

S Y M P O S I U M

Political Markets and Regulatory Uncertainty: Insights and Implications for Integrated Strategy

by Allison F. Kingsley, Richard G. Vanden Bergh, and Jean-Philippe Bonardi

Executive Overview

Managers can craft effective integrated strategy by properly assessing regulatory uncertainty. Leveraging the existing political markets literature, we predict regulatory uncertainty from the novel interaction of demand- and supply-side rivalries across a range of political markets. We argue for two primary drivers of regulatory uncertainty: ideology-motivated interests opposed to the firm and a lack of competition for power among political actors supplying public policy. We align three previously disparate dimensions of nonmarket strategy—profile level, coalition breadth, and pivotal target—to levels of regulatory uncertainty. Through this framework we demonstrate how and when firms employ different nonmarket strategies. To illustrate variation in nonmarket strategy across levels of regulatory uncertainty, we analyze several market entry decisions of foreign firms operating in the global telecommunications sector.

Firms know that entering a new industry or geographic market involves market risk. Committing to that investment may also subject firms to a critical nonmarket risk: regulatory uncertainty. Firms entering new markets are often required to gain approval from a regulator, and once approved the firm's investments are typically subject to ongoing scrutiny by a regulator over issues such as product safety, pricing, rate of return, competition, and access to distribution channels. The uncertainty associated with changes in regulation or public policy can reduce the firm's profitability or block the firm from meeting other performance objectives.

This applies, of course, to developed countries but also to emerging economies. Consider for instance the case of the German wholesaler Metro Cash and Carry when it entered India in 2003

(Khanna, Palepu, Knoop, & Lane, 2009). Although Metro's distribution processes could be of value in India, where getting fresh fruits and vegetables was often challenging for local restaurants and hotels, the firm struggled to obtain regulatory approval. Several years after obtaining initial regulatory approval to enter the market, shelves in Metro's large stores were still half-empty because of local governments' interpretation of the Agricultural Produce Marketing Committee Act. This act, in effect, prevented the company from sourcing from farmers directly. Metro also faced much stronger local opposition, particularly from local retailers, than it had expected. Overall, regulatory uncertainty was the major reason a multinational like Metro struggled in India.

In a similar spirit, more than 300 multinational executives from diverse firms, industries, and host

* *Allison F. Kingsley* (allison.kingsley@uvm.edu) is Assistant Professor of Management at the University of Vermont School of Business Administration.

Richard G. Vanden Bergh (vandenbergh@bsad.uvm.edu) is Associate Professor of Management at the University of Vermont School of Business Administration.

Jean-Philippe Bonardi (jean-philippe.bonardi@unil.ch) is Professor at the Faculty of Business and Economics of the University of Lausanne.

countries were asked in July 2011 to assess the salience of political risks in their emerging market investments (World Bank, 2011). Among the respondents, 54% rated adverse regulatory change as a political risk of most concern, a significantly more pressing concern than either risk of expropriation (34%) or risk of war (31%). About one in five executives regarded war (23%) and expropriation (18%) risk as having “no impact” on their risk perception; fewer than 1 in 25 regarded regulatory uncertainty as such (3%). Indeed, 35% of multinational companies have experienced financial losses in the past three years due to adverse regulatory changes. In the past 12 months alone, 43% of surveyed multinationals withdrew existing or canceled planned investments due to unfavorable changes in regulation. To manage ongoing investments with regulatory uncertainty, executives closely monitor the risk (27%) but also find that the most effective strategy relies on engaging with local public entities (10%), local enterprises (14%), or key political leaders (25%). Nonmarket strategies matter to executives. When firms fail to align nonmarket strategies to the regulatory uncertainty they face, struggles like those experienced by Metro Cash and Carry in India occur.

Understandably, both market and regulatory uncertainty will vary from one industry or geographic region to the next but are not exclusive to any one industry or region. Thus firms need to develop an understanding of the key factors affecting both types of uncertainty, and from this understanding craft an integrated strategy (Baron, 1995a, 1995b) that minimizes the costs associated with the regulatory uncertainty while complementing the firm’s market investments. Crafting strategy to manage market uncertainty is important and highly developed in the business field. In this paper we focus our analysis on designing nonmarket strategies to manage regulatory uncertainty and discuss ways for firms to integrate this with their market strategy. Our empirical context centers on firms’ market entry strategies, although our analysis can be applied across multiple market strategies.

We propose a practical and novel framework for managers to predict the level of regulatory uncertainty. The framework we develop builds from what are referred to as “political markets,” a

term first coined by Nobel laureates in economics James Buchanan and Gordon Tullock (1962) and later applied to the study of firms’ nonmarket activities (Bonardi, Hillman, & Keim, 2005). According to the framework, political markets consist of *demanders* of public policy such as firms, consumers, and special-interest groups. Demanders have a stake in regulatory policy. For example, a firm’s stake reflects the incremental effect a regulation will have on profitability, while a consumer’s stake reflects the effect a regulation will have on the value-to-price ratio of the product. Political markets also consist of *suppliers* of public policy such as legislators and the executive, regulators, and courts. Similar to demanders, suppliers also have interests in regulatory outcomes. Supplier interests, in contrast to firms’, are assumed to reflect their own ideology and/or the interests of their constituents (Kalt & Zupan, 1984).

Demanders and suppliers interact with each other by exchanging information, votes, and/or other valuable resources. From this exchange between demanders and suppliers a regulatory policy emerges; predicting the level of regulatory uncertainty, however, remains elusive. Whereas the political market approach has already been used to study firms’ ability to influence policy-making, we propose that a similar approach can be used to predict regulatory uncertainty and how firms can manage the regulatory uncertainty through the design of an integrated strategy.

In jointly analyzing political markets and regulatory uncertainty, we make several meaningful contributions. We provide a flexible framework that applies to the range of nonmarket settings by translating the political markets framework developed in more mature and formal institutional settings (e.g., the United States and Western Europe) to the emerging-market and developing-country context. Specifically, we analyze the supply-side interaction among multiple political actors, including autocratic sovereigns. We also develop new insights into the key characteristics of demand-side interest groups. Furthermore, we explore how the characteristics of both the demand- and supply-side actors interact with each other to affect the degree of regulatory uncertainty a firm faces.

We offer an innovative perspective on the

three dimensions of firms' nonmarket strategies, effectively synthesizing several previously disparate nonmarket choices. In addition, we integrate this nonmarket analysis with one of a firm's most critical market strategies: market entry. In showing how firms can assess regulatory uncertainty in the context of entering new markets, we contribute to several literatures on market, nonmarket, and integrated strategy. In addition, our insights on nonmarket strategies offer managers clear, executable strategies with direct overall performance implications for firms.

The paper is organized as follows. Overall we propose a simple two-by-two framework in two parts. In the "Political Markets and Regulatory Uncertainty" section, we develop the first part of the framework, which derives predictions about regulatory uncertainty. In the "Nonmarket Strategies" section, we propose the second part of the framework, which develops strategic implications for firms to manage regulatory uncertainty in the context of their expected and/or existing market investments. To create an integrated strategy, we suggest the dimensions of a nonmarket strategy that fit well with the characteristics of the political market, that is, activities and tactics in which market decisions such as market entries are aligned with nonmarket ones such as campaign contributions, lobbying, or coalition building (Baron, 1995a; de Figueiredo & Edwards, 2007; Hillman & Hitt, 1999). In the "Discussion" section, we provide various examples from firms' market entry choices in the global telecommunications sector that involve different nonmarket strategies; we argue that the observed integrated strategy fits well with our framework. Finally, in the "Conclusions" section, we discuss our contribution and the critical open questions that need to be addressed to develop a deeper understanding of regulatory uncertainty and the implications for firms as they develop their integrated strategy.

Political Markets and Regulatory Uncertainty

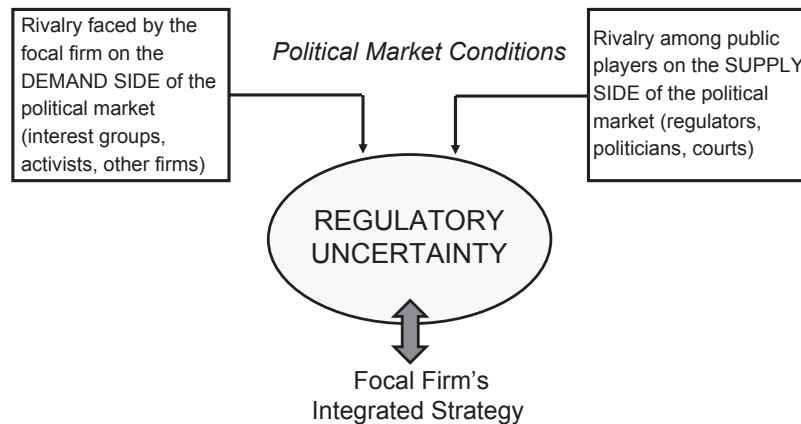
Political markets are different from economic markets (Boddewyn & Brewer, 1994; Bonardi et al., 2005; Bonardi, 2011; Buchanan & Tullock, 1962; Hillman & Keim, 1995; Weingast & Marshall, 1988). This is why managers pursue market strategies to improve the firm's economic

performance and nonmarket strategies to improve the firm's political performance. For the best overall firm performance, managers integrate market and nonmarket strategies (Bach & Allen, 2010; Baron, 1995a, 1995b). In this section of the paper, we focus mainly on the nonmarket environment of business, specifically the political market for regulation, and we analyze a key nonmarket issue confronting managers: regulatory uncertainty.

The magnitude of regulatory uncertainty is critical to the performance of firms in many industries, including oil, natural gas, electric utilities, airlines, pharmaceuticals, and telecommunications. Research has shown that heavily regulated (e.g., banking, telecommunications, nuclear power) and government-dependent (e.g., defense) industries necessarily spend the most corporate resources managing regulatory uncertainty (Baron, 1995a; Coates, 2011; Grier, Munger, & Roberts, 1994; Stigler, 1971). However, the recent growth of social and environmental interest groups has spread regulatory uncertainty to industries not traditionally considered highly regulated (Holburn & Vanden Bergh, 2008; King & Lenox, 2000). Such uncertainty is difficult for business (Ryan, Swanson, & Buchholz, 1987), and executing nonmarket strategies is increasingly seen as "the cost of doing business" (Kwak, 2012). That cost derives in part from regulators' learning curve—their need to learn how to regulate new business models and/or technologies—and from the political games taking place among the various players involved in the regulatory process, such as firms, regulators, politicians, consumers, and interest groups (Holburn & Vanden Bergh, 2004, 2008). Whereas authors in the international business literature typically have focused on the bargaining power of multinational firms vis-à-vis local governments (Blumentritt & Rehbein, 2008; Lecraw, 1984; Luo & Zhao, in press), we consider here the interactions among a much larger potential set of institutional players.

Managers will find it useful to view regulation in the context of a political market where there are *demanders* of regulation and *suppliers* of regulation. See Figure 1 for an illustration. As explained in the introduction of this paper, demanders are the regulated firm, other firms, consumer

Figure 1
Political Markets, Regulatory Uncertainty, and Integrated Strategy



groups, and other activist interests or stakeholders (Arrow, 1951; Black, 1958; Buchanan & Tullock, 1962); suppliers are the regulator, the executive, legislators, political parties, and courts (Downs, 1957; Riker, 1962; Stigler, 1971). Demanders and suppliers transact by trading regulatory policies for resources such as votes, finances, or information (de Figueiredo & Edwards, 2007; Hillman & Hitt, 1999). Firms can be strategic with political market transactions to maximize firm performance.

Indeed, the political market matters for firms. Scholars have shown that the nature of demanders can influence the regulatory process. For example, in the electric utility sector regulators tend to reduce the allowed rates charged to consumers when a competing interest group advocates for consumers within the political market (Bonardi, Holburn, & Vanden Bergh, 2006). Researchers have also shown that the nature of suppliers shapes regulatory outcomes. In the political economy literature, for example, scholars have shown that elected regulators tend to have a negative effect on the profitability of firms (Besley & Coate, 2003). There are thus factors in the political market that tend to bias regulation in predictable directions. However, there are also factors that create greater uncertainty for firms subject to regulation over their market investments.

To predict the relative magnitude of regulatory uncertainty, managers must understand their specific political market context, notably the nature of demand-side rivalry and the nature of supply-side rivalry. Drawing from the political markets

literature we focus on two drivers of regulatory uncertainty: political motivation/level of ideology (on the demand side) and level of competition for power among political decision makers (on the supply side). Furthermore, we argue that this regulatory uncertainty makes political markets less attractive for business investment.

Nature of Demand-Side Rivalry

The political markets literature identifies demanders of regulation as firms in the industry, consumer groups affected by regulatory policy, and other activist interest groups with a stake in the policy outcome (Bonardi et al., 2005; Hardin, 1982; Moe, 1980; Olsen, 1965). Demanders can originate locally or internationally. In developing-country contexts, external or foreign interests tend to assume a larger role, capitalizing on foreign firms' vulnerabilities and/or vocalizing local groups' interests. We examine regulatory uncertainty from the perspective of regulated firms, whereby the focal firm is opposed by either another firm or an interest group representing stakeholders or affected interests. The firm's rival on the demand side is characterized by its motivation for regulatory change, either ideology or efficiency motivations.

Ideology-motivated interests generate the most regulatory uncertainty. Demanders with ideological agendas are difficult to manage (Bonardi et al., 2006; Bonardi & Keim, 2005) and tend to leverage public pressure effectively through tactics such as mailings, campaigns, boycotts, reports, and/or advocacy advertising (Baron, 2010; Holburn &

Vanden Bergh, 2004). Nonmarket issues that have an ideological underpinning also tend to be uniquely partisan and widely salient, which correlates with more unattractive political markets (Bonardi et al., 2006; Bonardi & Keim, 2005). Intensified rivalry among competing demanders makes markets even more unattractive. Research finds that rivalry increases with election issues, concentrated costs or benefits, and attempts to change existing regulation (Bonardi et al., 2005; Bonardi et al., 2006; Bonardi & Keim, 2005; Hillman & Hitt, 1999; Lowi, 1964; Wilson, 1980), all of which arguably accompany ideological opposition. In addition, the coalition of voter interests tied to ideology-motivated opponents likely holds more strongly felt preferences with greater individual stakes, and thus they make more durable opponents than efficiency-motivated interests (Stigler, 1971; Weingast & Marshall, 1988).

Efficiency-motivated interests, by contrast, tend to be associated with narrower issues that are not defined along partisan lines but rather reflect bottom-line concerns. With efficiency-motivated rivals, the regulated firm is better able to identify rivals and has more substitute actions available to trade, which, in turn, lowers transaction costs of negotiation relative to ideology-motivated rivals (Coase, 1960). Thus, from the regulated firm's perspective, the political market is more attractive (Bonardi et al., 2006) when there is less intense rivalry among demanders (Bonardi et al., 2005; Bonardi et al., 2006; Bonardi & Keim, 2005) and less saliency in the eyes of suppliers. All else being equal, if demand-side rivalry exists, regulatory policy outcomes are more predictable and regulatory uncertainty lower when the rival is an efficiency-motivated interest.

Nature of Supply-Side Rivalry

Suppliers of regulation are the regulator, executive, legislators, political parties, courts, and other institutional decision makers. Previous work has tended to concentrate analysis on select roles. For instance, much of the literature on foreign investment and bargaining power focuses on only one aggregate supplier: the host government (Brewer, 1992; Dunning, 1993). In the nonmarket strategy literature, Bonardi et al. (2005) focused on two

types of suppliers, bureaucrats and elected officials; Holburn and Vanden Bergh (2004) and Bonardi et al. (2006) focused on regulatory agencies, representatives and senators, and executives; and Spiller and Gely (1990) and Spiller and Vanden Bergh (2003) focused on courts. Following this work, we focus on how the regulator supplies regulatory policy jointly with politicians.

Competition among political actors creates a more attractive political market for firms (Ansolabehere, de Figueiredo, & Snyder, 2003; Baron, 2001; Bonardi et al., 2006). Fundamentally this is because competitive elections increase rivalry (Bonardi et al., 2006), which makes politicians more willing to trade policy favors (Baron, 2001) and more responsive to satisfying constituent interests (Keim & Zeithaml, 1986). As Stigler (1971, p. 13) noted, "If entry into politics is effectively controlled, we should expect one-party dominance to lead that party to solicit requests for protective legislation but to exact a higher price for the legislation." Thus competition among elected politicians creates opportunities for corporate political strategies to work (Hillman & Keim, 1995; Keim & Zeithaml, 1986), including in a regulatory setting. We note, however, that in developed countries such political actors are typically elected, whereas in developing countries elections may be less potent or even nonexistent. There are fewer actors, potentially only one pivotal decision maker, less delegation of power from the executive, and thus significantly less competition. We incorporate this important distinction explicitly in our framework.

Competition may be defined beyond rivalry for power. When competition among political actors is driven also by heterogeneous preferences (Bonardi et al., 2006; Vanden Bergh & Holburn, 2007) instead of or in addition to checks and balances, the logic holds: More competition creates a more attractive (and opportunistic) political market, which corresponds with less regulatory uncertainty.

The political markets literature uses several empirical measures to capture this idea of competition among political actors. In Bonardi et al. (2006), the degree of supply-side rivalry is operationalized as the margin of winning votes for the

executive (governor or president) or the legislator (or party). Rivalry is considered intense if there is a greater than 5% difference between votes. In Holburn and Vanden Bergh (2012), legislative competitiveness is also measured by the degree of partisan control of the legislature. Rivalry is most intense when political parties hold equal shares of the legislative seats. In addition, a country's governance environment has been measured by the political constraint index (POLCON) compiled by Henisz (2000) and tested successfully against international infrastructure data (2002) and across a wide range of developed and developing countries. POLCON measures the feasibility of policy change based on a simple spatial model of veto players, party alignment, and preferences across branches of government.¹ The index ranges from 0 to 1, with higher scores indicating more political constraints. The more political constraints there are, the less feasible policy change but the more potential leverage or pivot points. In political markets with no delegation of power from the executive (e.g., autocratic regimes), there are no constraints against the executive. In all measures of political competition, the fundamental idea remains the same: Competition makes political markets more attractive and less uncertain for the regulated firm.

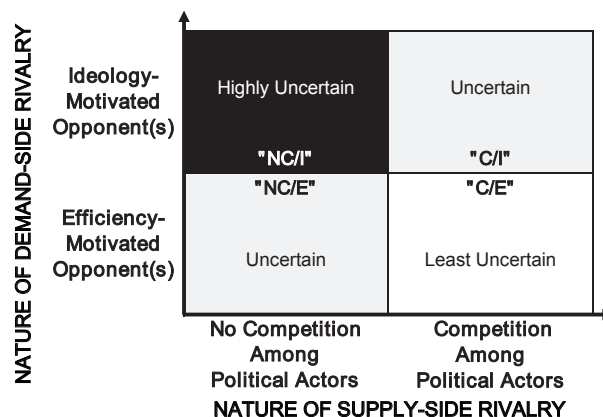
Predicting Regulatory Policy Uncertainty

Integrating these insights on the nature of demand-side rivalry and the nature of supply-side rivalry, we can predict regulatory uncertainty. Figure 2 summarizes these insights in the first part of our simple two-by-two framework.²

¹ POLCON measures the feasibility of policy change, that is, the extent to which a change in the preferences of any one political actor may lead to a change in government policy. The index is composed from the following information: the number of independent branches of government with veto power over policy change, counting the executive and the presence of an effective lower and upper house in the legislature (more branches leading to more constraint); the extent of party alignment across branches of government, measured as the extent to which the same party or coalition of parties controls each branch (decreasing the level of constraint); and the extent of preference heterogeneity within each legislative branch, measured as legislative fractionalization in the relevant house (increasing constraint for aligned executives, decreasing it for opposed executives).

² We recognize that differences among political markets are more aptly represented as continua of competition and ideology.

Figure 2
Predicting Regulatory Uncertainty



Using the insights on regulatory uncertainty from Figure 2, we can also make predictions about market entry and implications for investment. If the regulated firm is opposed by an efficiency-motivated interest and there is significant competition among political actors (Cell C/E), there is less uncertainty. We predict that the regulated firm will enter the new market, potentially as a leader (Bonardi et al., 2005). In hybrid situations (Cell C/I and Cell NC/E), there is moderate regulatory uncertainty, which constrains the firm's entry decision. If the regulated firm is playing a political game with an ideology-motivated opponent in the context of no or little competition among political actors (Cell NC/I), the regulatory outcome is highly uncertain. This uncertainty impedes investment, akin to a postpone strategy (Bonardi et al., 2005). The regulated firm is likely to not enter a new market (or further invest in an existing market) if it cannot foresee the value of its investment over time or anticipate opportunities to influence the political market. Generally this results in a net loss for society but may be the best outcome for the individual firm. Accordingly, when considering entry into a new market and when regulatory uncertainty exists, firms have two stark choices: if uncertainty is too great, delay investment, or develop and implement a nonmarket strategy that sufficiently mitigates the negative effects of the uncertainty. We now focus our attention on the latter.

Nonmarket Strategies

Different types of regulatory uncertainty require different strategies (Bonardi & Keim, 2005). As uncertainty increases so too does the cost of implementing a nonmarket strategy. We identify three dimensions previously treated disparately in the literature to guide how a regulated firm should allocate incremental resources to mitigate uncertainty. The strategies differ in terms of profile level, coalition breadth, and pivotal target—and, ultimately, cost. Variation in firm strategies is driven by changes in the nature of both demand-side and supply-side rivalries, and we argue that the demand side explains more of the variation. Figure 3 summarizes these strategic implications for firms.

Profile Level

Corporate political strategies can be divided into low- and high-profile strategies. Low-profile strategies occur without public involvement, whereas high-profile strategies engage the public. High-profile strategies are significantly more costly because the firm needs to invest more in publicity and runs a greater risk of suffering reputational damage.

Using the taxonomy of political strategies identified in Hillman and Hitt (1999) and further discussed in Hillman (2003) and Bonardi and Keim (2005), low-profile strategies include but are not limited to information strategies such as lobbying, commissioning research projects and reporting research results, and supplying position papers or technical reports; financial incentive strategies such as honoraria for speaking and paid travel; and constituency-building strategies such as political education programs. High-profile strategies can include information strategies such as testifying as an expert witness; financial-incentive strategies such as contributions to politicians and political parties and personal service (hiring people with political experience or having a firm member run for office); and constituency-building strategies such as grassroots mobilization (of employees, suppliers, and customers), advocacy advertising, public relations, and press conferences.

We can find numerous examples of high-profile

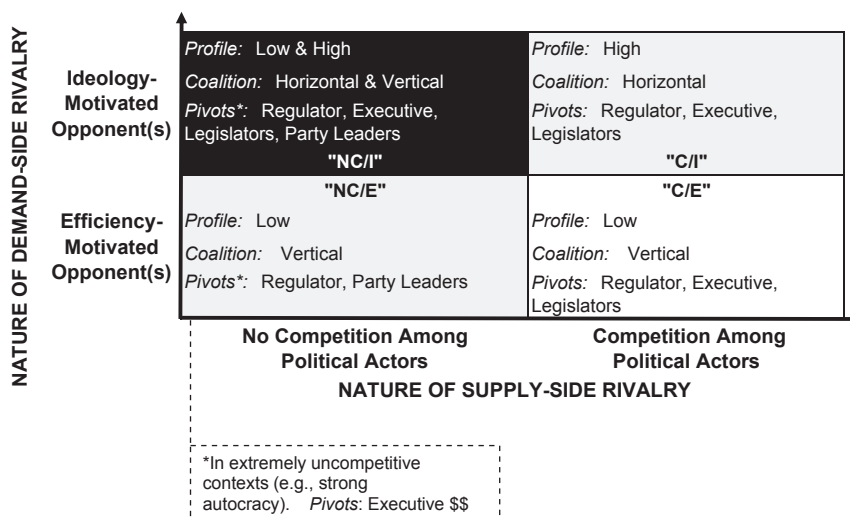
strategies in the literature. They include engaging in public corporate social responsibility programs to signal information to consumers and potential coalition partners (Siegel & Vitaliano, 2007) as well as other demanders and suppliers, attending to political ties and personal relations between the multinational corporation (MNC) and its host government (evaluated at length in bargaining power and political connection theories); strategically increasing political connections between the firm and high-level government officials (Blumentritt, 2003; Blumentritt & Rehbein, 2008; Dieleman & Boddewyn, 2012; Faccio, 2006; Lawrence, 2010; Luo & Peng, 1999); and preemptive self-regulation (Bonardi & Keim, 2005; Maxwell, Lyon, & Hackett, 2000).

Firms tailor the profile of their strategy based on the nature of opposing demand. For example, if the firm is opposed by an ideology-motivated interest, it will deploy high-profile political strategies that actively engage the public as well as political actors. In cases of extreme regulatory uncertainty (Cell NC/I), the firm will also need low-profile strategies that go behind the scenes to provide information and financial incentives to key decision makers. With efficiency-motivated opponents, and thus less uncertainty, the firm need pursue only low-profile strategies.

Coalition Breadth

Much work on market strategy centers on the question of corporate scope, whether a firm should integrate vertically and expand horizontally (Porter, 1985). For nonmarket strategy, the question of coalition scope can be equally important in determining performance. Managers must evaluate whether to build “horizontal” coalitions among interest groups and stakeholders outside of the firm’s “vertical” chain of production where more natural coalition partners often reside (Baron, 1995b; Porter, 1985). This vertical rent chain includes factor inputs (employees, suppliers and their employees, capital, communities), the value chain (inbound logistics, operations, outbound logistics, marketing and sales, service, support activities, alliances), channels of distribution (wholesalers, distributors, retailers), and customers (consumers, locked-in customers) (Baron, 1995b).

Figure 3
Nonmarket Strategies



Horizontal coalitions can include any interest group that wants the same regulatory policy outcome the focal firm seeks.

Our framework helps firms determine the breadth of their nonmarket coalition based on the nature of opposing demand. With ideology-motivated opponents, regulated firms must find allies and advocates outside of their conventional coalition of business-related groups with aligned interests. This makes horizontal coalitions more costly to implement. With efficiency-motivated opponents, firms pursue less costly vertical coalitions. Situations with the highest uncertainty (Cell NC/I) require both horizontal and vertical coalitions.

Pivotal Target

Based on the political markets' structured models, demanders will invest incremental resources in influencing pivotal institutions or actors (Groseclose, 1996; Groseclose & Snyder, 1996; Holburn & Vanden Bergh, 2004; Krehbiel, 1998, 1999; Snyder, 1991).³ The target of the regulated firm's

nonmarket strategy will depend on the relative policy preferences and formal structure of the different institutions (de Figueiredo & de Figueiredo, 2002; Hillman & Hitt, 1999; Holburn & Vanden Bergh, 2008; Vanden Bergh & Holburn, 2007). Following the logic of Holburn and Vanden Bergh (2008) and Vanden Bergh and Holburn (2007), the pivotal political institution or actor is the one that represents, in essence, the swing vote.

In a competitive political environment, the focal firm will tend to allocate greater resources to pivotal legislators/executives to counteract pressure brought by opposing ideology-motivated opponents. In a less competitive environment, appointed party leaders are pivotal, as they organize the politicians' preferences and constrain rivalry. Targeting party leaders is, however, more expensive than targeting legislators and the executive, as parties have ongoing costs of operation and costs of maintaining an organization and competing in elections (Stigler, 1971). Again, the most uncertain or least attractive political market (Cell NC/I) requires regulated firms to allocate significant resources to comprehensively target multiple political actors (Vanden Bergh & Holburn, 2007)

³ Because we combine executives and legislatures into one category of "political actors," our framework can be translated from presidential to parliamentary systems or corporatist and pluralist systems as explicated in Hillman and Keim (1995) and Hillman (2003). Specifically, there is an elective affinity between our model and the predictions in the literature on presidential versus parliamentary systems. Presidential systems that are

explicitly political, more confrontational, and legislator focused will group in Cell C/I, generally, whereas parliamentary systems will group in Cell NC/E due to their executive focus, long-term cost-benefit analysis, and more cooperative sensibility.

(see Figure 4, which outlines the costs of nonmarket strategies). While costly, jointly targeting the regulator, executive, legislators, and party leaders can serve as insurance or a majority protection strategy (Groseclose, 1996; Groseclose & Snyder, 1996). In extreme situations lacking competition (e.g., strong autocracies), the swing vote is the executive, and all resources must be directed to the single pivotal actor.

In sum, the most expensive nonmarket strategies are associated with the most uncertain political markets. Yet without a nonmarket strategy tailored to the level of regulatory uncertainty, a firm will not (or cannot successfully) invest in a new market.

Discussion

We illustrate our nonmarket framework by analyzing several foreign entry decisions by firms operating in the global telecommunications sector. Our goal is to highlight variation in nonmarket strategy given different political landscapes. We discuss general strategies used by foreign investors and specifically address the market entry strategies of firms domiciled in the United States, Malaysia, Italy, and Luxembourg that invested in the host markets of India, Thailand, Russia, and the more risky emerging markets. At the end of the section, we discuss where we need to develop a better understanding of regulatory uncertainty, and we provide managers with key takeaways.

Foreign Entrants to Emerging-Market Telecommunications Markets

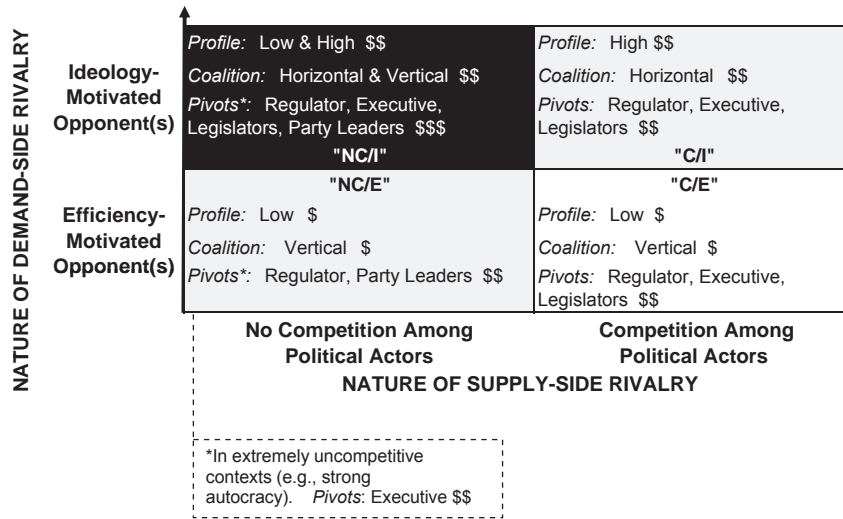
In global contexts, firms are keen to manage regulatory uncertainty. Arguably, assessing the nature of demand-side rivalry and the nature of supply-side rivalry is most critical when entering new geographic markets, where success depends on navigating the new political landscape and where exit strategies are typically more complicated. To illustrate how our political markets and regulatory uncertainty framework applies to firms entering foreign markets, we focus on select cases from the telecom sector. In doing so, we keep variation associated with industry type constant, effectively isolating the effect of political markets.

The telecom sector also makes for a strong test of the proposed framework: Given domestic consumption and government oversight of pricing and sector regulation, telecom markets are intensely political affairs. The sector also exemplifies the tensions of entering foreign markets, as telecom investments are characterized by high capital intensity, significant asset specificity, and economies of scale and scope (Williamson, 1985). Our time period also covers the first decade of internationalization, which has been determined through previous research (Holburn & Zelner, 2010) to be a critical and broadly applicable empirical framework.

When a telecom firm evaluates new geographic markets, it aims to predict the level of regulatory uncertainty it will face over the life cycle of its investment. Such uncertainty arises because the regulator can terminate exclusive rights, license new competitors, set new rate structures, change license terms, or intervene in consumer disputes or interconnection arrangements between service providers. To predict the magnitude of the uncertainty, the telecom firm anticipates the motivations of its primary opponents and assesses the competitiveness of political actors. Ideology-motivated opponents are often labor unions fighting against job losses, nationalists opposed to foreign ownership of strategic state assets, or local and international development groups concerned with universal service requirements. Efficiency-motivated opponents tend to be consumers advocating for better service or local and international pro-liberalization groups opposed to anticompetitive practices like monopolies or supportive of opening the sector to foreign ownership. Because telecom regulation is jointly supplied by the regulator and other political actors (e.g., executive, legislators), telecom firms can benefit from competition among them. Where regulatory uncertainty exists—due to an ideology-motivated opponent and/or lack of competitiveness of political actors—telecom firms can implement a nonmarket strategy to mitigate the uncertainty or delay investment in the country if uncertainty is too great.

We use information from a subset of telecom entry decisions that took place in 103 emerging markets throughout the 1990s, the first decade of

Figure 4
The Cost of Nonmarket Strategies



internationalization in the telecom sector. Analyzing cases during this time frame provides specific insight into how firms integrate market and nonmarket strategy under extreme information constraints and in the process of new market openings. In the 1990s, 65 of the 103 countries experienced positive entry decisions by foreign firms into the country’s telecom sector. In the other 38 countries, either the sector did not open to new entrants (e.g., China) or telecom firms chose to postpone investing (e.g., Colombia in 1992, Pakistan in 1996, Slovakia in 1999).

Foreign investors strategically assessed their entry options, specifically how well integrated strategies might work and thus which ones to employ. For instance, of the 597 individual foreign investments, 39.5% used traditional vertical coalitions that involved foreign equity partners (49.8% of investors), international banks (29.2% of investors), or joint ventures with locals or the government (14.9% of investors); 19.1% used more costly horizontal coalition strategies that involved home governments through bilateral investment treaties (30.2% of investors), international organizations and multilateral institutions such as the World Trade Organization General Agreement on Trade in Services (11.2% of investors), or the World Bank’s International Centre for the Settlement of Investment Disputes (15.9% of investors). These findings align with the World Bank’s

executive survey data discussed in our introduction, thus suggesting that these telecom data are a reasonable candidate to illustrate the general implications of our framework without sacrificing external validity.

To further assess the applicability of our regulatory uncertainty framework and control for the role of market strategy, we discuss three cases in relatively similar market contexts: Thailand, Russia, and India in the mid-1990s (see Figure 5). In each of these settings, the competitiveness of political actors and the nature of opposing demand vary, thereby illustrating the key dimensions of our framework. Using the political constraint index as our proxy for the competitiveness among political actors (Henisz, 2000), we see that both Thailand (0.56 out of 1.00) and India (0.57 out of 1.00) demonstrated more political constraints and thus more competition among politicians. Russia, by contrast, had a materially lower score of 0.15, suggesting that its political markets were less attractive. In terms of ideological political opposition, Thai labor unions campaigned against foreign investment in the sector, citing loss of jobs and depressed wages. Both Russia’s and India’s foreign investment opportunities were opposed predominantly by efficiency-motivated pro-liberalization groups who fought against the lack of transparency and “worst” practices in the licensing and privatization process.

Figure 5
Indicative Empirical Cases

NATURE OF DEMAND-SIDE RIVALRY	Ideology-Motivated Opponent(s)	Millicom, Multiple Countries 1990's "NC/I"	Samart, Thailand 1997 "C/I"
	Efficiency-Motivated Opponent(s)	Telecom Italia, Russia 1995 "NC/E"	US West, India 1995 "C/E"
		No Competition Among Political Actors	Competition Among Political Actors
		NATURE OF SUPPLY-SIDE RIVALRY	

India in the mid-1990s (Cell C/E) experienced significant competition among elected politicians, with preferences and control shifting often. US West, an American Baby Bell, entered the Indian market in 1995 by acquiring five licenses, most notably a 10-year pilot license to set up India's first private telephone network for basic phone services. The company pursued a baseline low-profile strategy of working with the Indian regulator almost exclusively. This involved informal bidding for licenses (often ahead of public tenders) in an attempt to manage opposition from increasingly vocal pro-liberalization groups, including key competitors such as NYNEX and Reliance (Pyramid Telecom, 1995a). To secure licenses and counter the efficiency opponents, US West also structured a vertical coalition that included its proposed equipment suppliers and the Cellular Operators Association.

In Russia in 1995 (Cell NC/E) politics were less competitive than in India, increasing uncertainty for foreign telecommunications firms. Much of the opposition to foreign investment was from media and business communities who were opposed to cozy sales lacking in transparency and efficiency. Investors generally used baseline low-profile, vertical-coalition strategies as in India, but their political targets were the party and not the regulator, which was weak in the face of regime transition and liberalization. Indeed, Telecom Italia found that investing in Russia required extensive and quiet backroom negotiations with party

insiders. In the privatization of Russia's state-owned local telecommunications firm, Svyazinvest, foreign telecom investors such as Telecom Italia were "careful not to arouse Russian sensibilities by demanding 'control'" and often portrayed themselves "as a partner in Russia's development," all the while negotiating with key political elites and oligarchs (Pyramid Telecom, 1995b).

In Thailand (Cell C/I), the political environment was different. Despite ideological opposition from labor and trade unions that feared job losses as the sector liberalized and state-owned enterprises privatized (Pyramid Telecom, 1995a), Malaysian company Samart entered the Thai cellular market in 1997. The company strategically joined forces with the state-owned Thai Telecom. It pursued high-profile targeting of elected politicians in the Thai government and tried to leverage a horizontal coalition with the WTO, the IMF, and its home government. In the wake of the 1997 Asian financial crisis, the WTO and IMF had stepped in to advocate for both government austerity and liberalization. While not necessarily a natural partner for a Malaysian operator, the WTO's liberalization deadline and IMF's privatization demand as a condition for financial aid played into Samart's desire to manage regulatory uncertainty and enter the Thai market. Samart also rolled out high-profile advertisements aimed at the Thai public that advocated for privatization and foreign ownership. Indeed, many telecommunications firms in the Thai market employed high-profile strategies: One firm put out explicit ads discussing how its acquisition would not change labor wages; another aired an advertisement claiming that its competitor's handset was a health hazard.

One particular firm based in Luxembourg was especially opportunistic and entrepreneurial in emerging-market telecom deals. Millicom International Cellular was a niche player in global telecom investing and proved the second most prolific dealmaker in the 1990s. It pursued high-risk opportunities in smaller markets with more uncertain growth potential. By 1996, Millicom had amassed 29 cellular licenses in 30 countries covering 375 million people in Asia, Eastern Europe, and Africa. Most of Millicom's investments

occurred (and continue to occur) in unattractive political markets (Standard & Poor's, 1996).

To manage the regulatory uncertainty that comes with ideological opponents and the lack of competition among political actors (Cell NC/I), Millicom negotiated "lucrative deals behind closed doors, relying on the ability of its local managers to navigate Byzantine regional bureaucracies and form lucrative partnerships with leading local business interests" and telephone authorities (Pyramid Telecom, 1996, p. 2). During its issuance of senior subordinate debt, even the rating agencies noted this nonmarket strategy: "Millicom's strategy is to develop mobile operations by finding a local partner with local knowledge, expertise, and contacts to assist with legal and regulatory issues, such as obtaining licenses and organizing interconnection agreements with other market participants" (Standard & Poor's, 2004, p. 3). This is fundamentally a low-profile vertical coalition targeting the regulator. But Millicom also actively advertises its benefits to local consumers. Although Millicom charges high handset and monthly service charges, its service and coverage benefits the consumer base, and Millicom publicizes this to engender greater support. Millicom also engages local partners and regional managers to assist with party and politician relations.

Conclusions

Properly assessing a firm's exposure to regulatory uncertainty helps managers craft an appropriate integrated strategy. Our article suggests two primary drivers of regulatory uncertainty for firms: ideology-motivated interests opposed to the firm and a lack of competition for power among political actors such as executives and legislators. Because managers would like to devise the most economical strategy to manage regulatory uncertainty, we identify three dimensions of nonmarket strategy—profile level, coalition breadth, and pivotal target—to distinguish how a regulated firm allocates incremental resources beyond a basic low-profile strategy that engages the regulator and the firm's vertical coalition. We argue and find anecdotal evidence that managers use high-profile

strategies and recruit horizontal coalition partners to manage ideological opponents. Managers also target their strategy at the pivotal swing voter—the regulator, the party, the legislators, or the executive. In cases of extreme uncertainty, managers pursue a multifaceted nonmarket strategy.

While we derive our two-by-two framework from diverse, established literatures in political science, economics, and management, this study raises a number of questions that will need to be addressed in subsequent work. For example, we are somewhat agnostic about the relative effect of changes in demand-side rivalry versus changes in supply-side rivalry. Our matrix implies that changes in demand-side rivalry have a greater effect on the cost of nonmarket strategy, but why this is remains incompletely understood. In addition, this piece has been silent about the nature of the regulator. Previous research has shown that appointed regulators create more attractive political markets for firms, and that knowing the regulator's preferences relative to elected politicians and the regulated firm matters (Holburn & Vanden Bergh, 2008). We plan an extension of the current framework that conceptualizes the nature of the regulator more precisely and identifies how a change in the key characteristics of the regulator changes the level of regulatory uncertainty and firms' nonmarket strategies. We also aim to test the robustness of the theoretical framework to different empirical settings, including those with direct performance data.

This paper nonetheless makes important contributions to firms' understanding of integrated strategy. First, we provide a flexible framework that applies to a range of nonmarket settings. We translate the political markets framework developed in more mature and formal institutional settings to incorporate the emerging-market and developing-country context. In doing so, we differentiate ourselves from the traditional U.S./Eurocentric political markets literature and advance the theory. Specifically, we analyze the supply-side interaction among multiple political actors and decision makers, not just a select group of (elected) regulators and legislators. Our characterization of the supply side in our framework can also accommodate extremely uncompetitive

political markets situations, notably an autocratic sovereign. Further, we unpack the nature of opposing demand by providing a new categorization of interest groups based on motivation.

Second, much of the literature discussed in this article recognizes the importance of adjusting political strategy as political uncertainty increases (e.g., Dieleman & Boddewyn, 2012; Hillman, 2003). Our research complements this literature by creating a framework that predicts when regulatory uncertainty is likely to be greater for a firm. We accomplish this by focusing on how the key demand- and supply-side characteristics interact with each other to create regulatory uncertainty. How this interaction leads to predictions about the degree of uncertainty has not been explored in the nonmarket strategy literature that analyzes firms operating in different political contexts (e.g., Dieleman & Boddewyn, 2012; Hillman, 2003; Lawrence, 2010; Luo & Peng, 1999).

Third, we empirically pair this novel nonmarket analysis with one of a firm's most critical market strategies: market entry. In showing how firms can assess regulatory uncertainty in the context of entering new markets, we contribute to the literature on integrated strategy and, separately, offer an innovation to bargaining power theory. The latter argues that an MNC entering a new country has stronger bargaining power to the extent that it has, for instance, technology, jobs, and political ties (Blumentritt, 2003; Blumentritt & Rehbein, 2008; Dieleman & Boddewyn, 2012; Lawrence, 2010). We build our framework from a similar insight that firms negotiate for the supply of public policy with host governments, but we simultaneously focus on the institutional constraints to firms' bargaining power and the other parties in the negotiation network in addition to the host government. We also provide clarification on when and how certain firm resources, such as political ties, matter and affect firms' market strategies.

Thus we are able to complement existing insights (e.g., Blumentritt, 2003) by explaining why and when we see MNCs employing different integrated strategies as they enter different political markets. While this insight can be viewed as consistent with existing literature (e.g., Hillman,

2003), we also extend these insights by being able to explain why different firms, operating within the same country, employ different integrated strategies. The key characteristics of demanders and/or suppliers, within a given political jurisdiction, can vary across firms. Finally, our insights extend beyond market entry and can be applied to other market strategies, such as market consolidation.

Taken together, our nonmarket framework provides managers with clear insights on regulatory uncertainty: Uncertainty is higher in political markets characterized by ideologically motivated opponents and less competition among suppliers of policy. From this assessment, we equip managers with three discrete nonmarket strategy choices to execute alongside market entry or other market strategies. Synthesizing profile level, coalition depth, and pivotal actor, we advance previously distinct strategy arguments. Thus our insights from regulatory uncertainty yield meaningful implications for firms' integrated strategy and thus performance.

Acknowledgments

The authors would like to acknowledge helpful comments received from the editor and two anonymous reviewers on earlier versions of this article and from participants at the 2011 Strategic Management Society and 2012 Academy of International Business annual meetings.

References

- Ansola-behere, S., de Figueiredo, J., & Snyder, J. (2003). Why is there so little money in U.S. politics? *Journal of Economic Perspectives*, 17, 105–130.
- Arrow, K. (1951). *Social choice and individual values*. New York: Wiley.
- Bach, D., & Allen, D. (2010). What every CEO needs to know about nonmarket strategy. *MIT Sloan Management Review*, 51, 41–48.
- Baron, D. (1995a). Integrated strategy: Market and nonmarket components. *California Management Review*, 37, 47–65.
- Baron, D. (1995b). The nonmarket strategy system. *MIT Sloan Management Review*, 37, 73–85.
- Baron, D. (2001). Private politics, corporate social responsibility, and integrated strategy. *Journal of Economics and Management Strategy*, 10, 7–45.
- Baron, D. (2010). *Business and its environment* (6th ed.). Upper Saddle River, NJ: Prentice Hall.
- Besley, T., & Coate, S. (2003). Centralized versus decentralized provision of local public goods: A political econ-

- omy analysis. *Journal of Public Economics*, 87(12), 2611–2637.
- Black, D. (1958). *The theory of committees and elections*. Cambridge, UK: Cambridge University Press.
- Blumentritt, T. (2003). Foreign subsidiaries' government affairs activities: The influence of managers and resources. *Business and Society*, 42(2), 202–233.
- Blumentritt, T., & Rehbein, K. (2008). The political capital of foreign subsidiaries. *Business and Society*, 47, 242–263.
- Boddeyn, J., & Brewer, T. (1994). International business political behavior: New theoretical directions. *Academy of Management Review*, 19, 119–143.
- Bonardi, J. P. (2011). Corporate political resources and the resource-based view of the firm. *Strategic Organization*, 9(3), 247–255.
- Bonardi, J. P., Hillman, A., & Keim, G. (2005). The attractiveness of political markets: Implications for firm strategy. *Academy of Management Review*, 30(2), 397–413.
- Bonardi, J. P., Holburn, G., & Vanden Bergh, R. (2006). Nonmarket performance: Evidence from U.S. electric utilities. *Academy of Management Journal*, 49(6), 1209–1228.
- Bonardi, J. P., & Keim, G. (2005). Corporate political strategies for widely salient issues. *Academy of Management Review*, 30(3), 555–576.
- Brewer, T. (1992). An issue area approach to the analysis of MNE-government relations. *Journal of International Business Studies*, 23, 295–309.
- Buchanan, J., & Tullock, G. (1962). *The calculus of consent: Logical foundations of constitutional democracy*. Ann Arbor, MI: University of Michigan Press.
- Coase, R. (1960). The problem of social cost. *Journal of Law and Economics*, 3(1), 1–44.
- Coates, J., IV. (2011). *Corporate politics, governance, and value before and after Citizens United*. SSRN Manuscript.
- de Figueiredo, J. M., & de Figueiredo, R. J., Jr. (2002). Managerial decision-making in nonmarket environments: A survey experiment. In P. L. Ingram & B. S. Silverman (Eds.), *Advances in strategic management*, vol. 19 (pp. 67–96). Bingley, UK: Emerald Group Publishing.
- de Figueiredo, R. J. P., & Edwards, G. (2007). Does private money buy public policy? Campaign contributions and regulatory outcomes in telecommunications. *Journal of Economics & Management Strategy*, 16, 547–576.
- Dieleman, M., & Boddeyn, J. (2012). Using organization structure to buffer political ties in emerging markets: A case study. *Organization Studies*, 33, 71–95.
- Downs, A. (1957). *An economic theory of democracy*. New York: Harper.
- Dunning, J. (1993). Governments and multinational enterprises: From confrontation to cooperation? In L. Eden & E. Potter (Eds.), *Multinationals in the global political economy*. London: Macmillan.
- Faccio, M. (2006). Politically connected firms. *American Economic Review*, 96, 369–386.
- Grier, K., Munger, M., & Roberts, B. (1994). The determinants of industry political activity, 1978–1986. *American Political Science Review*, 88, 911–926.
- Groseclose, T. (1996). An examination of the market favors and votes in Congress. *Economic Inquiry*, 34(April), 320–340.
- Groseclose, T., & Snyder, J. (1996). Buying supermajorities. *American Political Science Review*, 90(June), 303–315.
- Hardin, R. (1982). *Collective action*. Baltimore: Johns Hopkins University Press for Resources for the Future.
- Henisz, W. (2000). The institutional environment for economic growth. *Economics and Politics*, 12(1), 1–31.
- Henisz, W. (2002). The institutional environment for infrastructure investment. *Industrial and Corporate Change*, 11(2), 355–389.
- Hillman, A. (2003). Determinants of political strategies in U.S. multinationals. *Business and Society*, 42(4), 455–484.
- Hillman, A., & Hitt, M. (1999). Corporate political strategy formulation: A model of approach, participation and strategy decisions. *Academy of Management Review*, 20, 193–214.
- Hillman, A., & Keim, G. (1995). International variation in the business-government interface: Institutional and organizational considerations. *Academy of Management Review*, 20, 193–214.
- Holburn, G., & Vanden Bergh, R. (2004). Influencing agencies through pivotal political institutions. *Journal of Law, Economics and Organization*, 20(2), 458–483.
- Holburn, G., & Vanden Bergh, R. (2008). Making friends in hostile environments: Political strategy in regulated industries. *Academy of Management Review*, 33(2), 521–540.
- Holburn, G., & Vanden Bergh, R. (2012). Corporate political strategy for mergers and acquisitions. Unpublished manuscript.
- Holburn, G. L. F., & Zelner, B. A. (2010). Political capabilities, policy risk, and international investment strategy: Evidence from the global electric power generation industry. *Strategic Management Journal*, 31, 1290–1315.
- Kalt, J., & Zupan, M. (1984). Capture and ideology in the economic theory of politics. *American Economic Review*, 74(3), 279–300.
- Keim, G., & Zeithaml, C. (1986). Corporate political strategies and legislative decision-making: A review and contingency approach. *Academy of Management Review*, 11, 828–843.
- Khanna, T., Palepu, K., Knoop, C. I., & Lane, D. (2009). *Metro Cash and Carry* (Harvard Business School Case 9-707-505). Boston: Harvard Business School Press.
- King, A., & Lenox, M. (2000). Industry self-regulation without sanctions: The chemical industry's Responsible Care program. *Academy of Management Journal*, 43(4), 698–716.
- Krehbiel, K. (1998). *Pivotal politics: A theory of U.S. law-making*. Chicago: University of Chicago Press.
- Krehbiel, K. (1999). Paradoxes of party in Congress. *Legislative Studies Quarterly*, 24, 31–64.
- Kwak, J. (2012). Citizens United v. FEC turns 2—and it's still wrong. Available from <http://www.theatlantic.com/business/archive/2012/01/citizens-united-v-fec-turns-2-and-its-still-wrong/251706/>

- Lawrence, A. (2010). Managing disputes with nonmarket stakeholders: Wage a fight, withdraw, wait, or work it out? *California Management Review*, 53(1), 90–113.
- Lecraw, D. (1984). Bargaining power, ownership, and profitability of transnational corporations in developing countries. *Journal of International Business Studies*, 15, 27–43.
- Lowi, T. (1964). *At the pleasure of the mayor: Patronage and power in New York City, 1898–1958*. New York: Free Press.
- Luo, Y., & Peng, M. (1999). Learning to compete in a transition economy: Experience, environment, and performance. *Journal of International Business Studies*, 30(2), 269–296.
- Luo, Y., & Zhao, H. (in press). Doing business in a transitional society: Economic environment and relational political strategy for multinationals. *Business & Society*.
- Maxwell, J., Lyon, T., & Hackett, T. (2000). Self-regulation and social welfare: The political economy of corporate environmentalism. *Journal of Law and Economics*, 43(2), 583–618.
- Moe, T. (1980). *The organization of interests: Incentives and internal dynamics of political interest groups*. Chicago: University of Chicago Press.
- Olsen, M. (1965). *The logic of collective action: Public goods and the theory of groups*. Boston: Harvard University Press.
- Porter, M. (1985). *Competitive advantage*. New York: Free Press.
- Pyramid Telecom. (1995a). Telecom & Wireless, Asia, October. Available from <http://www.pyramidresearch.com/insiders.htm>
- Pyramid Telecom. (1995b). Telecom & Wireless, Eastern Europe/CIS, November. Available from <http://www.pyramidresearch.com/insiders.htm>
- Pyramid Telecom. (1996). Telecom & Wireless, Eastern Europe/CIS, October. Available from <http://www.pyramidresearch.com/insiders.htm>
- Riker, W. (1962). *The theory of political coalitions*. New Haven, CT: Yale University Press.
- Ryan, M., Swanson, C., & Buchholz, R. (1987). *Corporate strategy, public policy, and the Fortune 500: How America's major corporations influence government*. Oxford, UK: Blackwell.
- Siegel, D., & Vitaliano, D. (2007). An empirical analysis of the strategic use of corporate social responsibility. *Journal of Economics & Management Strategy*, 16, 773–792.
- Snyder, J. (1991). On buying legislators. *Economics and Politics*, 3, 93–109.
- Spiller, P., & Gely, R. (1990). A rational choice theory of Supreme Court statutory decisions, with applications to the State Farm and Grove City cases. *Journal of Law, Economics and Organization*, 6(2), 263–301.
- Spiller, P., & Vanden Bergh, R. (2003). Toward a positive theory of state supreme court decision making. *Business and Politics*, 5(1), 7–43.
- Standard & Poor's (1996). *Research: Millicom International Cellular S.A.*, 22 May 1996. Available from <http://www.standardandpoors.com/home/en/us>
- Standard & Poor's (2004). *Research: Millicom International Cellular S.A.*, 29 January 2004. Available from <http://www.standardandpoors.com/home/en/us>
- Stigler, G. (1971). The theory of economic regulation. *Bell Journal of Economics and Management Science*, 2, 3–21.
- Vanden Bergh, R., & Holburn, G. (2007). Targeting corporate political strategy: Theory and evidence from the U.S. accounting industry. *Business and Politics*, 9(2), 1.
- Weingast, B., & Marshall, W. (1988). The industrial organization of Congress; or, why legislators, like firms, are not organized as markets. *Journal of Political Economy*, 96(1), 132–163.
- Williamson, O. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York: Free Press.
- Wilson, J. (1980). *The politics of regulation*. New York: Basic Books.
- World Bank. (2011). *World investment and political risk 2011*. Washington, DC: World Bank.

Appendix 1

World Bank (2011) Executives Survey

The survey was conducted on behalf of the World Bank's Multilateral Investment Guarantee Agency by the Economist Intelligence Unit. It contains the responses of 316 senior executives (146 chief-level) at multinational enterprises investing in developing countries. The geographic distribution of the respondents is Asia 62, North America 87, Europe 135, and the rest of world 32. The survey includes 186 organizations with revenue over \$500 million in the following industries (number of executives in parentheses): primary (26), manufacturing (80), services (110), finance (77), utilities/transportation/storage/communications (23). Quota sampling was used to ensure that the industry and geographic composition of the survey sample approximated the composition of actual foreign direct investment outflows to developing countries. We used the following survey questions in this paper.

Question 10a. In your opinion, which types of political risk are of most concern to your company when investing in emerging markets? Select up to three. Transfer and convertibility restrictions, breach of contract, non-honoring of government guarantees, expropriation/nationalization, adverse regulatory changes, war, terrorism, civil disturbance.

Question 11. In your opinion, in the developing countries where your firm invests presently, how do each of the risks listed below affect your company? Rate each risk on a scale of 1–5 where 1 = Very high impact and 5 = No impact. Transfer and convertibility restrictions, breach of contract, non-honoring of government guarantees, expropriation/nationalization, adverse regulatory changes, war, terrorism, civil disturbance.

Question 12. In the past 3 years has your company experienced financial losses due to any of the following risks? Select all that apply. Transfer and convertibility restrictions, breach of contract, non-honoring of government guarantees, expropriation/nationalization, adverse regulatory changes, war, terrorism, civil disturbance.

Question 13. To your knowledge, have any of the following risks caused your company to withdraw an existing investment or cancel planned investments over the past 12 months? Select one answer for each risk (see question 12). Withdraw existing investment, cancel planned invest-

ments, both withdraw and cancel, neither withdraw nor cancel, don't know.

Question 15. In your opinion, in the countries where your company invests, what are the most effective tools/mechanisms available to your firm for alleviating each of the following risks? Select one tool for each risk (see question 12). Engage with local public entities, joint venture with local enterprises, risk analysis/monitor, relationships with key political leaders, political risk insurance, risk insignificant for projects, no existing tool can alleviate this risk.