

Research-in-progress

## INTERNATIONAL BUSINESS AS UNUSUAL: NONMARKET STRATEGIES IN THE AGE OF EXTREME UNCERTAINTY

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### **ABSTRACT**

*In recent years, IB has seen significant advances in the field of nonmarket research and in the development of nonmarket strategies (NMS) aimed at improving the performance of firms by adequately tackling nonmarket challenges. By the 2020s, companies have also adopted a pro-active posture in nonmarket domains, i.e. by pursuing corporate social responsibility as well as corporate political activity. However, this shift had accounted only for what from the vantage point of today seems limited instability in and risks stemming from the nonmarket domain. Events of the early 2020s - the COVID-19 crisis, Ukraine War, and the seething US-China tensions, have heralded an era of extreme uncertainty for IB. This research note is a prelude to a conceptual paper that grapples with the ongoing global challenges for MNEs, and contemplates a new approach to formulating NMS that corresponds to the gravity of the risks posed by the changing nonmarket environment.*

**Keywords:** nonmarket strategy; extreme uncertainty; multinational enterprises; risk

**JEL classification:** F23; F50

### **1. INTRODUCTION**

This research note is part of a larger paper, whose goal is to rethink nonmarket strategies in the context of contemporary global developments, which herald an era of extreme uncertainty. The paper therefore has a three-fold research goal: 1) to provide an overview of the set of emerging challenges for MNEs originating in the nonmarket domains; 2) to take stock of existing approaches to nonmarket strategy; and 3) to propose ways to upgrade nonmarket strategies in the future. This research note provides insight into the first goal of the paper (overview of the challenges), while the other two goals are to be tackled later on.

Recognizing the significant impact of contexts that are noneconomic and social, IB scholars and corporate practitioners over the last decades made significant advances in the field of nonmarket research (Boddewyn, 2003; Mellahi *et al.*, 2016). This in turn has provided the grounds for the formulation of corporate nonmarket strategies (NMS) aimed at improving the firm's performance by adequately tackling challenges arising from the nonmarket domains. By the 2020s, companies, when operating internationally, not only factored in the dynamic nonmarket context of operation, but also adopted a pro-active posture in nonmarket domains, i.e. by pursuing corporate social responsibility as well as corporate political activity (Frynas *et al.*, 2017; Sun *et al.*, 2021).

This shift in perspective and behavior was not only framed in transactional terms, and was not only seen as driven by exogenous factors, but was rather intrinsically linked to a changing understanding of the social purpose of the modern business corporation (Buckley, 2021), a process that feeds into the existing debates on the stakeholder vs. shareholder perspective on the firm's purpose (Hillman and Keim, 2001). In sum, the mainstream view in IB today is that corporations, while adhering to their core business imperatives, are much more

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sensitized to a shareholder perspective and in particular the comprehensive sustainability imperative, e.g. something that is exemplified by the synthesis of the triple bottom line: people, planet, profit (Slaper and Hall, 2011). In that sense, by the 2020s, businesses and in particular MNEs have been well aware that having robust NMS is a prerequisite not only for improving their own competitiveness, but also achieving a positive social and planetary impact.

The change in posture among IB actors has been an outcome of a deeper process of soul-searching within IB. The long-term discontents with globalization and the pressures towards MNEs, the global financial crisis of 2008-09, and the complex geopolitical and social changes of the 2010s have propelled the relevance of the nonmarket domain for IB. In that sense, MNEs have accounted for what has been termed a volatile/ uncertain/ complex and ambiguous (VUCA) world (Burgartz *et al.*, 2016) in which there have been ever more “wicked” challenges (Rašković, 2022).

However, this shift had accounted only for what from the vantage point of today seems a limited instability in and risks stemming from the nonmarket domain. In other words, IB was ready for a crisis, but not for a catastrophe. The early 2020s have heralded an era of unprecedented uncertainty, in particular the COVID-19 pandemic, accelerating de-globalization stemming from US-China big power rivalry, and the palpable threat of nuclear apocalypse born out of the Ukraine War. Against the new backdrop, the traditional way of thinking about nonmarket challenges seems inadequate and inefficient. To borrow an analogy from the philosophy of freedom, in the pre-2020s world MNEs had largely seen the nonmarket domain through the lens of “positive freedom” – e.g. for the most part, the struggle for their survival was seen as rooted in the market; whereas in the nonmarket domain, they explored ways to further add value, improve competitiveness and make the world a better place. In the 2020s, however, the nonmarket specter has overshadowed markets, shaping a “negative freedom” agenda, and increasingly, conditioning the mere survival of businesses.

Companies in the 2020s thus face a daunting task of yet another reconsideration of their position in the social world, this time by also factoring in amplified risks and a nonmarket environment that is not only volatile, but also often hostile. In the next section of this paper, I overview some of these developments in the nonmarket domains.

## **2. OVERVIEW OF EMERGING CHALLENGES**

### **2.1. Overarching theme: extreme uncertainty**

The VUCA and ‘wicked’ descriptors come off as euphemisms when discussing contemporary developments and the emerging nonmarket environments. The magnitude of recent events has radically transformed not only social realities and contexts in which businesses operate, but also the way they think about their survival and existence in the world.

#### *2.1.1. COVID pandemic and anti-COVID measures*

The COVID pandemic has demonstrated that fat-tailed events can have an earth-shattering impact. While global risk consultancies have always considered the possibility of a worldwide spread of an airborne infectious disease, the common sense approach has been that this is only a distant possibility. However, almost three years into the pandemic, its devastating consequences are still being felt worldwide. At the same time, the swiftness with which anti-COVID measures (regardless of the evaluation of their justification or efficiency) have been implemented bringing about an unprecedented global “state of exception” have demonstrated that governments have greater ability to suspend common laws and regulations than previously assumed. While the anti-COVID measures diffused via a wave-like pattern,

they also significantly varied across countries, posing an unprecedented challenge for doing business across borders, but also within national borders, removing any sense of predictability and stability in global value chains.

### *2.1.2. Possibility of thermonuclear war*

The Ukraine War, on the other hand, has had a disillusioning effect for the believers in democratic peace. The pattern of escalation of the conflict has also ‘destabilized’ theories of mutual deterrence which has accounted on a certain form of rational approach of weapons of mass destruction, including nuclear weapons (Rost Rublee, 2022). The situation we live in today, according to security experts is comparable, if not more serious than past nuclear weapons’ crises. Events linked to the war, such as the sabotage of the NordStream 2 pipeline, which has happened inside the territorial waters of the EU, have also demonstrated that critical infrastructure is at a risk not only in faraway conflict states, but also in relatively secure and stable countries. The Ukraine War has also caused a severe energy crisis, which has added onto the economic crisis building up since the onset of the COVID-19 pandemic.

### *2.1.3. US-China rivalry*

These new major global events have taken place against the backdrop of seething US-China relations, which have reframed business as part of a global power struggle, adding new layer to business decision-making, as acts that are otherwise expression of business rationality are increasingly seen as expressions of political allegiance or ideology.

## **2.2. Securitization of business**

### *2.2.1. Protectionism*

Even before the pandemic and the Ukraine war, business was conducted less and less ‘as usual.’ An important factor in the process has been the rise of China and the rise of protectionism in the West as a response to it (Vangeli, 2021). In the post-GFC era, and in particular since 2012, the US government, some European governments, as well as the EU itself, have been gradually shifting towards strategic competition (as called in the US) and systemic rivalry (as called in the EU) with China. By connecting business to security, Americans and Europeans have been increasingly tapping into the protectionist playbook, often justifying the policy change as an act of transcending the perceived naive and permissive engagement-oriented idealism of the past (Rosen, 2018). US policymakers tried to boost comprehensive national competitiveness by erecting trade barriers that have spiraled into a trade and technological war, and have supported national industries to compete with China. Europeans also revamped their trade and investment regulations to be able to curb Chinese economic advent in Europe, albeit in a less antagonistic fashion than the US. However, in both of these instances we see not only a mere change in the policy repertoires, but first and foremost changes in the ideational structures that shape international business policy. The most intriguing aspect of the normative justification of the change in the attitude in the US and the EU is that the policy change is not necessarily framed as a reaction to the perceived shifts in China's behavior (as despite its growing global pro-activity, China sticks largely to the same policy model since 1978), but rather that they are framed as a reaction to the emerging belief that previous theories and policies centered on engagement and cooperation had failed (Johnston, 2019). As a consequence, companies in industries deemed to be of critical security relevance (a pool that is expanded by the day) need to adhere to political and security considerations, even if this is contrary to their commercial ones, while companies in non-sensitive sectors are also increasingly challenged by ongoing developments and tensions between China and the West.

### 2.2.2. Divestment

A new impetus to the links between business and security was given by the Ukraine War, which pushed IB into uncharted territories. Already in late February, during the first days of the Russian invasion (called ‘special military operation’ by Moscow), dozens of MNEs announced the cessation of their activities or even completely withdrawing from the Russian market (Glambosky and Peterburgsky, 2022). The pace and contagion of the divestment was unprecedented. While the fear of sanctions and the sense of endangerment played a role, the moral imperative was central in how the process unveiled. The rationale behind the decision to divest was unequivocally framed in nonmarket terms, as an act of solidarity with the Ukrainian people. This was a significant change in posture compared to the Ukraine crisis of 2014: MNEs back then adopted a posture of victims of geopolitics (Deresky, 2016, pp. 23–25); in contrast, in 2022 they have embraced their actorness.

### 2.3. Nonmarket logic of operating across borders

In light of COVID-19, US-China rivalry and the Ukraine war, the decision to internationalize has been never more complex than before. For MNEs, the development of global value chains has been a key to their growth. However, as a consequence of all of these developments, the functioning of the links in the GVCs has been brought into question. US-China trade war posed regulatory and policy challenges (van der Veen and van Mechelen, 2020). COVID-19 and the lockdowns disrupted physical logistical operations (Pujawan and Bah, 2022). And the Ukraine War amplified these challenges, while at the same time also shutting down important overland Eurasian routes. In the wake of these events, supply chain management has seen the shift from just-in-time to just-in-case philosophy behind supply chain development (Masters and Edgecliffe-Johnson, 2021), while also witnessing rise of ideas such as re-shoring, near-shoring and in particular ally-shoring (Dezenski and Austin, 2021), meaning that the decision to invest and internationalize is not only to be done upon considering nonmarket factors that affect the market calculus, but also by incorporating nonmarket principles that may override the market ones (e.g. political allegiances over lower costs).

### 2.4. New state interventionism

Aside from boosting economic protectionism, governments in the West have been also adopting an ever more pro-active role in their own economies. A big reason for this has been the sense of lagging behind in higher-end innovation behind China, and in general, the sense that key industries are ‘stuck’ and need a strong push from the state. Thus, we see a drive to support and create national, or in the case of EU, supranational champions in cutting-edge technologies, e.g. semiconductors or EV batteries (*The Economist*, 2019). This is a radical departure from the hands-off approach that has shaped the business environment in the decades prior. The emerging context then prompts MNEs to be much more closely following the economic agenda of national governments, interact and cooperate with them. Aside from innovation and industrial policies, Western governments also try to reinvigorate development finance, investment in connectivity and infrastructure, and economic cooperation overseas (again, partially in response to China’s Belt and Road Initiative). The proliferation of initiatives such as the US-led, G7-backed Partnership for Global Investment in Infrastructure (PGII) or EU’s Global Gateway aim to mobilize MNEs to this end.

### 2.5. New generation of mass politics and activism

Aside from all these macro-shifts on the global stage, there have been important micro-shifts in the nonmarket domains. A profound change in political culture due to a combination of technological factors as well as the effects of the multiple intertwined crisis have led to the

emergence of an unprecedentedly activist and vocal political participatory culture, that has a major impact on IB. There has been rise in a new generation radical mass politics, which has had several camps in terms of their ideological diversity. One is the nationalist-populist camp, which has greatly disrupted politics in a number of countries, including in the US, as well as in the EU, and presents a myriad of nonmarket challenges for MNEs (Blake *et al.*, n.d.). On the opposite side of the spectrum has been the rise of social justice movements and identity politics activism criticising MNEs for contributing to social injustice, discrimination, and exclusion, putting IB in a crossfire between those who blame companies for doing too much and those who think they do not enough (Warren, 2022). The sharp edges of these movements in the relations with companies, are captured by the term ‘cancel culture,’ a new, potent iteration of the practice of boycotting and pressuring companies to change their behaviors. There has also been a rise in green movements, that have reshaped international business policy, while also trying to hold companies accountable for their commitments to sustainability.

### 3. NEXT STEPS

In sum, this research note summarized the preliminary research on the trends that have reshaped the nonmarket context of IB, and call for a new approach to nonmarket strategy, that go well beyond the established repertoires. In the remainder of the paper, I will take stock of existing approaches to NMS and propose actionable recommendations for upgrading them and attuning them to the contemporary challenges MNEs face.

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