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Managerial agency, risk, and strategic posture: Nonmarket strategies in the transitional core and periphery

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ABSTRACT

Why do nonmarket strategies of businesses in peripheral economies of Eastern Europe and Central Asian (EECA) differ from those in post-socialist member states of the European Union? This paper suggests an explanation, by offering three advances in our theoretical understanding of the problem. First, we develop a focus on managerial agency in a nonmarket strategic process. Second, we disentangle two distinct features of nonmarket strategies: the firm's *strategic posture* vis-à-vis the external environment and the level of *nonmarket risk* associated with a particular strategy. Third, we draw upon a broader array of business actors, paying attention to both multinational and local firms. The resulting enriched framework is applied in an exploratory study of the differences in nonmarket strategies between peripheral and core EECA economies. Using original qualitative data, we develop theoretical propositions linking heterogeneity of nonmarket strategies to the levels of political-economic institutionalization of various EECA markets.

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1. Introduction

The benefit of area research like the one featured in this Special Issue is that it invites scholars to analyze business environments in both a granular and holistic way. Such a focus is particularly important when it comes to nonmarket strategies, i.e. business strategies aimed at achieving competitive advantage through means other than economic exchange (for standard definitions of nonmarket strategies see e.g. Baron, 2013; Boddewyn, 2003). Broad agreement exists among international business (IB) scholars that these strategies play a pivotal role in transitional markets. Yet, as we shall demonstrate in this paper, the discussion about this topic has been constrained by a number of assumptions concerning the desired scope and mode of analysis.

To understand the patterns of businesses' interactions with the nonmarket environment in the "transitional periphery" of the post-socialist Eastern Europe and Central Asia (EECA), we need to broaden the prism through which nonmarket strategies in transitional economies are analyzed. We make three specific theoretical contributions. First, we deepen the focus on managerial agency in the development and execution of nonmarket strategies. Second, in focusing on managerial agency, we propose to

disentangle two distinct features of nonmarket strategies in transitional markets: the firm's *strategic posture* vis-à-vis the external nonmarket environment and the level of *nonmarket risk* associated with a particular strategy. Third, we extend the array of actors in our analysis of nonmarket strategies beyond multinational enterprises (MNEs) on which the cross-country research in the field has so far been largely centered (Baron, 1995) to include local firms in the transition economies.

At the empirical level, we apply our proposed framework to analyze contemporary nonmarket strategies employed in both the core and the peripheral areas of EECA. An important aspect of our analysis, which is based on original qualitative data, is the use of social, institutional, and economic characteristics that distinguish between countries in the region, drawing a principal distinction between the transitional periphery and the core EECA environments. Our research led us to a set of empirical propositions about how the balance between strategic posture and the nonmarket risk profiles of domestic and foreign market players changes in response to development of formal political-economic institutions taking place in many EECA countries.

Our paper is organized as follows. In Section 2, we review the literature on nonmarket strategies in emerging, developing, and transitional countries. Section 3 introduces our conceptual framework. Section 4 reports on the results of our fieldwork in EECA, applying our framework to the region. Section 5 presents the resulting exploratory empirical propositions and offers directions for future research.

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2. Literature review

In the search for an analytical framework that would inform our analysis of nonmarket strategies in the EECA's transitional periphery, we naturally turn to the body of research dealing with nonmarket strategies in a context of emerging, developing, or transitional economies. This substantial field is still yet to spell out answers to some key methodological questions. Perhaps the most elementary is the absence of a clear consensus on the desirable level of granularity required for a study of such a topic. While scholars in "market" strategy have agreed on some basic understanding of what constitutes "a strategy" (Casadesu-Masanell & Ricart, 2010), the corresponding understanding in the nonmarket field is not as apparent. Doh, Lawton, and Rajwani (2012), for instance, distinguish between execution, implementation, tactics, and strategy in a nonmarket setting, but the definitional boundaries remain ambiguous. While at one point approaches such as "building coalitions" or "lobbying legislators or regulators" are called "nonmarket actions" that only implement a (presumably some higher-level) strategy (*Id.*, at 23), at another moment, "corporate philanthropy" is itself treated as "a nonmarket strategy" (*Id.*, at 29). The lack of a clear understanding of what constitutes a nonmarket strategy, and of typology of generic nonmarket strategies used in transitional settings, makes it particularly difficult to systematically analyze those strategies in markets under our consideration, and especially compare those strategies in peripheral and core parts of the broader EECA region.

Apart from the granularity issue, the extant literature has suffered from adoption of three limiting assumptions. First, the literature chooses to predominantly focus on multinational enterprises (MNEs) and thereby neglects other types of businesses active in those contexts (Wright, Filatotchev, Hoskisson, & Peng, 2005). Second, the key actor in a given country's nonmarket environment has normally been assumed to be a single, internally homogenous unit of analysis, i.e. "a host government." This assumption ignores the interplay and contestation of other domestic actors who influence and are influenced by the nonmarket strategies of MNEs. Indeed, bargaining models (Dunning, 1998; Ramamurti, 2001) assume a zero-sum game between host governments and MNEs. The outcome of that bargaining is a function of goals, resources, and constraints on each party (Eden, 2006).¹ Third, host governments are perceived to be in an adversarial relationship with MNEs. This exclusive focus on the negative aspects of host governments' impact on MNE strategies is also shared by the literature focusing on political risk that developed in parallel with bargaining models (e.g. Kobrin, 1979; Brewer, 1985; Busse & Hefeker, 2007). Butler and Joaquin (1998, 600) define political risk as "the risk that a sovereign host government will unexpectedly change the rules of the game under which business operates." This definition, focusing exclusively on the change of the rules of the game by a host government, does not allow for a possibility of (negative) outcomes stemming from breaking the current rules by an MNE – or more interestingly by failed efforts by MNEs to shape the rules in their favor.

In the EECA context, the above-mentioned assumptions are particularly problematic. The co-existence of MNEs with other types of businesses (especially the state-owned and state-influenced enterprises and SMEs), the complex interplay of political players pursuing widely different agendas, and the level

¹ This strong assumption is in stark contrast to the study of domestic American politics that underwent a rapid transformation toward methodological individualism of Pluralist Theory and Rational Choice (Dahl, 1961; Stigler, 1971). Equally, the international relations literature witnessed a departure from the Realist emphasis on states as basic units of analysis, and toward variants of Liberal Theory focused on individuals and interest groups as "the fundamental actors in international politics" (Moravcsik, 1997, p. 516).

of openness and support that the political system offers toward various types of market actors, are not only objectively important features of the EECA's nonmarket environment. These features are among the most important sources of heterogeneity between the peripheral and the core parts of the post-socialist world (Schimmelfennig & Sedelmeier, 2005; Gould & Sickner, 2008; Bjørnskov & Potrafke, 2013). Fixing them by assumption severely limits our ability to understand the true extent of similarities and differences between core and peripheral EECA nonmarket environments.

That is why, in our exploration of the nonmarket behavior of businesses in peripheral and core EECA we have drawn on the body of literature that explicitly questions these traditional approaches and assumptions. The pioneering role in this body of research, which we refer to as the "Corporate Political Strategy" (CPS) literature, has been played by two studies: Boddewyn (1988) and Boddewyn and Brewer (1994). These papers, on the one hand, criticize the practice of modeling transitional economies' political processes as "anonymous and impersonal . . . when in fact, they are typically ruled by individuals or dominant coalitions" (Boddewyn, 1988, p. 345). On the other, the extant literature is faulted for its "passive or reactive" view of MNEs' political behavior (*Id.*) that treats "political factors . . . only as constraints" (Boddewyn & Brewer, 1994, p. 126).

Hillman and Hitt (1999) contributed to further development of the CPS approach and while the focus of paper was on corporate political strategy in general, it has been the foundation for analyses of MNE conduct in transitional markets (Hillman & Wan, 2005; Puck, Rogers, & Mohr, 2013). In contrast to the earlier IB literature on nonmarket strategy, these contributions present proactive political activity as an attractive option for managers and discuss a palette of options and actions through which such political strategies can be executed.

3. Conceptual framework

3.1. Nonmarket strategic initiatives

The more proactive outlook toward nonmarket strategies introduced by scholars in the CPS stream seems particularly suitable to the analysis of EECA. By focusing on managers making decisions about how they interact with the nonmarket environment, it seems logical to view nonmarket strategies not in an abstract, high-level way, but rather through the prism of concrete strategic initiatives. These initiatives have been defined in the general strategy literature as "discrete, proactive undertakings [that] either reinforce the current strategy or alter it in order to realign the organization in accordance with changed environmental conditions" (Marx, 2004, p. 1). Strategic initiatives are blends of "analyses, behavioral techniques, and the use of power and organizational politics to bring about broadly conceived outcomes" (Workman, 2012, p. 23). They differ from tactics, which are defined as "managerial actions that enact a strategy" (*Id.*) or, in other words, as individual acts of implementation of strategic initiatives.

What kinds of strategic initiatives are most often used in EECA? The one that is perhaps most commonly associated with the region (and transitional countries in general) is bribery (e.g. Rose-Ackerman, 1999). Yet, for our purposes, it is important to distinguish between two types of strategic approaches to such illegal payments to governmental officials. A manager may, in particular, actively seek to obtain governmental goods by offering, or at least suggesting, payments or other types of illegal advantages. We call this type of strategic initiative *bribery solicitation*. Another, more reactive approach, is to wait until the

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