, 2005).

McWilliams et al. (2002) extended the RBV theory of the firm to show that it can be used to analyze the effectiveness of NMS. They demonstrated that NMS can raise rival costs by blocking the use of substitute resources. These resources would otherwise be available to those rivals; however, by preventing their use through NMS, the "focal" firm gains an important advantage. An example would be blocking legislation that might provide a rival with access to an important government contract or "pork-barrel" project. In related work, we have proposed that NMS can be viewed from the perspective of the capabilities literature, and just as is the case in the commercial environment, differing NM capabilities can contribute to the success or failure of NMS. We have suggested that it is important to identify and explicate the NMS processes by which political resources are integrated and deployed. In particular, firms can—and do—leverage their financial, human, and network resources to support their NMS strategy. An example is when a firm mobilizes a broad company-wide campaign (e.g., a charitable project) that leverages the entire company and its constituent business units and employees, and in so doing bolsters legitimacy in communities in which it works (Lawton & Rajwani, 2011; Lawton, Rajwani, & Doh, in press; Pearce & Doh, 2005).

Even prior to the application of RBV theory to inform NMS, the idea of nonmarket resources had been acknowledged in the literature. Fainsod (1940) suggested that an industry obtains favorable regulation through its capacity to mobilize three kinds of resources: financial (political campaign financing), human (the use of lobbyists and lawyers), and political (political coalition building). More recently, Dahan (2005) described nonmarket *capabilities* as being mainly technical–economic expertise in lobbying government (i.e., technical, political, or economic). Nonmarket *resources* are characterized as having organizational attributes (an in-house office or permanent regulatory person), public image qualities (perception of stakeholders), reputation resources (individual and firm responsibility), and financial commitment (direct finance, political campaign contributions or indirect finance, events, and conferences) (Dahan, 2005). Most research, to date, however, has failed to address the potential collective nature of these nonmarket resources. Moreover, the notion of assembling specific resources and skills was initially mentioned by Yoffie and Bergenstein (1985), who spoke of how firms accumulate nonmarket capital. As a result, we believe that the RBV theory is very useful in our understanding of the configurations and combinations of nonmarket resources to create political weight in NMS.

Some NMS studies show how resources are leveraged by large organizations within a wide range of industries, including oil and gas (Frynas et al., 2006), electronics (Lawton, 1996; Yoffie & Bergenstein, 1985), and air transport (Lawton, 1999). Oliver and Holzinger

(2008) used the NMS perspective with RBV theory to examine the capacity of firms to deploy skills and political resources to successfully manage and influence the public policy process. In general, however, these capabilities are developed based on the firm's experience in a specific country and so may not be portable across geographies (Bonardi et al., 2006). NMS capabilities may also include the aptitude to find political resources and patterns of behavior in different types of institutional environments, to correctly assess the source and nature of expropriation hazards, and to successfully negotiate with political and regulatory actors (Bonardi et al., 2006). For instance, Google and Wikipedia collected online signatures to force congressional sponsors of the controversial Stop Online Piracy Act, or SOPA, to withdraw their support for this legislation in the U.S. Congress.

Network Perspective

The third viewpoint is the network perspective, which explores strategic responses to institutional changes using relationships. Network ties in the nonmarket are boundary-spanning personal and institutional linkages between firms and governmental agents that tend to enable a firm to acquire or retain a competitive advantage. Typically, gaining networks or nonmarket capital from the political and social systems is important for any business firm. Interactions with government officials can provide firms with unique information about governmental processes that are often otherwise difficult and expensive to obtain (Frynas et al., 2006; Hillman et al., 1999). In addition, nonmarket capital may improve a firm's access to the policy-making process; for example, firms may be invited to testify before Congress or appointed to key policy advisory committees. Nonmarket capital also augments a firm's political and social reputation and therefore increases its consideration in the legislative and regulatory processes. Clearly, having nonmarket capital enables a firm to be more effective in the political and social process. Such access makes outcomes favorable to the firm more likely and may lead to improved financial performance.

One area that has been gaining momentum in the NMS literature is the role of nonmarket capital within business–government relations. There have been some important discussions of social capital within the political context (Brehm & Rahn, 1997) and some references to political capital in management literature (Shaffer & Hillman, 2000). However, there is little consensus about how nonmarket capital operates within the nonmarket sphere. Because the construct has multiple applications at the firm and strategic group levels of analysis, the operationalization of nonmarket capital poses significant challenges.

Building on Shaffer and Hillman (2000), we define nonmarket capital as the ability of firms to influence political and social actors and agendas using reputation, relationships, expertise, and finance. Some scholars have suggested that social or reputational capital is a specialized type of nonmarket capital (Oliver & Holzinger, 2008). Drawing from Nahapiet and Ghoshal's (1998) operationalization of social capital, Shaffer and Hillman (2000, p. 178) stated that nonmarket capital entails resources "embedded within, available through and derived from the network of relationships possessed by a social unit." Another component of nonmarket capital is a firm's investment in the capability to implement effective NMS by developing access to decision makers, knowledge, and expertise (Frynas et al., 2006). Other studies equate nonmarket capital more closely with the benefits derived from relationships such as political influence, access to policymakers, and increased knowledge about public policy arenas (Mahon et al., 2004).

The initial step for corporations interested in creating nonmarket capital is to form ties with elected officials. A tie is characterized by the frequency of interaction between partners and their resource commitment (Rowley et al., 2000). Firms must decide whether it is strategically advantageous to form a weak or a strong tie. Weak ties involve less of a resource commitment, are less frequent, and constitute more of an arm's-length transaction. Economic examples include marketing agreements and licensing and patent agreements between companies (Rowley et al., 2000). Strong ties involve greater resource commitments and more frequent interactions. Partners have to invest in these relationships before they yield any benefits. Equity alliances and joint ventures, for example, represent market transactions with strong ties (Rowley et al., 2000).

The decision to form a weak or a strong tie with an elected official or social actor may be based on an analysis of the different roles that ties play and the diverse political circumstances that exist. Corporations have a finite amount of time and energy to invest in relationships, so they have to decide which approach will be most beneficial (Seibert et al., 2001). There are numerous advantages to weak ties: They are cheaper to form (they can form through fairly ordinary activities such as providing a campaign contribution or meeting at a social event), are easier to maintain than strong ties (because they involve less contact), serve a bridging function (enabling a firm to make the connection between two different networks; Seibert et al., 2001), and may be helpful for understanding trends in uncertain environments (Rowley et al., 2000). The downside of weak ties is that the firm is unlikely to receive specific or detailed information about an issue because they lack intimacy with the informant. This may limit the firm’s ability to receive the full offering of political benefits a politician can provide.

Forming strong ties obviously involves more time commitment. However, a strong tie with an elected official also yields strategic benefits. A firm will receive more information as well as deeper knowledge of a specific topic (Uzzi, 1997). Strong ties also enhance trust, mutual gain, reciprocity, and a long-term perspective (Larson, 1992). In the nonmarket arena, this may imply that a firm will gain an in-depth understanding of pending political events or social impacts. In addition, a firm with strong ties may develop goodwill and a history of reciprocity with elected officials that yield other political benefits such as political sponsorship and access to congressional or parliamentary hearings and advisory committees. For instance, when German trade and retail group Metro Cash & Carry entered Russia, the personal ties fostered in advance with the then-mayor of Moscow, Yuri Luzhkov, facilitated its preferential market entry and expansion. However, with strong ties, the firm has considerable time and effort invested with that particular politician. The firm may be vulnerable if that official leaves office, loses his or her position of power (such as when the majority party changes), or is involved in a scandal. Table 2 synthesizes the arguments highlighted above.

Insert Table 2 here

Integrating Institutional and Strategic Perspectives

The previous review suggests that there are considerable and unrealized opportunities for combining and integrating perspectives from the three institutional schools with those of the three strategy perspectives so as to better inform NMS, both conceptually and practically. The point of departure for this symposium research forum was therefore our belief that institutional theory can help advance NMS research. In this section, we propose how combining insights from the institutional perspectives with those of the three strategy schools can better inform contemporary phenomena. In this section, we build on the overall theme of integration by briefly reviewing the collective contributions of the articles in this symposium and showing how the variation in the institutional environment interacts with firm-specific NMS. Collectively, these contributions link the broad institutional perspectives we have summarized above to the three core strategic perspectives we have outlined in the previous section. Table 3 presents our summary and synthesis of their contributions, positioning them at the intersection of the institutional ands strategic perspectives, yielding nine overarching themes.

Insert Table 3 here

Perspective 1: New Institutional Economics

Given its broad focus on national-level institutions and their impact on organizations, the new institutional economics perspective provides a broad context within which to consider how industries and firms operate in the nonmarket environment. For example, institutional environments in which industries are highly regulated or major firms are state-owned influence the attractiveness of industries and the relevant pressures and influences within them. Therefore, firms' capacity to build and leverage resources and capabilities is dependent on legal, regulatory, and governmental policies. Furthermore, different institutional environments may allow—or prohibit—specific kinds of lobbying, advocacy, or other political funding. Finally, the nature of differing political–economic systems may favor certain classes of political leaders, making political network relationship more or less valuable under these differing conditions. We next offer some comments on the emerging nine themes (Table 3, above) and the relative positioning of each symposium paper (Table 4) and reflect on the integration of NMS and institutional factors.

(1) Contexts. One theme that unites NMS and the institutional environments is context. This construct is an important contribution made by all three of the symposium papers but especially by Kingsley, Vanden Bergh, and Bonardi, who investigate NMS in the context of political markets and regulatory uncertainty using the new institutional economics perspective. Specifically, they assess the design of nonmarket strategies to manage regulatory uncertainty and discuss ways for firms to integrate this with their market strategies. The authors advance a framework for predicting the magnitude of regulatory uncertainty and develop strategic implications for firms to manage regulatory uncertainty in the context of their market investments. They suggest the dimensions of a nonmarket strategy that fit well with the characteristics of the political market to create an integrated strategy. They also provide examples from several market entry choices that involve different nonmarket strategies and offer suggestions for future research in this area.

Henisz and Zelner also explore context but focus on international business. Specifically, they are interested in the differing contexts of political risk, which they perceive as the impetus for international nonmarket strategy research in the first place. They contend that the actions of policymakers in other countries can represent cues about appropriate behavior or experiences that can inform policy choices. Multilateral lenders may also influence domestic policy outcomes through their conditional lending practices. The authors further emphasize that one important area for future research is the linkage of nonmarket and market strategy research in the shared context of domestic and international business.

(2) NMS process. Kingsley, Vanden Bergh, and Bonardi examine why firm entry decisions into new geographical areas involve market risk. They highlight that the investment may also subject the firm to risk associated with process in regulation/public policy that either reduces the firm's profitability or blocks the firm from meeting other objectives. NMS processes typically lead to dichotomized outcomes, resulting in either uncertain or certain policy implications for firms. In part the policy uncertainty derives from the need for regulators to learn how to regulate new business models and technologies. A second, related mechanism generating policy uncertainty comes from the political games taking place among the various players involved in the regulatory process—in particular, regulatory agencies, politicians, firms, consumers, and activist interest groups. The important point to note is that NMS process is determined by the various competitive dynamics within the industry choices but is also shaped by the actors in the network and firms resources.

(3) Resource bundles. All three articles implicitly or explicitly reflect a more nuanced depiction of relational resources and human capabilities that are dependent on legal and regulatory policies. Kingsley, Vanden Bergh, and Bonardi draw inspiration, at least indirectly, from the notion that firms have heterogeneous capabilities for responding to and, in some cases, leveraging nonmarket resources to affect institutional environments

Perspective 2: Neo-Institutionalism

The integration of neo-institutionalism with the three strategic perspectives also provides interesting and useful insights for the NMS field. Previous articles and our symposium article by Henisz and Zelner demonstrate keen attention to *strategic choice*, *actors*, and *structures*, which shows how organizations respond to, and interact with, institutions and institutional pressures from the three strategy perspectives. These themes are highlighted and discussed below.

(4) Choice. In the case of industrial organization economics, social actors express their preferences through investment and purchasing choices that, in turn, affect industry attractiveness and the role and influence of organizations along the value chain. For example, the many codes, standards, and norms developed to encourage industries to adopt better environmental, labor, and human rights practices are primarily a result of institutional pressure from social movements and actors. The firms' strategic choices to invest in influencing nonmarket actors are deliberate in exploiting opportunities in these industries. As Henisz and Zelner argue, when firms are apparently free to make strategic choices, they should identify and evaluate options against the preference criteria and select the best option to achieve the intended policy outcomes.

(5) Actors. A common theme across all papers in this symposium is the importance of social actors. From a firm-level resource and capabilities perspective, firms may be subject to challenges from social actors that constrain their ability to build legitimacy and bolster reputation, or they may develop capabilities to influence those nonmarket actors to achieve their own goals. Take, for example, the social pressures exerted on Apple to improve labor and working standards among their international contractors and subcontractors. Social institutional pressure could result in real and meaningful changes in supply chain relationships among participants in the electronics and cellular handset industries. Therefore, the nature of differing social systems and preferences in social actors can determine the value appropriation by firms in those different social systems.

(6) Structure and performance. All of the papers demonstrate the high degree of taken-for-granted assumptions about firms' strategic responses to institutional structure and the consequent impact on organizational performance. Early institutionalism described firms as temporary outputs of institutional pressure without any attention to firm performance. However, the articles here demonstrate keen attention to performance, both directly and indirectly. Both Henisz and Zelner and Sun, Mellahi, and Wright illustrate how specific strategic responses can help to improve performance in nonmarket environments with high political constraints. We suggest that in these papers, and in earlier NMS studies by these authors (Henisz & Zelner, 2006; Zelner, Henisz, & Holburn, 2009), the inclusion of traditional variables of institutional structure, together with the addition of national and supranational political and social actors, can help to better inform performance studies.

Perspective 3: National Business Systems

National business systems studies have sought to identify forms of business systems and understand their resilience in the face of the homogenizing pressures of globalization. The integration of this comparative approach in understanding distinct national political–economic systems with strategy theory can help inform how the same strategic positions may result in different outcomes, depending on the unique national business environment.

(7) Competition. In the case of industrial organization economics, differences in national business systems translate into differing industry-specific competitive environments. For example, industrial policies favor specific sectors or groups of firms, but competition can still create costs for other competitors in those industries. In a strategic situation considered by Baron (1997), the total return to an NMS includes not only the return from opening a rival's market, but also the return on the revised market strategy by the rival as a result of NMS. The lesson here is that NMS is also about mapping the institutional national system characteristics to a set of possible actions, such as lobbying, coalition building, or information provision in relation to competitive dynamics. As highlighted by all of our symposium papers, NMS serves the same objective of maximizing overall profits by participating effectively and responsibly in the public process leading to the resolution of nonmarket issues. For instance, NMS unlocks market opportunities from different national business systems, as the firm works on a market-opening trade agreement cross-nationally by eliminating regulation through lobbying actions to change barriers to entry.

(8) Tie and sequence order. From a network perspective, the theme of "tie and sequence order" is an important strategic response in integrating NMS with the national business systems perspective. Sun, Mellahi, and Wright argue for a contingency perspective of corporate political ties and develop an integrative framework incorporating market environment, nonmarket environment, and interorganizational and intraorganizational factors that condition the value of political ties. The authors propose operating mechanisms through which network-based political capital may turn into liabilities for a focal firm leading to undesired effects on performance. They suggest that their paper deepens our understanding of network-based corporate political strategy and of its relationship with market strategy.

(9) Different national systems. Sun, Mellahi, and Wright suggest that differing national systems of economic and political organization prompt differing political and social networks, which must be carefully cultivated and managed. Interestingly, in dynamic and changing systems of national institutions, these network relationships can constitute both a liability and an asset for firm growth and success. As was the case in the neo-institutional view, network relationships may take different forms, involve diverse actors, and yield distinct outcomes depending on the broader business system in which they emerge and evolve.

Table 3, above, summarizes the potential conceptual and practical complementarities and synergies between and among the three institutional and three strategy perspectives. Table 4 seeks to position the three other articles in this symposium within this framework.

Insert Table 4 here

Conclusion

The institutional environment is a dynamic and self-renewing system, framed by state, international, and nongovernmental forces and populated by corporations large and small, interest groups, and individuals striving to have their voices heard (Coen, 1998; De Figueiredo & Tiller, 2001; Lawton & Rajwani, 2011). This symposium captures the current and significant new direction for NMS research. In this direction, firms are viewed as constructs that interpret and elaborate institutional pressures. The new research is attentive to the economic perspectives of new institutionalism, the sociological perspective of neo-institutionalism, and the cross-national perspective of national systems. Fully realizing the potential of these dominant themes, future research must incorporate IO perspectives, resource perspectives, and network perspectives to better understand the strategic responses to institutional factors in the nonmarket environment. We identify several key themes that help to inform the integration of NMS with institutional factors. These themes are contexts, process, resource bundles, choice, actors, structure and performance, competition, tie and sequence order, and variation in business systems, which all help to solidify specific NMS responses.

In fully acknowledging these themes and new research areas, and with the increasing global economic and political power of Brazil, Russia, India, China, and other emerging economies, this evolution in NMS thought and practice is rendered increasingly important for business and management. The challenge ahead is for researchers to build on the progress of these articles by extending our understanding of firms and managers as intermediaries to shape and be shaped by institutional environments.

Table 1

Institutional Perspectives on Nonmarket Research

	Level of analysis	**Key insight**	**Example**
New institutional economics	*International/national* Bonardi et al., 2006 Delios and Henisz, 2003 Hillman et al., 1999 Jacobson et al., 1993 Ring et al., 1990	Political and regulatory uncertainty shapes firms' nonmarket strategy choices and market entry decisions.	Singapore is consistently ranked as one of the most open economies and best places to do business due to the openness and predictability of its political and regulatory system. Conversely, Venezuela ranks low in terms of political and regulatory certainty, and its economic fortunes are similarly affected.
Neo-institutional perspectives	*National/subnational/non-national* Boddewyn and Doh, 2011 Yaziji, 2010 Scherer and Palazzo, 2011 Getz, 1997	Social forces enable and constrain the political actors charged with enacting and enforcing public policies.	Civil society norms and NGO actions dictate the investment climate and policies of government and therefore shape foreign market choices of firms. For instance, setting up a factory in Germany is more expensive and time-consuming than doing so in Turkey, involving greater civil society input and influence.
National business systems	*International/cross-national* Sun et al., 2010 Hall and Soskice, 2001 Jackson and Deeg, 2008 Khanna and Palepu, 2005 Whitley, 1999	Variations in political-economic models require attention to differences in actor and stakeholder interests.	Chinese firms entering Europe acknowledge the regulatory uniformity created by EU membership but can take advantage of the variances that occur in individual country markets due to different tax regimes and labor laws.

Table 2

Strategy Perspectives on Nonmarket Research

	Level of analysis	**Key insight**	**Example**
Industrial organization perspective	*Industry/firms* Porter and Kramer, 2002 Porter and Kramer, 2006 Baron 1997, 2001	Public policy, regulation, and social preferences affect the overall attractiveness of an industry and the competitive forces and dynamics within it.	The competitive dynamics and growth strategies of airlines are curtailed by public policy requirements and intergovernmental agreements on route access and expansion. In Western European and North American markets, pressure from civil society has resulted in more stringent environmental controls and legal requirements imposed by national, international, and supranational regulatory authorities.
Resource and capabilities perspective	*Firm/SBU* Capron and Chatain, 2008 McWilliams et al., 2002 Oliver and Holzinger, 2008	Firm-level approaches to configuring, combing, and deploying political resources enable them to adapt to, anticipate, and even shape changes in the corporate political and social environment.	Google and Wikipedia collected online signatures and leveraged this stakeholder resource to force congressional sponsors of the controversial Stop Online Piracy Act, or SOPA, to withdraw their support for this legislation in the U.S. Congress.
Network perspective	*Firm/strategic group* Frynas et al., 2006 Mahon et al., 2004 Rowley et al., 2000	Corporate political ties constitute one type of boundary-spanning personal and institutional linkages between firms and governmental/social agents that enable a firm to acquire or retain a competitive advantage.	When German trade and retail group Metro Cash & Carry entered Russia, the personal ties fostered in advance with the then-mayor of Moscow, Yuri Luzhkov, facilitated their preferential market entry and expansion.

Table 3

Integrating Market and Nonmarket Strategy Perspectives: Conceptual and Practical Complementarities and Synergies

	Industrial organization	**Resource-based view**	**Network perspective**
New institutional economics	Competitive dynamics within industries are influenced by broad institutional-economic conditions and choices, such as antitrust policies.	Firms' capacity to build and leverage resources and capabilities is dependent on legal, regulatory, and governmental policies. For example, different institutional environments may allow—or prohibit—specific kinds of lobbying, advocacy, or other political funding.	The nature of differing political-economic systems may favor certain classes of political leaders, making political network relationship more or less valuable under these differing conditions.
Neo-institutional perspective	Social actors express preferences through investment and purchasing choices that affect industry attractiveness and the role and influence of organizations along the value chain. For example, industry-specific labor and human rights codes and standards are partly a result of institutional pressure from social movements and actors.	Firms may be subject to challenges from social actors that constrain their ability to build legitimacy and bolster reputational assets and/or they may develop capabilities to influence those actors to achieve their goals.	As in the case of the neo-institutional perspective, the nature of differing social systems and preferences of social actors determine network relationship as being more or less valuable under these differing conditions.
National business systems	Differences in national business systems translate into differing industry-specific competitive environments. For example, industrial policies favor specific industries and	Differences in national business systems require the development and deployment of political resources and capabilities tailored to those differences.	Network relationships may take different forms, involve different actors, and yield distinct outcomes depending on the broader business system in which they emerge and

	create opportunities (and sometimes challenges) for investors	evolve.

Table 4

Integrating Market and Nonmarket Strategy Perspectives: Positioning Contributions in this Symposium

	Industrial organization	**Resource-based view**	**Network perspective**
New institutional economics		Kingsley, Vanden Bergh, and Bonardi	
Neo-institutional perspective	Henisz and Zelner		
National business systems			Sun, Mellahi, and Wright

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