

Otterbein University

## Digital Commons @ Otterbein

---

Business, Accounting and Economics Faculty  
Scholarship

Business, Accounting and Economics

---

7-2018

# Assessing The Global Nonmarket Environment: The Political And Social Environment In The Global Business Environment

Hyuk Kim Dr.  
*Otterbein University*

Follow this and additional works at: [https://digitalcommons.otterbein.edu/bus\\_fac](https://digitalcommons.otterbein.edu/bus_fac)



Part of the [Accounting Commons](#)

---

### Repository Citation

Kim, Hyuk Dr., "Assessing The Global Nonmarket Environment: The Political And Social Environment In The Global Business Environment" (2018). *Business, Accounting and Economics Faculty Scholarship*. 5. [https://digitalcommons.otterbein.edu/bus\\_fac/5](https://digitalcommons.otterbein.edu/bus_fac/5)

This Article is brought to you for free and open access by the Business, Accounting and Economics at Digital Commons @ Otterbein. It has been accepted for inclusion in Business, Accounting and Economics Faculty Scholarship by an authorized administrator of Digital Commons @ Otterbein. For more information, please contact [digitalcommons07@otterbein.edu](mailto:digitalcommons07@otterbein.edu).

# Assessing The Global Nonmarket Environment: The Political And Social Environment In The Global Business Environment

Dr. Hyuk Kim

(Department of Business, Accounting, and Economics, Otterbein University, USA)

Corresponding Author: Dr. Hyuk Kim

---

**ABSTRACT:** In order to formulate effective nonmarket strategies for firms pursuing global businesses, managers must adopt a comprehensive approach that can assess firms' cross-border political and social environment. This paper argues that a comprehensive approach to assess firms' global nonmarket environment must combine all the three concepts (i.e. issues, stakeholders, networks [relationships]) that have been identified by the existing literature on nonmarket strategy, considering the concept of location (a particularly important concept in assessing the global nonmarket context) in addition to these three concepts. While developing a comprehensive approach to assess the global nonmarket environment of firms remains as a future research agenda, this paper elaborates, in more detail, the existing concepts of global nonmarket environment, including location, because this elaboration of concepts is required to develop a new, comprehensive approach.

**KEYWORDS** –Global Nonmarket Environment, Political and Social Environment in the Global Business Environment, Concepts in the Nonmarket Environment, Issues, Stakeholders, Networks (Relationships), Location

---

Date of Submission: 02-07-2018

Date of acceptance: 17-07-2018

---

## I. INTRODUCTION: THE GLOBAL NONMARKET ENVIRONMENT AND NONMRKET STRATEGY

The business environment of a firm, as Baron (1995) points out, is composed of both market and nonmarket components and a firm's strategy must integrate these market and nonmarket considerations all together to respond effectively to this business environment. The nonmarket environment concerns any political and social interactions between a firm and its various stakeholders, such as the civil society, NGOs, advocacy groups, government, inter-governmental organizations, the media, and other public institutions. It is argued that managers must understand the implications of the nonmarket components for the market strategies. In other words, a well-formulated nonmarket strategy can help shape a positive market environment for the firm.

Managers formulate nonmarket strategies in response to the nonmarket environment of their firms, which is represented by the political and social context in which firms do their businesses. Accordingly, in order to formulate effective nonmarket strategies, managers need to have an approach (or a measure) through which they can assess or conceptualize the political and social environment surrounding their firms. Scholars have developed three major approaches, as Lucea and Doh (2012) describe, to assess or conceptualize firms' nonmarket (political and social) environment. They are: strategic issue management approach, stakeholder management approach, and network (or relationship) approach.

For firms engaging in cross-border businesses, it is argued that considering all these three concepts (i.e. issues, stakeholders, networks [relationships]) of the nonmarket (political and social) environment is critical to formulate effective global nonmarket strategies. Nevertheless, much of the extant literature on international business and strategic management adopts and emphasizes one of these three concepts, instead of incorporating all these three concepts into the process of formulating nonmarket strategies.

Moreover, all these three approaches in the existing literature consider, rarely, the concept of 'location' (a particularly important concept for the global nonmarket strategy formulation) in connection with assessing the global political and social context of firms doing cross-border businesses. The concept of location has an important implication for formulating an effective nonmarket strategy in the global business environment. The existing literature on nonmarket strategy confirms that firms engaging in international business formulate nonmarket strategies at some point between two extreme types (i.e. standardized, uniform nonmarket strategies for the entire global markets vs. fragmented, a wide variety of country/region-specific nonmarket strategies) since most firms today operate in a "semi-globalized" political and social environment (Lucea & Doh, 2012). Therefore, in order to formulate an effective nonmarket strategy in the global business environment, managers must consider the concept of location in addition to the three concepts in the nonmarket environment (i.e. issues, stakeholders, networks [or relationships]).

In addition, to formulate effective nonmarket strategies for firms pursuing cross-border businesses, scholars and practitioners must consider the changing global business environment. This changing nature of the global business environment has produced diverse participants in the field of international business who have different interests, purposes, and preferences and, has, subsequently, undermined the traditional global governance in the global markets. For instance, the recent literature on the relationship between business and government has added the inter-governmental organizations (e.g. WTO, IMF, World Bank) to the traditional business-government model as formal actors in today's global business environment. Furthermore, scholars have increasingly considered the role of the civil society, advocacy groups, and NGOs in the global business environment in explaining the changing global governance. (e.g. Kobrin, 1998).

The nonmarket strategies pursued by firms in the global markets have evolved as the global business environment has changed. Scholars have identified firms' two different approaches to formulating nonmarket strategies under the changing global governance and these two approaches are represented by the concepts of corporate political activity (CPA) and corporate social responsibility (CSR). These two concepts are discussed more in detail below and they are closely in connection with the concepts identified in the nonmarket strategy literature (i.e. issues, stakeholders, networks [relationships]) and, also, with the concept of location.

This paper contends that managers of a firm must develop a comprehensive approach that can assess the firm's cross-border political and social environment to formulate an effective global nonmarket strategy for the firm. In essence, this comprehensive approach must combine all the three concepts (i.e. issues, stakeholders, networks [relationships]) identified by the existing literature on the nonmarket environment, considering the concept of location in addition to these three concepts.

While developing a comprehensive approach to assess the global nonmarket environment of firms remains as a future research agenda, this paper elaborates, in more detail, the existing concepts of the global nonmarket environment introduced by the extant literature because this elaboration of concepts is required to develop a new, comprehensive approach.

## **II. A REVIEW OF LITERATURE ON NONMARKET ENVIRONMENT AND NONMARKET STRATEGY**

Baron (1995) defines nonmarket strategy as "a concerted pattern of actions taken in the nonmarket environment to create value by improving its overall performance." (p.47) Baron (1995) further points out that "the nonmarket environment consists of the social, political, and legal arrangements that structure the firm's interactions outside of, and in conjunction with, markets." (p.48) Since Baron's publication (1995), lots of scholars have tried to address the issues related to nonmarket strategy such as how firms attempt to influence their nonmarket environment. Recently, based on a comprehensive literature review on nonmarket strategy, Wrona and Sinzig (2018) define nonmarket strategy as activities to strategically shape the nonmarket environment in order to achieve corporate objectives.

The extant research on nonmarket strategy can be classified into two strands: social and political nonmarket strategies (Wrona & Sinzig, 2018; Mellahi et al., 2016). Social nonmarket strategy strand investigates strategic corporate social responsibility (CSR) and political nonmarket strategy strand examines corporate political activity (CPA). Strategic CSR refers to "corporate actions that appear to advance some social good that allows a firm to enhance organizational performance, regardless of motive." (Mellahi et al., 2016, p.144) CPA refers to "corporate attempts to manage political institutions and/or influence political actors in ways favorable to the firm." (Mellahi et al., 2016, p.144) Concerning these two strands of the extant research on nonmarket strategy, several scholars have pointed out that there has been little interaction between the social and political aspects of firms' nonmarket strategies. Wrona and Sinzig (2018) contend that "despite their common objective to influence the nonmarket environment, empirical studies rather look at either social or political strategies...as a result of the empirical fragmentation, most contributions to the nonmarket strategy field are isolated and stand-alone articles restricting comparative analyses." (p.254) Mellahi et al. (2016) also argue that these two parallel strands of nonmarket strategy research have emerged largely in isolation.

Nevertheless, there have been recent attempts to integrate these two lines of nonmarket research. Doh et al. (2012) reviewed the dominant paradigms in the contemporary nonmarket strategy research in order to integrate institutional theory (new institutional economics, neo-institutional perspectives, and national business systems) with strategic perspectives (industrial organization, resource-based view, and network perspectives). Mellahi et al. (2016) attempt to integrate political and social antecedents in nonmarket strategy research (Wrona and Sinzig [2018] acknowledge that this is the first attempt to integrate political and social nonmarket strategy research). Mellahi et al. (2016) argue that their integrative framework for nonmarket strategy research can be a useful tool to study the nonmarket strategy-performance relationship as a multi-theoretical lens. But, their framework has a limitation in terms of focusing particularly on the performance implications of nonmarket strategies. More recently, Wrona and Sinzig (2018) conducted a comprehensive literature review that considers both social and political nonmarket strategies. The authors indicate that, based on an integrative framework,

they tried to bundle, map, and evaluate the scholarly works in the field of nonmarket strategy research. An integrative approach to nonmarket strategy research can explain how the institutional context (political environment) and social actors either constrain or enable firms' capabilities of nonmarket strategies.

In addition to the attempts to integrate the two lines of nonmarket research, there have been efforts to integrate market and nonmarket strategies. An integrative approach to nonmarket strategy research has also contributed to investigating the possibilities of an integrative approach between market and nonmarket strategy. The necessity of market and nonmarket strategy integration was introduced by Baron (1995)'s publication: *Integrated Strategy*. Baron (1997) argues that an integrated strategy needs to be region specific since the nonmarket environment is subject to regional institutions, regulations, and cultures. However, Wrona and Sinzig (2018) point out that it is still unclear that "how international corporations delegate responsibilities regarding the development of market and nonmarket strategies across borders and how an integrated strategy can be coordinated." (p.303)

Another important research stream on nonmarket strategy has been examining the relationship between nonmarket strategy and organizational performance. There are numerous publications that investigate the link between nonmarket strategy and organizational performance (e.g. Hillman & Hitt, 1999; Shaffer et al., 2000; Bonardi et al., 2006; Wagner, 2007; Johnson et al., 2012; Wei et al., 2015; Rajwany & Liedong, 2015). The extant research shows inconsistent results concerning the relationship between nonmarket strategy and organizational performance (i.e. positive, negative, or ambiguous impact on firm performance). Wrona and Sinzig (2018) indicate that the results vary depending on the analyzed strategy type and activity as well as on the applied indicator to measure organizational performance. In addition, Mellahi et al. (2016) suggest that a multi-theoretical framework is needed for a better understanding of the relationship between nonmarket strategy and firm performance. To support their argument, the authors introduce various mediating mechanisms and moderating variables that underlie the link between nonmarket strategy and firm performance.

The majority of the extant literature suggests a positive relationship between nonmarket strategy and organizational performance. In other words, as Wrona and Sinzig (2018) point out, there is broad empirical evidence that nonmarket strategies have a positive impact on firm performance. For example, Shaffer et al. (2000) examine the impact of market and nonmarket activities on the airline companies' performance, measuring the firm performance through profits, market share, and capacity utilization. The authors confirm that nonmarket activities influence significantly the performance of airline companies in a positive way through all the three dimensions of firm performance measurement. Husted et al. (2012) assess how social activities (strategic social planning and strategic social positioning) influence the economic value of a firm. The authors conclude that both types of strategies influence the firm economic value in a positive way and, particularly, the type of social positioning strategy have a stronger impact on the firm economic value. Maurer et al. (2011) also argue that cultural and social activities influence the economic value of a firm in a positive way in connection with a firm's strategy since the possibility of gaining public legitimacy can be increased for the firm.

Mathur et al. (2013) propose a positive impact of political strategies on firm performance, analyzing the influence of lobbying, as a part of a nonmarket strategy, on the firm value which is measured by return on assets. Lux et al. (2011) investigate the impact of corporate political activities, such as lobbying, on organizational performance and find that corporate political activities have a significant positive influence on organizational performance which is measured by return on assets and measured also by the survival or failure of the firm. Similarly, Hillman et al. (1999) examine the impact of corporate political strategies on the firm value, focusing on personal services of managers in political positions (e.g. political consultants, memberships in political committees). The authors find that personal services as a part of political strategy have a positive influence on firm performance measured by the market return.

In contrast, the extant research also shows that there is a negative relationship between nonmarket strategy and firm performance. For example, Leuz and Oberholzer-Gee (2006) examine the long term impact of political strategies pursued by firms doing business in Indonesia. The authors find that a close cooperation with political decision makers may have a negative influence on organizational performance particularly when the local regime changes, because the connections to the government break away, leading to negative results in firm performance. In addition, there are researches that show ambiguous results between nonmarket strategy and firm performance. Guo et al. (2014) investigate the relationship between political strategies (political, interpersonal ties of the management with political decision makers) and firm performance (various financial and non-financial factors, such as sales volumes, return on investment, market share growth, and productivity) in emerging markets. The authors find that political, interpersonal ties can support firms to attain institutional support (e.g. resource procurement) and also help firms identify and exploit business opportunities in terms of influencing policy makers (such as regulations). However, it was unclear that whether legitimacy building through political, interpersonal ties can reduce uncertainty and, thus, improve firm performance.

Hadani and Schuler (2013) examine the relationship between political strategies (political investments in lobbying/political campaigns and human capital investments such as recruiting staff with former political

experience) and firm performance (market value and return on sales). The authors find that a positive relationship exists between political investments and market value of firms operating in highly regulated industries. However, no positive relationship was found between political investments and market value (and return on sales) as well as between human capital investments and market value. The authors confirm that human capital investments have a neutral impact on return on sales.

In sum, although a majority of the extant studies on the relationship between nonmarket strategy and firm performance confirms a positive relationship, there are disagreements (contradicting results) about the relationship between nonmarket strategy and firm performance. Even, some studies show a negative relationship between nonmarket strategy and firm performance (e.g. Leuz & Oberholzer-Gee [2006], Hadani & Schuler [2013]). Some recent review papers (e.g. Mellahi et al. [2016], Rajwani & Liedong [2015]) also confirm this inconsistent research results on the relationship between nonmarket strategy and firm performance.

### **III. THE IMPLICATIONS OF THE GLOBAL NONMARKET ENVIRONMENT FOR THE INTERNATIONAL STRATEGY OF FIRMS**

The existing strategic management (and international business) literature shows that most scholars and practitioners acknowledge that firms must deal with both market and nonmarket environment to formulate effective strategy. Baron (1995) points out that “the environment of business is composed of market and nonmarket components and any approach to strategy formulation must integrate both market and nonmarket considerations” (p.47). The nonmarket environment can be defined “in terms of social, political, and legal arrangements that comprise company-public interactions.” (Kobrin, 2015, p.262). In specific, the nonmarket environment concerns the interactions between the firm and other parties “that are intermediated by the public, stakeholders, government, the media, and public institutions.” (Baron, 1995, p.47). Baron (1995) further notes that the institutions of nonmarket environment differ from those of market environment in terms of characteristics, such as “majority rule, due process, enfranchisement, collective action, and publicness.” (p.47).

A nonmarket strategy can be defined as “a concerted pattern of actions taken in the nonmarket environment to create value by improving its overall performance, as in the case in which a firm works through its home government to use trade policy to open a foreign market.” (Baron, 1995, p.48). Firms engaging in international trade and investment try to formulate nonmarket strategies in response to the political and social environment in which they do businesses. In essence, managers should understand the ramification of nonmarket strategy in terms of the market environment. In other words, a firm formulates a nonmarket strategy in response to the political and social context in which the firm operates and aims to shape a positive market environment through this nonmarket strategy. In this respect, it is argued that a firm must integrate market and nonmarket components to formulate effective strategy for the firm.

As Kobrin (2015) points out, the scholarship in the field of international business has dealt with the nonmarket environment and, also, has tried to integrate market and nonmarket strategies. But, in terms of strategy formulation, firms engaging in cross-border businesses should deal with not only the issue of efficiency through standardization but also the issue of local adaptation. In other words, in terms of strategy formulation in the global business environment, firms should simultaneously deal with the pressure to standardize strategies globally to attain cost efficiency and the pressure to differentiate strategies locally to satisfy different local political, legal, economic, socio-cultural, and technological environments. Is a global (or an internationally standardized) nonmarket strategy is viable? Kobrin (2015) answers this question as follows: “Despite increasing concern about the global nonmarket environment and a recognition of the transnationalization of business, government and NGOs..., much of the discussion of nonmarket strategies remains tied to a cross-border or multidomestic context given the emphasis on country-specific factors.” (p.262). Both Baron (1995) and Kobrin (2015) contend that a standardized global nonmarket strategy would not be effective.

In fact, the research on nonmarket strategy has shown that firms have formulated two different types of nonmarket strategies for the global markets. Lucea and Doh (2012) classify nonmarket strategies as follows: nonmarket strategies “either consist of a disparate portfolio of disconnected country-level social and political programs or are composed of standardized corporate policies that are applied uniformly across geographies.” (p.1). The first type of nonmarket strategy assumes that the social and political environment in which a firm operates is very different across countries in the global markets. In contrast, the second type of nonmarket strategy assumes that the social and political environment of different countries in the global markets is highly similar to each other. But, in reality, most firms engaging in international business formulate nonmarket strategies at some point between these two extreme types. This explains, as Lucea and Doh (2012) indicate, that most firms today operate in a “semi-globalized” political and social environment.

Another important issue in the global nonmarket environment in connection with the international strategy of firms is the changing global business environment. Kobrin (2009) argues that we may be entering a new uncharted phase of opportunities and challenges characterized by new types of participants, such as governments, firms, and NGOs, who have more diverse and unaligned interests, purposes, and preferences. This



changing global business environment with new types of participants hinders cooperation among the participants in the global markets. In addition, as Doh et al. (2015) point out, this phenomenon undermines the traditional global governance in the global markets.

For example, traditionally, the scholarship in the field of international business has explored the relationship between business and government, examining the institutional contexts of this relationship (e.g. Vernon, 1971; Fagre & Wells, 1982; Kobrin, 1987). Doh et al. (2015) indicates that more recent research on the relationship between business and government in the global business environment has investigated “how governments shape the varying institutional contexts – both national and supranational (Henisz, 2000) – that firms encounter as well as how firms themselves are able to adapt to, adjust, and influence the emerging institutional environments.” (p.257) In addition, the international business literature on the relationship between business and government has added the inter-governmental organizations (e.g. WTO, IMF, World Bank) to the traditional business-government model as formal actors in the global business environment.

Moreover, international business scholars have increasingly considered the role of the civil society and NGOs in the global business environment as important participants in the multifaceted business, government, and nongovernmental relationships (e.g. Kobrin, 1998; Teegen et al., 2004; Lucea, 2010; Boddewyn & Doh, 2011).

Although MNEs are still considered as the most critical player, in terms of the global governance, in today’s global business environment, they should work with governments in many perspectives, for example, trade and investment policies, intellectual property rights protection, and safety standards negotiations. Furthermore, the emergence of emerging markets has also changed the traditional global business environment. Many recent empirical studies on the emerging markets have shown that, to be successful in the emerging markets, firms should actively incorporate nonmarket strategies into the traditional market strategies since both the formal and informal institutions that affect business in the emerging markets are very different from those in the advanced economies.

Concerning the changes in the global business environment in terms of the global governance, international business scholars have examined how these changes have influenced the nonmarket strategies of firms engaging in cross-border trade and investment. As the literature review section above shows, the nonmarket strategies pursued by firms in the global markets have evolved as the global business environment has changed. In specific, international business scholars have found firms’ two different approaches to formulating the nonmarket strategies in the global markets. The first approach concerns formulating firms’ nonmarket strategies in terms of the corporate political activity (CPA). Scholars have investigated the four pillars of CPA (Doh et al., 2015). First, the studies on the ‘strategic goals’ have explored the objectives pursued by firms that engage with governments. Doh et al. (2015) point out that: “From Baron (1997) and Hillman and Hitt (1999) to Oliver and Holzinger (2008), scholars have tried to identify mediating and moderating factors that may account for various motives that firms have in engaging with governments.” (p.257) In addition, the issue of the strategic goals is in connection with examining the relationship between CPA and firm performance. Although some corporate political activities might bring immediate benefits to firm performance, scholars have found that they, more frequently, might have long-term impacts on firm performance.

Second, the studies on the ‘strategic options’ have explored the strategic options firms can pursue in the political arena and, furthermore, have explored the strategic options that may achieve firms’ objectives more efficiently and effectively. For instance, the studies on the strategic options investigate when a firm engages in CPA unilaterally and when a firm engages in CPA collectively with other firms. Third, the studies on the ‘resources and capabilities’ have explored the “development and deployment of the firm’s political resources and capabilities.” (Doh et al., p.258) The studies on the ‘institutions’ have explored the “institutional-level constraints and boundaries within different political environments” (Doh et al., p.258), such as the differences in process, industry structure, and regulations.

The second approach concerns formulating firms’ nonmarket strategies in terms of the corporate social responsibility (CSR). As Doh et al. (2015) and Lucea and Doh (2012) argue, an increasing number of scholars and practitioners have considered CSR (including sustainability) as an important factor in formulating firms’ nonmarket strategies. For example, McWilliams et al. (2006) theorize the strategic implications of CSR and contend that firms’ CSR practices should be integrated into their business-level and corporate-level strategies. Baron (2001) argues that firms may even compete for socially-conscientious customers by strategically highlighting their CSR initiatives.

#### **IV. ASSESSING THE GLOBAL NONMARKETING ENVIRONMENT FOR THE INTERNATIONAL STRATEGY OF FIRMS**

As noted earlier, firms formulate their nonmarket strategies in response to the political and social environment in which they do their businesses. Therefore, in order to formulate an effective nonmarket strategy

for a firm, managers need to have an approach through which they can assess or conceptualize the political and social environment of the firm. Lucea and Doh (2012) identify three major approaches, in the existing literature, to assessing or conceptualizing the nonmarket (political and social) environment of firms pursuing cross-border businesses.

First, the strategic issue management approach (Ansoff, 1980) considers “the concept of issue as the original principle of the relationship between firms and their nonmarket environment...Issues are viewed as gaps between stakeholder expectations and an organization’s policies, performance, products or public commitments.” (Lucea & Doh, 2012, p.8) Thus, Lucea and Doh (2012) define the issue management as “the process by which firms close this gap between expectations and reality” (p.8) and “this can be done by either changing the firms’ behavior or by altering stakeholders’ expectations and perceptions about the behavior of firms.” (p.8)

Second, the stakeholder management approach (stakeholder theory), proposed by Freeman (1984) and Donaldson and Preston (1995), concerns the notion that a firm must respond to the expectations and claims of diverse stakeholders who can affect the firm’s performance. The primary research questions of this approach have been identifying who a stakeholder is and, also, when (or how) this stakeholder matters. Although stakeholder management and CSR are two different concepts, Lucea and Doh (2012) argue that the stakeholder management approach is associated closely with the concept of CSR which is defined as the “actions that appear to further some social good beyond the interests of the firm and that which is required by law.” (p.10) In particular, the concept of the strategic CSR (Baron, 1996) that has been developed through the CSR literature investigates the relationship between a firm’s CSR initiative and its overall position in the business environment. As an extension of Baron (1996)’s idea about the strategic CSR, some scholars (e.g. McWilliams et al., 2006; Husted & Allen, 2011) propose the following: “A company’s social practices are part and parcel of its business and corporate-level strategies. Hence, inherently advocating that the increasing inter-penetration of the market, social, and government facets of a company’s context should be reflected in a tighter integration of its market and nonmarket strategies.” (Lucea & Doh, 2012, p.10)

Third, the network approach, introduced more recently than the other two approaches, applies “a social network approach to the study of a firm’s nonmarket environment.” (Lucea & Doh, 2012, p.10) Here, the network is defined in terms of actors and the relationships among actors (Mahon et al., 2004). Thus, this approach has “focused not only on the attributes of the stakeholders but also on the relationships that a firm establishes with its stakeholders and the relationships that these stakeholders establish among themselves.” (Lucea & Doh, 2012, p.10) The primary research questions of this approach are how to integrate stakeholders and issues and, also, how the network structure affects actor behavior (in general, firm behavior) (Mahon et al., 2004). In essence, as Lucea and Doh (2012) indicate, the network approach tries to prove the importance of the structural position occupied by an actor in an organizational field in terms of opportunities, constraints, and behaviors.

Although it is critical to consider all these three approaches to formulate effective nonmarket strategies for firms engaging in cross-border businesses, much of the extant literature on international business and strategic management, as Lucea and Doh (2012) indicate, adopts and emphasizes one of these three approaches, instead of incorporating all these three concepts of issues, stakeholders, and networks (or relationships) into the process of the nonmarket strategy formulation.

Moreover, all these three approaches consider, rarely, the concept of ‘location’ in formulating nonmarket strategies in the global political and social context. As noted earlier, location is a particularly important concept in assessing the global nonmarket environment. In connection with the concept of location, the research on nonmarket strategy has identified firms’ two different types of nonmarket strategies in the global markets. The first type of nonmarket strategy assumes that the social and political environment in which a firm operates is very different across countries in the global markets. In contrast, the second type of nonmarket strategy assumes that the social and political environment of different countries in the global markets is highly similar to each other. However, as discussed above, in reality, most firms engaging in international business formulate nonmarket strategies at some point between these two extreme types since most firms today operate in a ‘semi-globalized’ social and political environment. In other words, we need to develop a better approach than these two extreme types of approaches to nonmarket strategy. To do so, first, it is important to consider all the three concepts of issues, stakeholders, and networks (or relationships) of the nonmarket environment to formulate an effective nonmarket strategy in the global business environment. Second, in addition to these three concepts of nonmarket environment, it is critical to consider the concept of ‘location’ in the global political and social context.

The concept of location can be defined in a variety of ways. For this paper, location is defined as Lucea and Doh (2012) conceptualize: “...location is conceived not only in geographic terms, as in a given combination of longitude and latitude on a map, but also as a particular configuration of cultural, economic and institutional arrangements...that bear a direct influence on the opportunities and constraints of inter-organizational life.”

(p.5) Location, as Friedman (2005) comments, is one of the central concepts in international business activities, even as the world is becoming flatter. Location has been one of the critical concepts in the discipline of international business in terms of the international competitive advantage of firms in the global business environment. Namely, the extant research shows that scholars have actively studied location in terms of formulating market strategy in the global business environment. It is argued that the study of location in terms of formulating nonmarket strategy in the global business environment is equally important. For example, location is a critical and fundamental concept for firms to deal effectively with stakeholders in the global business environment in that it helps firms determine why specific stakeholders put specific claims against them, how these claims are framed by stakeholders, and what resources can be mobilized by stakeholders to attain their goals.

The importance of location for firms to formulate effective nonmarket strategy in the global business environment is also found from the study on the disparity, in terms of the stakeholder behavior, between NGOs (and advocacy groups) located in advanced economies and those located in the emerging (or developing) economies. As Lucea and Doh (2012) comment, there are many existing studies on comparing rich NGOs in advanced economies with poor NGOs in emerging (or developing) economies. In particular, some studies (e.g. Smith et al., 1998; Harris-Curtis et al., 2015) have examined the nature of NGOs' claims globally and have found that NGOs in emerging economies concern primarily about collective interests and, in contrast, NGOs in advanced economies concern primarily about individual human rights. In addition, Ahmad (2006) argues that, in terms of preferred strategies, the majority of NGOs in emerging economies try to attain their goals through grassroots pressure, while NGOs in advanced economies seem to privilege both domestic and international policy making.

In sum, the location of the stakeholders of a firm in the global business environment has important implications for the firm's nonmarket (political and social) strategy. Fundamentally, location plays an important role for a firm engaging in cross-border business to sort out following problems: the issues taken care by stakeholders of the firm; the ways (or measures) through which stakeholders frame their claims; the means adopted by the firm that can be considered as legitimate by stakeholders; and the kinds and amounts of resources that can be mobilized by stakeholders. Lucea and Doh (2012) also emphasize the concept of "location in terms of distance between stakeholders" (p.8) because "it reflects the potential they have to leverage locally-based resources across borders in pursuit of their goals." (p.8)

Lastly, firms engaging in cross-border businesses today are facing another location-related challenge in terms of the changing global governance. That is, firms must formulate nonmarket strategies at multiple geographic levels in response to the political and social context in which they operate. In other words, firms' nonmarket strategies must be formulated in response to the diverse claims of diverse stakeholders at the global, regional, national, and local levels because the institutional arrangements of today's global business are much more diverse and unaligned than the previous era in terms of a geographic level. This is the challenge firms are facing in the global business environment today and firms must deal with this challenge considering the concept of location.

## **V. CONCLUSION: ELABORATING THE EXISTING CONCEPTS OF THE GLOBAL NONMARKET ENVIRONMENT**

In essence, in order to formulate an effective nonmarket strategy for a firm engaging in international business, we must develop a comprehensive approach to assess the firm's cross-border political and social environment. In particular, this comprehensive approach must combine all the three concepts (i.e. issues, stakeholders, networks [relationships]) identified by in the existing literature on the nonmarket environment, considering the concept of location in addition to these three concepts. While developing a comprehensive approach to assess the global nonmarket environment of firms remains as a future research agenda, this paper elaborates, in more detail, these three existing concepts of the global nonmarket environment because this elaboration of concepts is required to develop a new, comprehensive approach.

First, concerning the concept of issues, how to define the 'issues' might be controversial in the global nonmarket environment. There are commonly accepted definitions of issues among scholars. For example, Ansoff (1980) introduces the concept of the 'strategic issue management' and defines issues as forthcoming developments likely to have an important impact on the ability of the enterprise to meet its objectives. Kingdon (1984) defines issues as social problems that require managerial attention when they are defined as being problematic to a society or to an institution with the society.

However, these general, standard definitions of issues might be inappropriate to understand the concept of issues in terms of the global nonmarket environment. Lucea and Doh (2012) point out the limitations of these definitions. On the one hand, these definitions depict an issue as something that harms or threatens firms. This is not always the case. An increasing number of empirical cases in the global business context have shown that the cooperation between firms and their stakeholders (e.g. governments, NGOs, civil societies, etc.) in connection



with the issues in the global nonmarket environment can produce beneficial outcomes for both firms and their stakeholders. On the other hand, the general, standard definitions of issues conceptualize issues too broad (e.g. defining issues as social problems) to be considered as relevant managerial issues in the global nonmarket environment.

Therefore, Lucea and Doh (2012) propose the following: "...issues are most effectively operationalized as concrete instances or events such as a project, a product, or a firm policy that generate gaps between the expectations of a number of stakeholders and the firm's behavior. Therefore, mapping the nonmarket environment of a firm requires that we start by identifying these focal points around which nonmarket action is likely to take place." (p.12)

Second, concerning the concept of stakeholders, Freeman's (1984) definition on stakeholders is still useful to understand the stakeholders in the global nonmarket environment. Freeman (1984) defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives." (p.46) As Rowley (1997) indicates, the traditional stakeholder theories (e.g. Freeman, 1984; Donaldson & Preston, 1995; Mitchell et al., 1997) have been built on the premise that the attributes of stakeholders determine their power and influence over firms and over other stakeholders. In specific, the stakeholder attributes used the most by the traditional stakeholder approaches are: the type of relationship the stakeholder has with the focal firm, the size of the organization, the resources (e.g. financial, human, informational resources) the stakeholder can mobilize, the stakeholder's reputation, the stakeholder's social capital, the stakeholder's attitude towards the focal firm, and whether the stakeholder delivers service or engages in advocacy (Lucea & Doh, 2012).

In regard to these traditional stakeholder attributes, Lucea and Doh (2012) maintain that "the actual location of residence of the stakeholder" has rarely been used as a stakeholder attribute. This paper agrees with the authors' argument. That is, the location of the stakeholders of a firm is an important stakeholder attribute in terms of formulating an effective nonmarket strategy in the global business environment. Lucea and Doh (2012) further point out that "the relevance of location stems from the fact that some of the most important sources of leverage social and political actors over firms is tightly linked to their being embedded in the socio-political fabric of a particular locale." (p.13)

Third, concerning the concept of networks (or relationships), a social network approach, as discussed above, has been applied to investigate firms' nonmarket environment. In a social network approach, a tie reflects some kinds of interdependence (a broad spectrum of relationships) between the two nodes (firm to stakeholder or stakeholder to stakeholder) it links (Lucea & Doh, 2012). A comprehensive approach to assess the global nonmarket environment should examine, as Lucea and Doh (2012) point out, whether there is a tie between two nodes when "they engage directly with one another in regard to a particular issue generated by the focal firm." (p.14) While defining the tie between two nodes seems to identify the meaning of the relationship in a broad sense, specific research questions can help define a more narrowed down relationship between the two nodes, such as identifying the cooperation between the focal firm and stakeholders (e.g. an advocacy group or an NGO) to resolve a problem at hand.

Lastly, considering the concept of location, as discussed earlier, in addition to the existing three concepts (i.e. issues, stakeholders, networks [relationships]) of the nonmarket environment would help develop a more comprehensive approach to the global political-social environment. In essence, considering location as a stakeholder attribute makes it possible for the focal firm to assess the geographic location of the stakeholders and this assessment helps the firm to identify the resources (resources particularly in connection with specific location) they can mobilize.

In addition, considering location helps the focal firm identify the connections between different issue claims and different stakeholders in different locations (or countries). In other words, considering location makes it easier for the focal firm to identify the geographic range of a specific issue claim and the different level of engagement of stakeholders in different locations (or countries) concerning the specific issue claim. Moreover, considering location may reveal whether a specific stakeholder is involved in a single-issue claim or multiple-issue claims.

In conclusion, while developing a comprehensive approach to assess the global nonmarket environment of firms remains as a future research agenda, this paper focuses on elaborating, in more detail, the existing concepts (i.e. issues, stakeholders, networks [relationships]) of the nonmarket environment, considering the concept of location (a particularly important concept in assessing the global nonmarket context) in addition to these three concepts, because this elaboration of concepts is required to develop a new, comprehensive approach to the global nonmarket environment.

## REFERENCES

- [1]. D.P. Baron, Integrated Strategy: Market and Nonmarket Components, *California Management Review*, 37(2), 1995, 47-65.
- [2]. R. Lucea and J. Doh, International Strategy for the Nonmarket Context: Stakeholders, Issues, Networks, and Geography, *Business and Politics*, 14(3), 2012, 1-30
- [3]. S.J. Kobrin, The MAI and the Clash of Globalizations, *Foreign Policy*, 112 (Fall), 1998, 97-109.
- [4]. T. Wrona and C. Sinzig, Nonmarket Strategy Research: Systemic Literature Review and Future Directions, *Journal Business Economics*, 88(2), 2018, 253-317.
- [5]. K. Mellahi, J.G. Frynas, P. Sun, and D. Siegel, A Review of the Nonmarket Strategy Literature: Toward a Multi-Theoretical Integration, *Journal of Management*, 42(1), 2016, 143-173.
- [6]. J.P. Doh, T.C. Lawton, and T. Rajwani, Advancing Nonmarket Strategy Research: Institutional Perspective in a Changing World, *Academy of Management Perspective*, 26, 2012, 22-39.
- [7]. D.P. Baron, Integrated Strategy, Trade Policy, and Global Competition, *California Management Review*, 39(2), 1997, 145-169.
- [8]. A.J. Hillman and M.A. Hitt, Corporate Political Strategy Formulation: A Model of Approach, Participation, and Strategy Decision, *Academy of Management Review*, 24(4), 1999, 825-842.
- [9]. B. Shaffer, T. Quasney, and C.M. Grimm, Firm Level Performance Implications of Nonmarket Actions, *Business & Society*, 39(2), 2000, 126-143.
- [10]. J.P. Bonardi, G.L.F. Holburn, and R.G. Van den Bergh, Nonmarket Strategy Performance. Evidence from US Electric Utilities, *Academy of Management Journal*, 49(6), 2006, 1209-1228.
- [11]. M. Wagner, Integration of Environmental Management with Other Managerial Functions of the Firm: Empirical Effects on Drivers of Economic Performance, *Long Range Planning*, 40(6), 2007, 611-628.
- [12]. J.H. Johnson, D. Mirchandani, and M. Meznar, The Impact of Internationalization of US Multinationals on Public Affairs Strategy and Performance: A Comparison at 1993 and 2003, *Business & Society*, 54(1), 2012, 89-125.
- [13]. W. Wei, X. Hu, Y. Li, and P. Peng, Integrating Nonmarket and Market Action, Response, and Initiating Firm Performance in Competitive Dynamics, *Management Decision*, 53(3), 2015, 512-532.
- [14]. T. Rajwani and T.A. Liedong, Political Activity and Firm Performance within Nonmarket Research: A Review and International Comparative Assessment, *Journal of World Business*, 50(2), 2015, 273-283.
- [15]. B.W. Husted, D.B. Allen and N. Kock, Value Creation through Social Strategy, *Business & Society*, 54(2), 2012, 147-186.
- [16]. C.C. Maurer, P. Bansal, and M.M. Crossan, Creating Economic Value through Social Values: Introducing a Culturally Informed Recourse-Based View, *Organization Science*, 22(2), 2011, 432-448. I. Mathur, M. Singh, F. Thompson, and A. Nejadmalayeri, Corporate Governance and Lobbying Strategies, *Journal of Business Research*, 66, 2013, 547-553.
- [17]. S. Lux, T.R. Crook, and D.J. Woehr, Missing Business with Politics: A Meta-Analysis of the Antecedents and Outcomes of Corporate Political Activity, *Journal of Management*, 37(1), 2011, 223-247.
- [18]. C. Leuz and F. Oberholzer-Gee, Political Relationships, Global Financing, and Corporate Transparency: Evidence from Indonesia, *Journal of Financial Economics*, 81(2), 2006, 411-439.
- [19]. H. Guo, E. Xu, and M. Jacobs, Managerial Political Ties and Firm Performance during Institutional Transitions: An Analysis of a Mediating Mechanisms, *Journal of Business Research*, 67(2), 2014, 116-127.
- [20]. M. Hadani and D.A. Schuler, In Search of El Dorado: The Elusive Financial Returns on Corporate Political Investments, *Strategic Management Journal*, 34, 2013, 165-181.
- [21]. A. Prakash, Beyond Seattle: Globalization, the Nonmarket Environment and Corporate strategy, *Review of International Political Economy*, 9(3), 2002, 513-537.
- [22]. S.J. Kobrin, Is a Global Nonmarket Strategy Possible? Economic Integration in a Multipolar World Order, *Journal of World Business*, 50, 2015, 262-272.
- [23]. S.J. Kobrin, Private Political Authority and Public Responsibility: Transnational Politics, Transnational Firms and Human Rights, *Business Ethics Quarterly*, 19(03), 2009, 349-374.
- [24]. J. Doh, S. McGuire, and T. Ozaki, The Journal of World Business Special Issue: Global Governance and International Nonmarket Strategies: Introduction to the Special Issue, *Journal of World Business*, 50, 2015, 256-261.
- [25]. R. Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises* (New York, NY: Basic Books, 1971)
- [26]. N. Fagre and L.T. Wells, Bargaining Power of Multinationals and Host Governments, *Journal of International Business Studies*, 13(2), 1982, 9-23.
- [27]. S.J. Kobrin, Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries, *International Organization*, 41(4), 1987, 609-638.
- [28]. H. Teegen, J.P. Doh, and S. Vchani, The Importance of Nongovernmental Organizations (NGOs) in Global Governance and Value Creation: An International Business Research Agenda, *Journal of International Business Studies*, 35(6), 2004, 463-483.
- [29]. R. Lucea, How We see Them Versus How They see Themselves: A Cognitive Perspective of Firm-NGO Relationships, *Business & Society*, 49, 2010, 116-139.
- [30]. J. Boddewyn and J. Doh, Global Strategy and the Collaboration of MNEs, NGOs and Governments for the Provisioning of Collective Goods in Emerging Markets, *Global Strategy Journal*, 1(3-4), 2011, 345-361.
- [31]. A. McWilliams, D. Siegel, and P. Wright, Corporate Social Responsibility: Strategic Implications, *Journal of Management Studies*, 43(1), 2006, 1-18.
- [32]. D.P. Baron, Private Politics, Corporate Social Responsibility, and Integrated Strategy, *Journal of Economics and Management Strategy*, 10(1), 2001, 7-45.
- [33]. H.I. Ansoff, Strategic Issue Management, *Strategic Management Journal*, 1(2), 1980, 131-148.
- [34]. E.R. Freeman, *Strategic Management: A Stakeholder Approach* (Marshfield, MA: Pitman Publishing, 1984)
- [35]. T. Donaldson and L.E. Preston, The Stakeholder Theory of the Corporation – Concepts, Evidence, and Implications, *Academy of Management Review*, 20(1), 1995, 65-91.
- [36]. D.P. Baron, *Business and Its Environment* (Englewood Cliffs, NJ: Prentice Hall, 1996).
- [37]. B.W. Husted and D.B. Allen, *Corporate Social Strategy: Stakeholder Engagement and Competitive Advantage* (Cambridge: Cambridge University Press, 2011).
- [38]. J.F. Mahon, P.P.M.A.R. Heugens, and K. Lamertz, Social Networks and Nonmarket Strategy, *Journal of Public Affairs*, 4(2), 2004, 170-189.
- [39]. T.L. Friedman, *The World is Flat: A Brief History of the Twenty-First Century* (Farrar, Straus and Giroux, 2005).
- [40]. J. Smith, R. Pagnuco, and G.A. Lopez, Globalizing Human Rights: The Work of Transnational Human Rights NGOs in the 1990s, *Human Rights Quarterly*, 20(2), 1998, 379-412.

- [41]. E. Harris-Curtis, O. Marleyn, and O. Bakewell, The Implications for Northern NGOs of adopting Rights-Based Approaches, *International NGO Training and Research Centre*, 2005, Occasional Papers Series No: 41.
- [42]. M.M. Ahmad, The NGO Debate in 'Development', in M.C. Behera (Ed.), *Globalizing Rural Development: Competing Paradigms and Emerging Realities* (New Delhi: Sage, 2006).
- [43]. H.I. Ansoff, Strategic Issue Management, *Strategic Management Journal*, 1(2), 1980, 131-148.
- [44]. J.H. Kingdon, *Agendas, Alternatives and Public Policies* (New York, NY: Harper Collins, 1984)
- [45]. R.K. Mitchell, B.R. Agle, and D.J. Wood, Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts, *Academy of Management Review*, 22(4), 1997, 853-886.
- [46]. T.J. Rowley, Moving beyond Dyadic Ties: A Network Theory of Stakeholder Influences, *Academy of Management Review*, 22(4), 1997, 887-910.

Dr. Hyuk Kim "Assessing The Global Nonmarket Environment: The Political And Social Environment In The Global Business Environment." *International Journal of Business and Management Invention (IJBMI)* , vol. 07, no. 07, 2018, pp. 33-42.