Balancing Social and Political Strategies in Emerging Markets: Evidence from India

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Abstract

This article explores the substitution and complementary effects between political and social strategies on firm performance in the context of an emerging market (EM). Using in-depth, historical case-study approach, the article investigates how companies integrate political and social resources in this market. Corporate performance includes traditional measures such as accounting performance and nonfinancial measures like the ease of doing business. The study finds that social strategies are stronger enablers of firm long-term performance than political strategies. The latter have a short-term impact on performance, but their success over time is limited. The main drawback of reliance on political resources in EMs is the lack of political stability, fragmented polity, and weak political coalitions. We identify rather limited evidence of firms using these two strategies as complements. Thus, we suggest that firms should employ both these strategies in the EM.

Keywords

political strategies, social strategies, non-market strategies, emerging market, India.

Running Title

Political and social strategies in emerging markets

Introduction

In this article, we examine the impact of political and social strategies on firm performance in the contex of emerging markets (EMs)- utilizing the context of one of the largest emerging market of India. Recently, there has been an increasing interest in understanding the drivers and outcomes of political and social strategies (e.g., Frynas & Stephens, 2015; Frynas et al., 2017; Mellahi et al., 2016). Political strategies consist of engagement with policymakers, targeting these stakeholders via constituency building, sharing information and financial resources (Hillman and Wan, 2005). Social strategies include activities directed towards ethical management and responsible engagement with the business context (Clarkson, 1995, Gupta et al., 2017; Li et al., 2018).

Given the growing interest in this topic (cf. Holtbrügge et al., 2007, Mellahi et al., 2016; Puck et al., 2013), scholarly investigations in this area are relatively underdeveloped and fragmented. Most of the studies on political strategies (Lawton et al., 2013) and social strategies (Aguinis & Glavas, 2012) are conducted in isolation and scholars have called for the integration of these two strands of research (McWilliams et al., 2002, Frynas & Stephens, 2015; Mellahi et al., 2016). The current lack of integration of political and social strategies research means that there is limited understanding of complementary or substitution effects between the political and social strategies (cf. Leidong et al., 2017; Mellahi et al., 2016). In the context of EMs, extant literature has examined the different types of political and social strategies used by foreign companies in those markets, mainly focusing on the determinants of such strategies rather than on the outcomes (Meznar & Nigh, 1995, Oliver & Holzinger, 2008, Hillman & Hitt, 1999, Hillman et al., 2004). Oliver and Holzinger (2008) highlight how non-market strategies rather than market ones can be sources of firm competitive advantage. The implementation of political strategies can impact firm outcomes. For example, it can achieve favourable legislative decisions (Lord, 2000), generate higher market capitalisation (Hillman, 2005), improve the firm value in stock markets (Goldman et al., 2009), lead to enhanced financial performance (Shaffer et al., 2000), and decrease business risk (Puck et al., 2013). Yet, there is limited work exploring the links between socio-political strategies and their influence on firm performance in EMs (e.g., Leidong et al., 2017; Frynas & Stephens, 2015; Hadani & Coombes, 2015).

Though above and several other studies have provided important insights into the antecedents of political and social strategies (cf.., Frynas et al., 2017; Mellahi et al., 2016), however, majority of the work has been conducted in developed markets and scholars have called for more research in the context of EMs where formal institutions are still evolving (e.g., Hadani & Coombes, 2015; Lawton et al., 2013; Doh et al., 2012; Jamali et al., 2017). Besides this, studies are also rare which have simultaneously examined the political and social strategies undertaken by MNEs and domestic firms and the outcome of such strategies in EMs context (e.g., Liedong et al., 2017). Thus, it is imperative to investigate both foreign and domestic firms to develop a fine-grained view of their chosen political and social strategies and better understand whether these strategies have a different impact on the performance of foreign vis-a-vis domestic firms (Scherer et al., 2014, Frynas & Stephens, 2015).

Political and social strategies can be particularly important in EMs since these markets suffer from institutional voids (cf. Khanna et al., 2005). Though multinational enterprises (MNEs) from developed countries have been investing in emerging markets (EMs) for over a couple of centuries, systematic and strategic investment in these EMs has been largely driven by their notable economic growth and development. Though EMs have experienced rapid economic development, their institutional systems are still widely underdeveloped (Shirodkar and Mohr, 2015). Accordingly, these institutional limitations, called “institutional voids” (Khanna et al., 2005), create unpredictable “non-market” environment for foreign firms elucidating high socio-political risks. Hence, foreign firms adopt different types of strategy and ownership structures, which are favourable in EM contexts (Contractor et al., 2014).

MNEs operating in EM also need to strategically shape their interaction with non-market actors, including non-governmental organizations (NGOs), to establish legitimacy (Shaffer & Hillman, 2000, Bansal &Hunter, 2003, Reimann et al., 2012). This also helps them influence government officials (Doh, Lawton, Rajwani & Paroutis, 2014; Lawton, Doh, & Rajwani, 2014). At the same time, domestic firms need to articulate their strategies so that they can develop strategies in response to local institutional voids as well as compete with MNEs that might have superior products and services (Guillen, 2000). Domestic firms might have superior information on local issues by their virtue of access to local knowledge and better alignment with domestic challenges. Whereas a growing stream of research has argued that social strategies are institutionally bound (Jamali & Karam, 2016; Frynas & Yamahaki, 2016; Jamali & Neville, 2011; Jamali et al., 2017), there is sparse research on how firms engage in socio-political activities to manage their operations in EMs. Moreover, knowledge about the comparative difference between the socio-political activities of EM and developed market firms is limited (Jamali & Carroll, 2017).

When multinational enterprises (MNEs) invest in EMs where public governance systems are weak, they are stepping in to fill governance voids, and are increasingly adopting both political and corporate social responsibility (CSR) strategies (Scherer and Palazzo, 2011; Teegen et al., 2004). Research indicates that MNEs engage in political and social strategies in host markets to develop institutional legitimacy that can help them improve their performance (McWilliams et al., 2006, Khan et al., 2015).

Based on the above discussion, we address the following three interrelated research questions: (1) Do political and social strategies have an impact on corporate performance? (2) Are there substitution and complementary effects between political and social strategies? and (3) Do political and social strategies impact vary in the short and long-term? To examine these research questions, we integrate institutional theory (Kostova & Zaheer, 1999; Kostova & Roth, 2002, North, 1990) with the literature on political and social strategies (cf. Mellahi et al., 2016). Institutional theorists have shown that compliance with institutional pressures, including social and political issues, leads to performance and survival benefits (Bansal & Roth, 2000; Baum & Oliver, 1991; Deephouse, 1996; Suchman, 1995). Since transaction costs arise due to weak and incomplete institutions in EMs, firms may transform and capture the institutions through corporate political activities in order to develop competitive advantage (Dorobantu, Kaul & Zelner, 2017; Doh et al., 2012). This aspect is rarely captured by the existing non-market strategy studies thus our study provides important insights to the current literature on this topic.

Using the longitudinal case-study approach, this research takes a process view on integration and sustenance of non-market strategies. We find that in the long run social strategies undertaken in EMs place firms in a much better position to improve performance and establish legitimacy compared to political strategies. Political strategies may have a short-term impact on improving firm performance. Hence, firms need to adjust these strategies carefully by examining the short vs. long-term performance and legitimacy trade-off, particularly in the context of EMs.

We make three key contributions to the discourse on political and social strategies in EMs. First, we integrate the fragmented research on political and social strategies and provide a more fine-grained view on their adoption in EMs. Second, we examine both political and social strategies together and the complementary and substitutions effects of these strategies. Third, we provide contextually bound rich insights from one of the key big emerging markets – India (e.g., Scherer et al., 2014) thus add to the limited research which has examined both these strategies in EMs.

Conceptual Background and Propositions

Institutional Basis for Political and Social Strategies

Institutions have been defined as “the humanly devised constraints that structure human interaction” (North, 1990: 3), and include both formal aspects such as rules and laws, as well as more informal aspects such as cultural norms. Institutions have also been identified with a regulative, normative, and cultural-cognitive pillar (Scott, 1995, 2008). The regulative pillar relates to formal rules-based systems such as laws and government enforced regulations on businesses (North, 1990, Scott, 1995). Regulative institutional enforcement mechanisms require that firms should comply with social norms and report their strategic social initiatives transparently and openly to the public (Campbell, 2007, Kostova & Roth, 2002, Doh & Guay, 2006). For example, firms in India are now required to spend around 2% of their profit on CSR initiatives. On the other hand, normative and cognitive rules are embedded in the individuals and groups within a country and might be hard for firms to interpret (Demirbag, Glaister & Tatoglu, 2007). In the context of EMs, these pillars have been identified as being different from those observed in the developed countries (Demirbag et al., 2007). Scholars have argued that due to lack of or weak regulative pillar, norms and cultural mechanisms play a greater role in managing business activities in EMs (Perez-Batres, Miller & Pisani, 2010, Peng, 2003).

Having said that, the impact of both political and social strategies on firm performance is not clear (cf. Hadani and Coombes, 2015; Mellahi et al., 2016), and both strategies have been hardly investigated together, especially in the context EMs. Scholars note that institutions effect the political and social strategies adopted by MNEs in host markets, especially in EM contexts (e.g., Doh & Guay, 2006; Jamali, 2010; Jamali & Karam, 2016; Khan et al., 2015). MNEs may face a challenge when it comes to adjusting both political and social strategies in those contexts as these markets encounter institutional voids which put additional pressures on MNEs to adopt balancing strategies (e.g., Khanna & Palepu, 1997, 2010).

Scholars have indicated that firms conform to local institutional environments of host nations to establish legitimacy (Kostova & Zaheer, 1999). This implies that firms align their political and social strategies, considering the formal and informal institutions in host markets (Kostova & Zaheer, 1999; Khan et al., 2015). For instance, Meznar and Nigh (1995) highlight how CSR strategies have been used by American companies to buffer social environment and generate strategies which address the needs and concerns of the social constituents of these firms. Recent studies have also looked at domestic firm activities and related these to political and social strategies (Li et al., 2018).

In the case of EMs, formal institutions are in a state of flux, emerging and evolving, as these markets are moving away from command-based to market-oriented arrangements. Consequntly, in order to fully capture the political and social strategies of firms in EMs, integrating both formal and informal institutions is important (Husted & Allen, 2006; Khanna et al., 2005).

Below we explore political and social strategies of MNEs in EMs along with the role of institutions in order to provide the conceptual foundations for the empirical part of the article.

Political and Social Strategies in Emerging Economies

Emerging markets present a unique set of political and social strategy challenges for firms (Visser, 2008; Khan et al., 2015; Jamali et al., 2017), as these markets are characterized by institutional voids and difficulties that the state faces in solving complex societal problems (Khanna & Palepu, 1997, 2010). As a result, firms might adopt a different set of political and social strategies to establish legitimacy in such markets (Bansal & Hunter, 2003, Chapple & Moon, 2005; Gao & Hafsi, 2017). For example, Chapple and Moon (2005) have noted variations of social strategies being adopted by firms in the EMs of Asia.

The regulatory uncertainties and institutional distance affect the political strategies of MNEs, and in the Chinese context, firms tend to actively engage in political strategies when regulatory uncertainties are high (Mondejar &Zhao, 2013). Other studies on political connections in China have shown that political connections are not always fruitful, especially in the long run (Li et al., 2008), and some evidence suggests a link between corruption in EMs and the adoption of political strategies (Lawton et al., 2013). Moreover, regime change can have an enormous impact on the political capital and social strategies adopted by firms. In the case of Indonesia, for example, political relationship with politicians who were part of the Suharto regime became a liability for firms in the post-Suharto years (Dieleman & Boddewyn, 2012).

Against this backdrop, the role of institutions is imperative in influencing firm behaviour and choice in adopting political over social strategies or vice versa strategies in host markets (Hamann, 2006; Ahuja & Yayavaram, 2011; Marquis & Raynard, 2015). The more widely used corporate political strategies (CPS) framework was provided by Hillman and Hitt (1999) and Hillman et al. (2004). They argue that as political environment becomes more complex and influential, companies that engage in strategic political strategies are more likely to build their competitive advantage than firms that are less engaged or politically inert (Rajwani & Liedong, 2015). This is especially pertinent for EMs where the political environment is relatively unstable and dynamic when compared to developed countries. Hillman and Hitt (1999) presented a political strategy typology which consisted of three strategies – information-based, financial incentive, and constituency building. In their study, Shirodkar and Mohr (2015) have found that the choices of foreign firms are driven by the tangible and intangible nature of resources. Their study examined the strategy of 105 foreign subsidiaries in India and found that foreign firms' dependence on local intangible resources impelled them to use information-based political strategies, whereas, the dependence on local tangible resources implied less use of information-based political strategies. At the same time, when firms depended on both tangible and intangible assets, they were more likely to use the constituency building strategy.

Research indicates that political connections influence firms' adoption of political and social strategies in host markets (Rajwani & Liedong, 2015). Some studies have also noted that political connections impact positively MNEs' responses to pressures regarding CSR practices in EMs (Marquis & Qian, 2014). However, we have a limited understanding of whether political and social strategies impact firm performance differently (Rajwani & Liedong, 2015). The nature of regulative pressures would also influence whether firms will adopt substantive or symbolic political and social strategies (Marquis and Qian, 2014). By responding to the regulative pressures and adopting political and social strategies, firms will develop local legitimacy (Kostova & Zaheer, 1999, Reimann et al., 2012, Gifford et al., 2010). This also suggests that the regulative pressure determines the extent to which firms will pursue political and social strategies (Husted & Allen, 2006). Firms in EMs may influence formal institutions through corporate political strategies to manage socio-political risks (Jimenez, 2010; Sun et al., 2010; Doh et al., 2012).

The weak regulative institutional environment, which is prevalent in EMs (Khanna & Palepu, 1997, 2010), may force firms to adopt symbolic instead of substantive social strategies due to the ineffectiveness of the government to enforce rules and laws (Husted & Allen, 2006, Marquis & Qian, 2014). Due to institutional voids, governments in these countries have often come under criticism for providing favours and unnecessary incentives and turning their countries into pollution heavens to attract foreign investment (Campbell, 2007, Javorcik & Wei, 2004). Under these circumstances, firms may interpret and comply with rules and laws differently in EMs, while implementing political and social strategies compared to firms based in developed markets where the formal institutions are mature (Marquis et al., 2007; Marquis & Raynard, 2015). Echoing these concerns, Campbell (2007: 954) notes that, under weak regulations, corporations "seek to control or otherwise capture regulators in ways that bend them towards the will of the corporations they are supposed to oversee."

The normative institutions include set of guidelines and norms determining what is right to do (Marquis et al., 2007) in the host market context. Firms will adopt social strategies to conform to the established social norms (Campbell, 2007, Doh & Guay, 2006, Reimann et al., 2012; Jamali et al., 2017) and achieve higher corporate performance (López, Garcia & Rodriguez, 2007). In markets where the regulative institutional pillar is weak, we may observe firms choosing both social and political strategies to enhance their performance (Frynas & Stephens, 2015; Khan et al., 2015). The cognitive institutional element consists of the social beliefs and values that guide behaviour in a social context. The prevalent culture in a society will determine the extent to which firms based in such markets will adopt political and social strategies (Reimann et al., 2012, Campbell, 2007). Firms responding to these cognitive pressures will adopt social strategies that align with societal expectation and culture (Agarwal et al., 2017). For example, the existing political and social responsibility literature highlights that firms are acting independently, as well as aligning with multiple stakeholders such as NGOs, and are undertaking activities such as public health, education, social security and human rights protection in order to address local governments' failure to address these societal problems (Mena and Palazzo, 2012, Van Huijstee and Glasbergen, 2010, Scherer & Palazzo, 2011).

Research suggests that companies that engage with political strategies are in a better position to improve their performance and competitive advantage compared to those that do not or are less engaged in such strategies (e.g., Hillman & Hitt, 2009; Hillman et al., 2004; Rajwani & Liedong, 2015). For instance, scholars have noted that adoption of political strategies can improve firm performance in a number of ways, such as achieving favourable legislative decisions (Lord, 2000), generating higher market capitalisation (Hillman, 2005) or better stock value (Goldman et al., 2009), improving their financial performance (Shaffer et al., 2000), as well lowering business risk in the host market (Puck et al., 2013). However, there are limited studies that have examined the effectiveness of corporate political and social responsibility activities in different contexts, including those of EMs (e.g., Lawton et al., 2013; Doh et al., 2012), which in this study we endeavour to unpack.

Since most of the formal institutions are still weak in EMs (Shirodkar & Mohr, 2015), the performance gains from political strategies might be short-term, as informal institutional pressure will force firms to adopt strategic social strategies, and the legitimacy gained through these strategies will enhance the long-term performance of the firms (Husted & Allen, 2006; Gao & Hafsi, 2017). This discussion suggests that we may observe a varying impact of political and social strategies on firm performance, as it depends on the institutional context.

Based on the above discussion, we suggest that:

In EMs, firms adopting political strategies will materialize short-term performance gains compared to firms adopting social strategies. Secondly, we argue that in EMs, firms adopting social strategies conforming to the normative and cultural cognitive institutional pillars will achieve higher long-term performance compared with firms adopting political strategies only. Moreover, in EM due to political fragmentation and the lack of institutional stability, firms using political strategies will experience adverse effects of these strategies on their long-term corporate performance. The conceptual model based on our literature review is shown in Figure 1.

(Insert Figure 1 here)

Research Context and Methodology

Research context

The Indian EM context is an ideal setting for this study because of its highly dynamic political and social environment (Shirodkar & Mohr, 2015). The government is still a major stakeholder in the business landscape. The collective interests of Indian firms are represented by the Federation of the Indian Chambers of Commerce and Industry (FICCI), whereas, those of foreign firms are represented by the Associated Chambers of Commerce (Assocham) (Kochanek, 1996). In addition, Indian NGOs are relatively free and independent of governmental control and provide oversight for the civil society with regards to corporate activities in India, including corporate fraud, industrial misappropriation or misuse of natural resources. Indian NGOs work with or alongside international NGOs to build people's agency and activism in Indian grassroots (Kapoor, 2005). Overall, these arguments suggest that India is an interesting setting for investigating the balancing role of non-market strategies on corporate performance.

Research methodology

The historical analysis method is widely used in historical studies to gain a better understanding of a social phenomenon and has been increasingly used in longitudinal research in international business (Birkinshaw, Brannen & Tung, 2011; Burgelman, 2011, Kotabe & Kothari, 2016). Longitudinal case studies are principally suitable for handling "why" and "how" research questions to theorize about the causal mechanism (Langley, 1999, Yin, 2008), and in this paper we focus principally on the relationship between the key elements in our study, namely, the non-market strategies and firm performance.

This methodology is also suited for understanding the nuances of why particular processes occur under a specific set of circumstances. To achieve these objectives of locating atypical or interesting examples, which help researchers understand the processes being studied, Eisenhardt (1989) suggests using extreme cases, whereas, Yin (2008) recommends the use of revelatory cases. These two methods are suggested as they help identify the phenomenon of interest more transparently. Thus, the study of non-market strategies in EM requires a historical analysis of data from various sources and the examination of a complex and latent institutional context present in the home and host markets.

We chose a multiple-case historical analysis approach as our research design as having multiple cases provides a better feel for diversity of strategies and can lead to future generalizations from our research (Marschan-Piekkari & Welch, 2004; Piekkari, Welch & Paavilainen 2009). Using multiple case studies allows us to explore the phenomenon through the use of replication strategy and is akin to conducting some independent experiments on the same issue (Eisenhardt & Graebner, 2007). In this study, we carried out an in-depth analysis of twelve events involving six Indian and six foreign companies operating in India. Eisenhardt (1989) suggests that an optimal number of cases must be above four and below ten. As we are looking at two different types of home countries (developed and emerging-market), we chose six cases for each type of home country context.

Data collection

The study adopted a purposive sampling technique to identify the suitable cases (Krippedorff, 2004). The key benefit of purposive sampling is the development of information-rich cases for in-depth analysis. Before the selection of these twelve cases, on original list of cases was created by working with a team of four participants not involved in this project. This team consisted of two industry consultants and two academics with a history of research in the Indian context. Each of these participants was asked to create a list of events involving domestic and foreign firms in India which presented a key challenge to the firm and demonstrated their use of non-market strategies. The case selection had to follow two other underlying criteria – 1) each event had to have had significant coverage in the popular trade press, 2) to allow triangulation between the material in the press and on company websites, as we expected these events to be also reported in company reports or websites.

Once we had the individual list of these independent participants, we compiled a cumulative list of cases. At this stage, the inter-rater reliability score using Cohen’s kappa was 0.7 (Fleiss, 1981). Following this process, a total of 23 cases were identified for Indian companies (23 cases involving 15 unique Indian companies) and 11 cases for foreign companies operating in India (11 cases involving nine unique foreign companies). Next, we asked these four independent participants to rank the events in order of their complexity and impact on firms' operations. The comparison in the ranking of events yielded an inter-rater reliability score with Cohen's kappa of 0.95 for the top six cases for Indian companies and top six cases for foreign firms.

Though some of the political and social strategies are likely to be hidden from the public domain, many of the discussions on political and social strategies of the foreign and domestic companies are also available on social media and online newspapers. Qualitative structured content analysis (Jauch et al., 1980; Gaur & Kumar, 2018) methodology was identified as the best method to analyze the data. It is a systematic and replicable technique used to abridge textual material into fewer content categories based on clear and well-defined rules of coding. According to Krippendorff (2012), six questions must be addressed in research that uses content analysis – Which data are analysed? How are they defined? What is the population from which they are drawn? What is the context relative to which the data are analysed? What are the boundaries of the analyses? What is the target of the inferences? We believe that the context of this research and the chosen cases are relevant to the phenomenon under evaluation and address these six questions effectively.

This qualitative data collection methodology resulted in a completely new data set with information on the political and social strategies of the case companies and few of their performance measures. The coding of the dataset was performed by two of the authors, who have a considerable amount of training and experience in content analysis and understand the Indian context. To further enhance the robustness of our analysis, we availed the help of two academics in strategic management with experience of EM research to separately recode a sample of our cases. We observed that inter-rater reliability score using Cohen's kappa was 0.95 for the two co-authors' coding and 0.80 for the two academics in strategic management. The overall inter-rater reliability score using Cohen's kappa was 0.85 for coding by the independent academics and co-authors. Given the high inter-rater reliability scores, we were satisfied with the reliability of the coding process adopted in this project.

To further understand the non-market strategies adopted by firms we used interviews to triangulate the information. We interviewed three Indian consultants working for foreign companies in India who were aware of the twelve cases discussed below and used the material from these interviews to further strengthen our analysis. The case-study approach also provides an opportunity to examine the less visible processes from multiple points of view (Yin, 2008, Eisenhardt, 1989, Corbin & Strauss, 1990).

Data analysis

Table 1 presents the selected cases. The final sample reflects both the diversity of challenges in the Indian business context as well as the novel social and political strategies adopted by the Indian and foreign firms in India. For example, we used the case study of Microsoft and how it provides technology-enabled products for social and economic development (Mehta and Kalra, 2006). We also included a case study of Unitech which was accused of corruption in obtaining licenses in the telecommunication sector (Shirodkar & Mohr, 2015).

López et al. (2007) suggest that the long-term effects of CSR activities were observed only after four years of implementation of CSR strategies. Their study was over a seven-year period and focused on European firms. For this research, we define short-term as effects observed in 0-59 months and long-term effects are those observed over five years. For example, if a firm implements a political strategy, we examine the effect over the first 59 months and classify it as a short-term effect, and next, we determine if this effect persists or changes over the following years and this translates into long-term effect. In the India, five-year policy-making and electoral terms apply and they are an appropriate way to examine the effects of corporate policies and strategies in this context (George et al., 2014).

We examine textual data for the three political strategies in our cases – information-based, financial incentive, and constituency building (Shirodkar & Mohr, 2015), which have been identified in previous studies. Their success varied across the firms and the context in which they were used (Rajwani & Liedong, 2015; Doh et al., 2012). In terms of social strategies, we identify the following two strategies: philanthropy (including those involving civil society) and sustainability.

Extant literature has used several different measures for performance, for example, Gómez,Bezares, Przychodzen & Przychodzen (2017) examine the impact of CSR activities on financial performance. Similarly, Ferreira (2017) observed that CSR activities influenced the financial performance of organizations. Relationship between CSR activities and mutual wellbeing of MNE and host market has been also widely examined in the EM context (Forcadell & Aracil, 2017). In this research, we identify the links between performance and socio-political activities based on material from secondary sources. We use the following four measures for performance – favourable (or unfavourable) legislative decision, lower (or higher) business risk, market share improvement (or decrease), and brand image improvement (or decrease). We examine the text to identify clear links between the strategy adopted and performance. For example, in order to be included in our study, we would expect to find clear mention of strategy and subsequent performance detail in the newspaper article or corporate literature such as company annual reports. We have discussed some of the examples in our findings section.

(Insert table 1 here)

Findings

Impact of political and social strategies on short-term corporate performance

Firms engage in various types of political strategy in India, and these choices depend on the activities of the companies. Enron, for example, actively engaged with the government and bureaucracy when it entered India's power sector. It used information-based and financial incentives to engage with Indian regulators and politicians. Following the decision of the Indian regulators to open the power sector to foreign investment, India was expected to get over 10,000MW of new generating capacity between 1991 and 2000. In reality, only

2,000MW of capacity was installed (Rufín et al., 2003). Much of the issues centered on bureaucracy and coordination, and Enron did face some of these issues during its initial days in India. It decided to work actively with the Indian government using financial incentive mechanism, both at the level of the firm as well as the US government in order to generate positive outcomes of its activities in India (Doh & Ramamurti, 2003). Yet, as the Energy Review Committee states, "The Committee has prima facie found infirmities in several decisions taken in respect of the Enron project at different points of time by successive governments and agencies in the Centre and state" (Energy Review Committee, 2001). In addition, some politicians have pointed out that "If the Enron decision has at all been detrimental, it is because of the haste with which phase 2 was cleared by the Shiv Sena-BJP (state) government. Now with the state having already entered into an agreement with Enron, the important thing is to resolve it amicably. A judicial inquiry will be an eyewash because it's not an issue of corruption but that of perception" (Outlook, 2001).

We observe similar political strategies (information-based, financial incentive) by Monsanto, who worked directly with government and agricultural organizations in introducing genetically modified seeds rather than engaging in constituency building with local farmers. In the short-term, Monsanto was able to sell its seeds across India and generate positive outcomes from its investment (London and Hart, 2004, Stone, 2004). Neither Monsanto nor Enron engaged in social strategies to build legitimacy, and Enron took a rather confrontationist stance towards some of the oppositions it faced from local NGOs. As one report states "Corporations are overhyping 'golden' rice to pave the way for global approval of other more profitable genetically engineered crops" (Hindu, 2016). This was seen as corporate greed rather than a focus on local development and protection of domestic biodiversity.

Tata Motors adopted political strategies, mostly information-based and financial incentives, which involved working directly with the state government in India and had limited engagement with other local stakeholders. Tata Motors was induced to move from its previous location, Pantnagar, Uttarakhand to Singur near Kolkata by the favourable policies of the new government of West Bengal (Chandra, 2008). The state government engaged in these pro-business policies as it wanted to attract further investment into this relatively under-invested state in India. This meant that, in the short-term, Tata Motors was able to acquire land and licenses for the operational purpose of the state government. The implications of this quick access meant that Tata Motors was able to establish its initial operations pretty quickly.

On the other hand, companies like Unilever's Indian subsidiary, Hindustan Lever Limited, proactively engaged in social strategies. Its philanthropic activities centered on creating sustainable and healthy living standards for Indian consumers (London and Hart, 2004). The South Korean firms like LG Electronics were engaged in creating and applying sustainable practices in the Indian context (Han and Gundimeda, 2013). Instead of adopting top-down approaches, these South Korean companies worked with local stakeholders to create context-specific products and delivery models. Most of these activities were geared towards long-term economic and social development (Varadarajan & Kaul, 2017), and in the short-term, did not generate considerable tangible returns for these firms. This strategy in foreign markets is entirely different from the MNEs' home country strategy where they seem to focus on short-termism (Kim et al., 2013). For example, Narsalay et al. (2012) mention in the case of Unilever that "Accordingly, financial targets – for example, profit growth – were not considered important metrics during this phase. Instead, the company examined three-to-six-month targets on sales volume and the number of villages where the project was operational."

Impact of political and social strategies on long-term corporate performance

In the long run, our cases show that political strategies are highly risky for firms. The uncertainty in the political systems of EMs coupled with institutional voids can greatly affect the outcomes of the employed political strategies (Khanna et al., 2005). This is especially true with regime changes and political-bureaucracy nexus. Data from our cases show that once the project in India was mired in controversies, Enron used political strategies once again to counteract its losses, yet these political strategies were counterproductive to its claims of fairness towards its disputes. For example, an article in BBC (2001) states that “In a veiled threat, the energy giant Enron has raised the specter of US sanctions against India in its dispute over the $2.9bn Dabhol power plant project.” These activities by Enron diluted the constituency building and the legitimacy its earlier activities had generated and had adverse effects on the company’s corporate performance in India. Consequently, it was forced to withdraw its investment from India (Doh & Ramamurti, 2003).

Tata Motors was granted land without a great deal of scrutiny by the state government (Chandra, 2008). It turned out that the state government had allocated a highly fertile region of Singur for this industrial activity and when in later stages the state government faced opposition from the farmers, it further blundered in forcefully acquiring the land. Though the law applied as the Land Acquisition Act gave governments right to acquire land, in this case, it was heavily disputed by local farmers and NGOs. The state government forced those farmers unwilling to sell their land to surrender it for a very low price. This dispute caused Tata Motors to finally exit the state and set up operations in another Indian state. Even though it can be argued that domestic firms have a greater understanding of the domestic context, as this case demonstrates, it is not always the case, especially in big and regionally diverse EMs such as the Indian one. Therefore, domestic companies can face as much opposition to their actions as foreign firms.

Unilever’s Indian subsidiary’s social strategies involving philanthropic and sustainability activities, bore fruits in the long-term as they created an eco-system of micro-entrepreneurs who waere embedded in the ethos of Unilever’s business. These micro-entrepreneurs, called as Project Shakti Entrepreneurs, were the backbone of the system (Neath and Sharma, 2008). Interestingly, 95% of these entrepreneurs were women, and three out of four ended up crossing the poverty line. These projects had a positive impact on Unilever's corporate performance. For example, Unilever (2005) press release on their CSR activities highlights the importance of this strategy in India which also had a long-term impact on the creation of women micro-entrepreneurs. It mentions that "Andhra Pradesh typically had a 3% success rate in creating entrepreneurs among women self-help groups before Project Shakti. This initiative has a 90% success rate". Regarding financial gains, the press release also says, "The project started in a few pilot villages in Andhra Pradesh in 2000. In 2002, it expanded to two states and by the end of 2004 had grown to over 13,000 Shakti women entrepreneurs covering 50,000 villages in 12 states, selling to 70 million consumers. This represents a 30% increase in rural population reached". According to Rangan and Rajan (2005), "Project Shakti's turnover in 2004 was four-and-a-half times its turnover in 2003."

Linking political and social strategies to corporate performance

We find evidence for the three political strategies in our cases – information-based, financial incentive, and constituency building (Shirodkar & Mohr, 2015). For example, when firms used the information-based and financial incentive to circumvent the process of constituency building (Enron, Monsanto, Tata Motors), the legitimacy of the political strategies was greatly reduced, and in the long-run, had a negative effect on corporate performance.

We also find evidence for two social strategies used by our firms, namely, philanthropy (including those involving civil society) and sustainability. Firms like Unilever used philanthropic activities such as Project Shakti Entrepreneurs that were primarily directed towards social and economic development. In the long-term they also led to higher profits and market share for the company. Thus, these strategies positively affected the corporate performance in the long run. Similarly, firms like LG Electronics were inclined towards sustainability and philanthropy, and though in the short-term these did not seem to have much effect on profitability and legitimacy, in the long-term, LG Electronics was able to learn from the Indian context and develop products suited to the local needs and uses. Immelt et al.

(2009) found a similar case in GE Healthcare, which developed a cheaper ECG for Indian markets, delivering philanthropic as well as sustainability value while creating a new market for their products.

To summarize, these non-market strategies have differing effects on corporate performance. In the short-term, political strategies are likely to have a more positive effect on corporate performance compared to social strategies. In the long-term, political strategies might have a negative effect on corporate performance, in case they collide or fall astray from social needs. We also found limited evidence of firms using the two strategies as complementary as they typically prefer one strategy over the other. The findings are presented in Table 2 and Figure 2.

(Insert Figure 2 and Table 2 here)

Discussions and Conclusions

Scholars from different research domains have been keen to understand why firms engage in non-market strategies in host countries and what the impact of these strategies on firm performance are (Scherer & Palazzo, 2011, Frynas & Stephens, 2015; Gao & Hafsi, 2017). This paper aimed to examine how firms operating in EMs achieve a balance when adopting social and political non-market strategies. We applied a historical case study method to understand how firms would adopt social and political strategies to improve their performance in an EM context.

The results indicate that political resources can have a short-term positive impact on corporate performance, but their success over time is limited. The political engagement with local politicians was beneficial for Enron to negotiate a profitable deal for their investment but in the long-term, the political relationship was cast as highly irregular. Aqueveque, Rodrigo and Duran (2018) have argued for the role of CSR activities in highly contentious industries and this is equally true in the case of EMs where issues such as energy security and pricing can prevail. This led Enron to accumulate losses and exit India (Doh & Ramamurti, 2003, Kumar, 2004). This level of scrutiny is not limited to foreign firms as even domestic firms can come under a great deal of pressure to explain their political strategies. Their corporate performance may be negatively affected due to the adverse effect of relationships with political stakeholders.

As seen in the case of Unitech, corruption and financial incentives to political parties can be detrimental to firm performance (Shirodkar & Mohr, 2015). Given the uncertainty in the EM business environment, many of these political engagements can be outsourced to consultants and firms can maintain an arms-length relationship with political stakeholders. Though in the past, it has been suggested that firms should conduct their political issues management in-house rather than outsource it (Kaufman et al., 1989), studies also suggest that such a proposition does not take into account the variability in structural issues (Greening & Gray, 1994). We argue that in the context of EMs with a high degree of political uncertainties, it is beneficial to maintain these activities as extra-mural rather than integrate them into firms' core capabilities. The major drawback of reliance on political resources by firms operating in EMs is the lack of political stability and fragmented polity.

On the contrary, social strategies are better enablers of long-term positive corporate performance as compared to political strategies. We observed that though in the short-term social strategies do not necessarily have a direct positive impact on corporate performance, in the long-term, such strategies have a positive effect. For example, the South Korean companies invest heavily in social strategies while developing their entry strategy in EMs (Han & Gundimeda, 2013). LG Electronics was keen to develop social strategies which were rooted in the requirements of the local population rather than to adopt a top-down approach to social strategies. They also worked with their employees to develop social strategies, which were beneficial to the local society. For example, 200 LG Electronics employees participated in an initiative to clean the river in New Delhi and staged a play to highlight the issues of water pollution in India (Mukherjee, 2010). This also kept the attrition low and improved corporate performance by engendering collaborative work environment.

We found limited evidence of firms using these two strategies simultaneously as firms typically adopted one strategy. Enron, for example, did not engage in social strategies and was entirely focused on developing strong ties with political stakeholders. It did not understand the implications of not engaging with NGOs that were actively working to have the project stopped due to Enron's financial incentive driven approach to political strategy (Doh & Ramamurti, 2003). Similarly, there is little evidence that LG Electronics, which were engaged in social strategies, had an active political strategy in India (Han & Gundimeda, 2013). While these results might indicate that firms usually define the boundaries of their non-market strategies, we argue that instead they need to think about strategic ambiguity and employ strategies to unify diverse stakeholders (Scandelius & Cohen, 2016).

There are two possible explanations for these observations, one; it is possible that different industries may be prone to different engagement with political stakeholders. Some industries, e.g. infrastructure sectors (energy, dams, and transportation) might require much closer engagement with politicians. This is possibly due to the higher investment risk and may also be triggered by the government being the primary customer. In the latter case, it is plausible to argue that while trying to meet the demands of the government as a client, firms may also seek support and assistance from the government in the hope to co-create value. Two, in the case of foreign firms, it might be the case of country-of-origin effect, e.g., US companies are used to lobbying for benefits from the government. Though lacking in nuance, some American companies might engage in political strategies without analysing the long-term impact of their activities. Some authors examining Japanese MNEs have found out that firms' engagement in EMs will very much depend on the political hazards that the firms may face in these markets (Delios & Henisz, 2000).

The main limitation of this paper is that we have relied on few case studies to develop our conceptual model. We chose extreme cases of MNEs operating in the Indian context, which are relevant to the purpose of this research. The results might be somewhat different for medium – or small-sized foreign and domestic firms who engage only notionally with both social and political strategies. We also do not detect major differences in the social strategies of domestic and foreign MNEs, potentially indicating that firms employ global CSR practices. In the case of political strategies, we do not find major differences between those adopted by domestic and foreign MNEs, although there might be some more tacit nuanced diversity. This could potentially indicate that non-market strategies are very much context-dependent. This may well suggest that normative and cultural-cognitive institutions do indeed inform non-market strategies to a great extent. The case-study approach might not generate generalizable results so we suggest that future studies should conduct longitudinal and large scale surveys across EMs.

In terms of the role of institutions in EMs, we have aligned with previous research suggesting that MNE activities are greatly influenced by the institutional system in these markets (Marinova, Child & Marinov, 2012), but we also suggest that firms acting as institutional entrepreneurs in these contexts can shape institutions (Kostova et al, 2008; Clegg, 2010) . We acknowledge that the conceptual model in this paper does not demonstrate this agency on the part of the firms and we suggest that further research is required in this area to examine the role of agency in firms' socio-political activities.

India is a big emerging market, but it may well differ from other EMs. For example, in Russia, which is known for the high degree of government regulation over domestic and foreign investors, especially in selected economic sectors it may well be that if companies do not have political and social capital, their operations would either be rather difficult or impossible irrespective of the change of governments. It is possible that our argument is valid for countries in which the relationship between business and institutional entrepreneurship (with the government being the critical institutional actor) is in favour of business entrepreneurship. Thus, future studies could potentially conduct comparative studies across different industries by examining cases from multiple EMs. Lastly, we do not test the effect of home country on the strategies adopted by these firms. It is plausible to suggest that home country effects might be driving some of the observations noted in this paper (Delios & Heinsz, 2000), which is highly likely considering differences in institutions, business characteristics and culture. Future studies may examine both the home and host country effects on social and political strategies, considering that internationalising firms use different institutional and resource home country defined capital accessible to them (Child & Marinova, 2014), which affects their learning in host countries.

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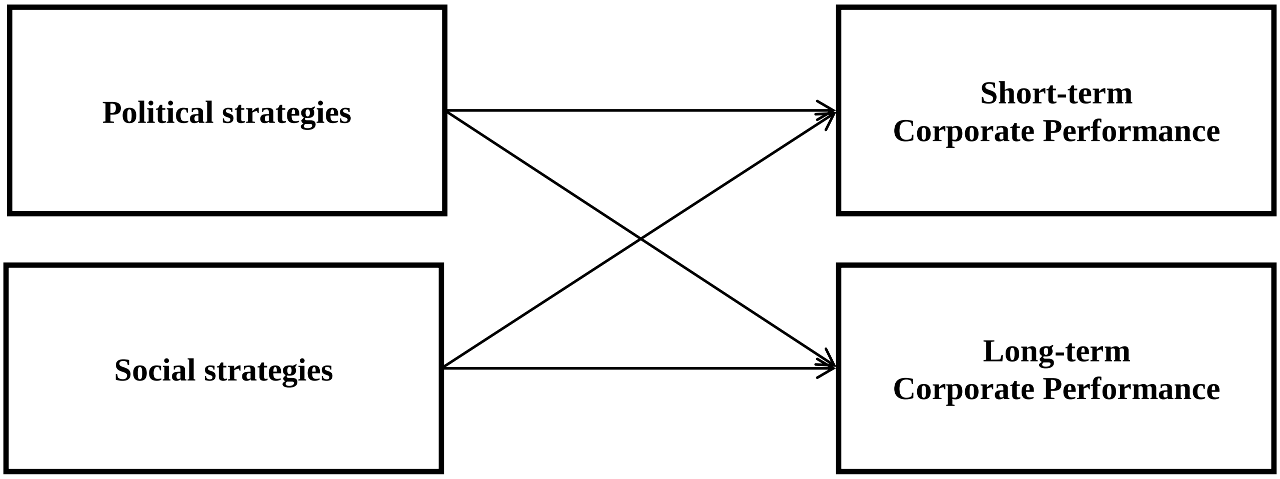
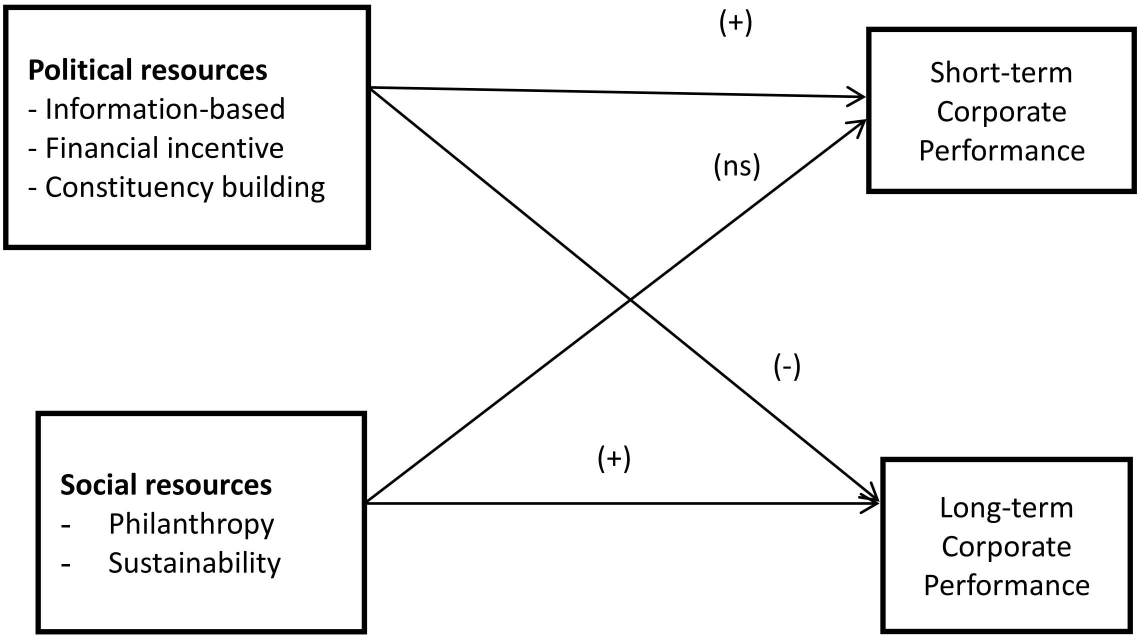
Figure 1. Conceptual model – Political and Social strategies in emerging-markets



* ns – non-significant

Figure 2. Results of Political and Social strategies in emerging-market context



* ns – non-significant

Table 1. Details of case studies used in this analysis

Sr. No	*Company*	*Country of Origin*	*Event under analysis*	*Number of text files*
1	Microsoft	USA	It uses technology enabled products for social and economic development in India (Mehta and Kalra, 2006)	404
2	Hindustan Lever Limited (Unilever's India subsidiary)	UK	It uses a variety of suppliers to distribute its products and helps these partners to strengthen their capabilities (London and Hart, 2004, Neath and Sharma, 2008)	2607
3	LG Electronics	South Korea	It runs medical clinics in the villages of India (Han and Gundimeda, 2013)	386
4	Coca-Cola	USA	Water contamination in India (Hills and Welford, 2005)	1090
5	Enron	USA	It encountered credibility issues with the local stakeholders (Doh and Ramamurti, 2003, Kumar, 2004)	1500
6	Monsanto	USA	Using its knowledge in genetic engineering, it wanted to change the agricultural industry and address the food and nutrition issues in the developing countries. Yet, the firm’s strategy of using sterile seeds to protect its intellectual property rights in modified seeds was a disaster for it in EM (London and Hart, 2004, Stone, 2004)	6460
7	Infosys	India	It supports and encourages underprivileged sections of the society (Gautam and Singh, 2010)	4978
8	Wipro	India	It provides support for learning enhancement for underprivileged sections of the society (Gautam and Singh, 2010)	2275
9	Tata Steel	India	It works to improve the quality of the lives of its stakeholders and contribute to sustainability of the natural resources (Gautam and Singh, 2010)	6730
10	Satyam Computers	India	The accounting fraud of the firm overshadowed several other social strategies adopted by the firm (Mishra and Mohanty, 2014, Kripalani, 2009, George et al.,	1739

			2014)	
11	Tata Motors	India	It cancelled its car manufacturing plant in West Bengal state, in the face of widespread farmer protests over land acquisition issues (Chandra, 2008, Mitra, 2011)	1852
12	Unitech	India	Telecomm scandal (Shirodkar and Mohr, 2015)	1240

Table 2. Results of our longitudinal case-study analyses

Sr. No	Company	Political strategies (short-term)	Social strategies (short-term)	Political strategies (long-term)	Social strategies (long-term)
1	Microsoft	No	Yes (No effect)	No	Yes (Greater market penetration and market share, and use of Microsoft products among school users, generates new products – Mouse Mischief)
2	Hindustan Lever Limited	No	Yes (No effect)	No	Yes (Greater market penetration and market share, and generation of women microentrepreneurs)
3	LG Electronics	No	Yes (No effect)	No	Yes (Greater market penetration and share, and generation of new localised innovations and products)
4	Coca-Cola	Yes (Easy access to markets)	No	Yes (generated lot of negative press for the firm, loss of operations)	No
5	Enron	Yes (Easy access to markets)	No	Yes (generated lot of negative press for the firm, loss of operations)	No
6	Monsanto	Yes (Easy access to markets)	No	Yes (generated lot of negative press for the firm, loss of operations)	No
7	Infosys	No	Yes (No effect)	No	Yes (generate increased awareness of this products and

					services, generates new products)
8	Wipro	No	Yes (No effect)	No	Yes (generate increased awareness of this products and services, generates new products)
9	Tata Steel	No	Yes (No effect)	No	Yes (higher performance from lower employee iteration, improved access to services and products in rural India)
10	Satyam Computers	Yes (Easy access to markets)	Yes (No effect)	Yes (generated lot of negative press for the firm, loss of operations)	Yes (No effect)
11	Tata Motors	Yes (Easy access to markets)	No	Yes (generated lot of negative press for the firm, loss of investment)	No
12	Unitech	Yes (Easy access to markets)	No	Yes (generated lot of negative press for the firm, loss of operations)	No

* each cell indicates if the firm adopted political and/or social strategies and information in brackets indicates the effects of these strategies