NON-MARKET STRATEGY RESEARCH

THROUGH THE LENS OF NEW INSTITUTIONAL ECONOMICS:

AN INTEGRATIVE REVIEW AND FUTURE DIRECTIONS

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ABSTRACT

Research summary: We use a novel theoretical framework to synthesize ostensibly disparate streams of non-market strategy research. We argue that faced with weak institutions, firms can create and appropriate value by either adapting to, augmenting, or transforming the existing institutional environment, and can do so either independently or in collaboration with others. We use the resulting typology of six distinct non-market strategies to provide an integrative review of non-market strategy research. We then extend this framework to examine the choice between non-market strategies, arguing that this choice depends upon whether the existing institutional environment is incomplete or captured, and discussing other drivers of non-market strategy choice, the relationship between these strategies, and their social impact, so as to provide an agenda for future research.

Managerial summary: The pursuit of competitive advantage often requires firms to operate in contexts where existing rules and regulations provide inadequate protection. Disruptive technologies open up new opportunities for value creation, but it takes years before appropriate regulations are introduced. Economic reforms open up new markets, but these are often regulated to favor incumbents and politically connected insiders. In such environments, managers must decide whether to adapt their strategies to the existing institutional environment, devote resources to improve it, or try to transform it altogether. In this article, we develop an integrative theoretical framework that connects and synthesizes research examining each of these options, and offers some preliminary thoughts on how managers may choose among these different approaches.

INTRODUCTION

During its relatively brief history, the field of strategic management has broadened its scope of inquiry to consider not just the *market* interactions that firms undertake in the pursuit of economic rents, but also the *non-market* interactions in which they engage for this purpose. Yet, despite a shared focus on firms' interactions with different elements of the institutional environment—the "rules of the game" governing economic interaction (North, 1990: 3; see also Ostrom, 1990: 51; Williamson, 1991: 287)—different streams of non-market strategy research have developed largely independently of each other. Research on firms' strategies to adapt to different institutional environments (Delios and Henisz, 2000; Henisz, 2000b; Henisz and Delios, 2001;

Henisz and Zelner, 2001; Peng, 2003) has developed separately from research on firms' corporate political action to influence these environments (Bonardi, Holburn, and Vanden Bergh, 2006; Oliver and Holzinger, 2008), and both of these streams remain largely disconnected from research on "private politics" between activists and firms (Baron, 2001, 2003; Eesley and Lenox, 2006; Reid and Toffel, 2009), stakeholder relations (Godfrey, Merrill, and Hansen, 2009; Henisz, Dorobantu, and Nartey, 2014), and related work within the domains of corporate social responsibility (Aguilera *et al.*, 2007; Vogel, 2006) and industry self-regulation (Barnett and King, 2008; King and Lenox, 2000; Lenox, 2006). As a result, while individual studies provide insight into different facets of firms' non-market strategies, non-market research as a whole fails to deliver an integrated understanding of the costs, benefits, and corresponding trade-offs of different strategic options.

In this paper, we develop a novel, integrative theoretical framework to synthesize ostensibly disparate streams of non-market strategy research. We ground our review in the New Institutional Economics (NIE) (North, 1986; Williamson, 2000), arguing that the diverse activities under the umbrella of non-market strategy reflect different ways of addressing institutional contexts that make transactions costly (or impossible) to undertake through the market. The study of non-market strategy may thus be conceived as the study of the alternative strategies that firms employ to create and appropriate value in the face of such "institutional costs".[1] Building on this perspective, we argue that firms can deal with weak institutional contexts—those that do not adequately support market transactions—in three ways: by *adapting* to existing institutional structures, *adding* to such structures by establishing supplementary local institutional structures, or *transforming* the institutional context itself. Further, firms do so either *independently* or *collaboratively* with others. The resulting framework offers a typology of six distinct types of non-market strategies—internalization, partnership, proactive,

[1] We do not mean to suggest that all non-market strategy research is (or should be) grounded in the NIE, but rather that the NIE lens is useful for reexamining and integrating research on non-market strategy.

collective, influence and coalition—based on strategic intent (adaptive, additive, or transformative) and the governance mode selected for implementation (independent or collaborative).

We use this novel typology to briefly review prior literature on each type of non-market strategy, highlighting the connections among the different streams. Building on the idea that non-market strategies reflect alternative ways of dealing with weak institutions, we then explore the factors that drive the choice among the six strategy types. Specifically, we argue that this choice will depend on whether existing institutional structures are incomplete (i.e., containing gaps that hinder all actors equally) or captured (i.e., asymmetrically favoring some actors over others) (Acemoglu and Johnson, 2005; Ostrom, 1990), and we develop propositions linking the choice of non-market strategy to the nature of the institutional environment. We also consider how non-market strategy choice is driven by firm capabilities and the nature of institutional costs, the relationships among different non-market strategies, and their social impact. These extensions of our integrative framework point to future opportunities for research in this important and growing area.

Our review contributes to research on non-market strategy in several ways. First, our novel typology draws together various streams of prior work under a common framework, stressing that these streams, while often studied independently, represent a portfolio of options from among which firms choose to address weak institutional environments. We thus connect research on entry modes (e.g., Anderson and Gatignon, 1986; Brouthers, 2002; Meyer *et al.*, 2009) and business groups (Khanna and Palepu, 2000; Guillen, 2000; Peng et al., 2005) with research on political risk management and stakeholder engagement (Baysinger, 1984; Baum and Oliver, 1991; Siegel, 2007; Henisz et al., 2014) as representing alternate ways in which firms *adapt* to institutional voids. We further link this research to work on corporate social responsibility (CSR) (e.g., Aguilera *et al.*, 2007; Maxwell, Lyon, and Hackett, 2000), industry self-regulation (e.g., King and Lenox, 2000; Lenox, 2006), and other forms of private politics (Baron, 2001; 2003; Reid and Toffel, 2009) through which firms establish *additional* institutional structures at the local level; as well as to research on corporate political action targeted at legislators and regulators (e.g., Bonardi *et al.*, 2006; De Figueiredo and Tiller, 2001; Hillman, Keim, and Schuler, 2004; Oliver and Holzinger, 2008) intended to *transform* existing institutional structures. Our review therefore provides a holistic perspective on the range of non-market strategies that firms use to interact with the institutional environment, and the relationships among these strategies.

Second, we refine existing conceptions about the institutional environment by moving beyond the general concept of institutional weakness (Meyer *et al.*, 2009; Peng, 2003) to emphasize the distinction between incomplete and captured institutions, which invite different strategic responses. We argue that this distinction provides a useful foundation for future research, and helps to explain both the choice among the different types of non-market strategies and the relationships among them. In doing so, we highlight that the institutional constraints faced by firms are not merely given, but are susceptible to modification by deliberate strategic action, and that these strategies in turn have different consequences for the welfare of society at large.

Third, our integrative framework sheds new light on research on CSR and sustainable business practices, conceptualizing these activities as ways in which firms augment the existing institutional environment by establishing lower-level decentralized institutions (Ingram and Clay, 2000; King, Lenox, and Terlaak, 2005) either proactively, by voluntarily committing to share value with key stakeholders (Porter and Kramer, 2011); or collectively, by binding themselves and their rivals to a common set of rules. In doing so, we also connect non-market strategy research to work on polycentric institutions and the collective governance of common pool resources (Ostrom, 1990; 2005), highlighting the existence of an intermediate alternative for addressing weak institutional environments that involves neither accepting them as given, nor working to transform them directly.

The rest of the paper proceeds as follows. Section 1 discusses the problem of institutional costs and develops a typology of non-market strategies to deal with such costs. Section 2 uses this typology to provide a brief integrative review of prior research across different but related areas. Section 3 then extends our framework to consider the choice of non-market strategies, arguing that this choice will be driven by the nature of the institutional environment—specifically, whether it is incomplete or captured—as well as the capabilities of the firm. Section 4 concludes with a brief summary of our contributions.

A TYPOLOGY OF NON-MARKET STRATEGIES

We begin by drawing on the New Institutional Economics (NIE) paradigm (Furubotn and Richter, 2010; North, 1986; Ostrom, 1990; Williamson, 2000) to define the domain of non-market strategy. NIE scholarship highlights that institutions are "the rules of the game in a society or, more formally… the humanly devised constraints that shape human interactions" (North, 1990: 3). While purposefully designed to reduce uncertainty (North, 1990: 6), institutions are rarely complete. The rules embodied in the existing institutional environment do not cover all potential transactions, and they become less complete as changes in technologies and preferences create the potential for new transactions (North, 1986; 1990), spurring a need for new or different rules. At the same time, the process through which the institutional environment evolves is path-dependent and contentious, as "institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to devise new rules" (North, 1990: 16)[2]. Underlying the evolution of institutions are thus the activities of firms, interest groups, and coalitions competing to protect and further their own interests (Henisz and

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[2] North's characterization of institutions also hints at a boundary condition of our review, which excludes deeply-seated elements of the institutional environment—such as intransient norms, values, and belief systems—that undoubtedly influence organizational behavior, but are themselves relatively resistant to purposive change (Banfield, 1958; Brinton and Nee, 2002; Granovetter, 1985; Williamson, 2000). We focus our review on formal elements such as statutes, regulations, and various other formal covenants that can and do change more frequently.

Zelner, 2005, 2006; King and Pearce, 2010; Rogowski, 1989; Weyland, 2004).

The inherent incompleteness of institutions implies that firms seeking to transact within a given institutional environment face substantial transaction costs—the costs of capturing and protecting value[3] (Barzel, 1997; Foss, 2003)—in undertaking transactions through the market. These costs result from both the attributes of the transaction, as a substantial body of work in the transaction cost economics (TCE) tradition (Williamson, 1975; 1991; 2000) has argued, and the attributes of the institutional environment in which the firm operates. We emphasize the latter source of costs using the borrowed term "institutional costs" (Cheung, 1987: 2733), which represent a given institutional environment's "fixed effect" on the transaction costs associated with each governance form, holding transaction attributes constant (Henisz and Williamson, 1999; Leiblein, Larsen, and Pedersen, 2014; see also Williamson, 1991: 186–294). Faced with high institutional costs of undertaking a transaction through the market, firms are likely to look beyond the market not only to enable transactions that would otherwise be prohibitively costly to undertake, but also to increase the share of value they appropriate from a given transaction.[4] We thus conceive of non-market strategies as the strategies that firms use to address high institutional costs of using the market, i.e., to create and appropriate value from transactions that are costly to undertake through the market on account of the weakness of the existing institutional environment (Marquis and Raynard, 2015).

As noted in the introduction, we argue that the various strategies that firms adopt to ameliorate high institutional costs may be classified along two dimensions: strategic intent and the governance mode selected for implementation. First consider strategic intent. In some cases, firms may accept the institutional environment as given and *adapt* to it by organizing the focal transaction

[3] In particular, firms transacting in weak institutional environments may face heightened ex post costs of monitoring, enforcement, and maladaptation, due to the greater potential for opportunism by transaction partners (Williamson, 1975)

[4] Such rent-maximizing behavior is consistent with the TCE assumption that firms seek to minimize the sum of transaction and production costs (Riordan and Williamson: 1985; Williamson 1991a: 282).

outside the market, using a governance mode (hierarchy or hybrid) with lower institutional costs (Williamson, 1975; 1991; 2000). Alternatively, they may intend to *transform* the institutional environment, reducing institutional costs by altering formal institutional structures and thus enabling greater value creation and appropriation through the market itself (North, 1990). In between these two extremes, they may also seek to *augment* the existing institutional context by creating local institutional structures within this context (Ostrom, 1990; 2005), reducing institutional costs for those that voluntarily commit to these new structures while leaving the institutional costs for all others unaffected. So, for example, a firm generating positive externalities in an institutional environment where such externalities are not rewarded might adapt to the environment either by internalizing the relevant transaction (Demsetz, 1967); transforming the environment through political action to demand a reward from the state for providing the externality (e.g., subsidies); or making a voluntary commitment to provide the externality in the expectation of being rewarded for doing so by relevant stakeholders (e.g. consumers, employees, etc.).

In pursuing its adaptive, additive, or transformative intent the firm must also choose whether to do so on its own, or in collaboration with others. Collaboration encompasses bilateral (Williamson, 1975, 1991) as well as multilateral governance arrangements (Ostrom, 1990, 2010; Jones, Hesterly, and Borgatti, 1997), and includes alliances with other firms as well as collaborations with other non-market stakeholders such as local communities, regulators, non-governmental organizations, and activists (e.g., Baron, Neale, and Rao, 2016; Bridoux and Stoelhorst, 2014; Faccio, 2006; Henisz *et al.*, 2014; Hillman and Keim, 2001). Such collaboration may be achieved through formal contracts that depend on the threat of legal penalties for enforcement (Dorobantu and Odziemkowska, 2016), or relational contracts that rely on the discipline of self-interest in repeated transactions (Baker et al., 2002; Gibbons, 2000; Poppo and Zenger, 2002).

Putting these two governance options—independent and collaborative—together with the three types of strategic intent results in the typology of non-market strategies shown in Table 1. Thus, firms seeking to adapt to the existing institutional environment may do so either through *internalization*, by placing the transaction within firm boundaries and seeking to independently create and appropriate value; or through *partnership*, by creating a hybrid governance form that lowers the risk of opportunism and allows two parties to collaborate to mutual benefit (Williamson, 1991). Similarly, firms seeking to augment the institutional environment may do so either *proactively*, volunteering to share value with others unilaterally in the expectation of being rewarded for doing so; or *collectively*, developing new rules and norms in collaboration with others to jointly create and manage common pool resources (Ostrom, 1990). Finally, firms seeking to transform the institutional environment may do so on their own (Hillman and Hitt, 1999) in order to *influence* the governing institutions to their exclusive advantage; or they may build *coalitions* with others to alter governing institutions in ways that benefit them all (Jia, 2014; Kaufman, Englander, and Marcus, 1993).

Insert Table 1 and Table 2 about here

These six types of non-market strategies are shown in Table 2, which summarizes the sources of value creation and appropriation under each strategy, as well as each strategy's effect on institutional costs. To develop the typology further, we undertake a brief review of prior research, using our novel typology as an organizing framework to provide a more integrated view of streams of research typically regarded as distinct from each other. We focus our discussion, therefore, on a few representative studies of each type of non-market strategy, without seeking to provide a comprehensive account of work in each area.

AN INTEGRATIVE REVIEW OF THE NON-MARKET STRATEGY LITERATURE

Adaptive Approaches

We begin our review by considering adaptive approaches through which firms accept the institutional environment as given, and use governance forms other than the market to create and appropriate value within the confines of existing institutions. As mentioned above, firms adapt to institutional environments that are not sufficiently supportive of market exchange by adopting alternative bilateral governance structures such as hierarchies or hybrids (Williamson, 1975; 1991) in order to ensure the appropriation of value from a transaction, while allowing for greater coordination in response to unforeseen contingencies (Williamson, 1991).

One such adaptive approach is to *internalize* the transaction, placing it within a firm's boundaries so as to reduce uncertainty about the share of the value that the firm expects to appropriate from the transaction. Thus, firms entering or operating in contexts where contract enforcement is weak (Acemoglu and Johnson, 2005; Cull and Xu, 2005) prefer to vertically integrate their operations (Acemoglu, Johnson, and Mitton, 2009; Antras and Helpman, 2004; Fabrizio, 2012b; Nunn, 2007) or establish wholly-owned units (Chari, Ouimet, and Tesar, 2009) so as to avoid expropriation by contract partners (Abdi and Aulakh, 2012). Similarly, firms operating in regimes with weak intellectual property protection also prefer greater integration (Lee and Mansfield, 1996; Oxley, 1999) to protect against the expropriation of knowledge. In addition to promoting vertical integration, the institutional environment may also motivate firms to organize their activities so as to safeguard against the possibility of third-party appropriation, both by limiting the extent of value-creation in countries with weak institutions (Acemoglu, Antràs, and Helpman, 2007; Allred and Park, 2007; Branstetter, Fisman, and Foley, 2006), and by configuring their activities in such settings to depend heavily on their operations elsewhere, in order to limit the potential for expropriation (Di Minin and Bianchi, 2011; Feinberg and Gupta, 2009; Nandkumar and Srikanth, 2015; Zhao, 2006)[5].

High institutional costs also induce firms to integrate multiple lines of business within the

[5] Firms may also choose not to operate in weak institutional environments entirely (Flores and Aguilera, 2007), including in contexts with high political hazards (Delios and Henisz, 2003; Henisz and Delios, 2001; Vaaler, 2008), weak contract enforcement (Cull and Xu, 2005; Fabrizio, 2012a; Markusen, 2001), and high levels of corruption (Brouthers, Gao, and McNicol, 2008; Globerman and Shapiro, 2003; Wei, 2000).

same organization. Firms operating in weak institutional environments diversify across a greater number of product lines (Kogut, Walker, and Anand, 2002; Wan and Hoskisson, 2003), creating internal structures that allow them to appropriate the value from key strategic resources and capabilities in ways that would be difficult to accomplish through existing factor markets (Chang and Hong, 2000; Ghemawat and Khanna, 1998; Khanna and Palepu, 2000; Khanna and Rivkin, 2001). So-called "business groups" thus bring together know-how and market access within a common organizational structure (Guillén, 2000; Kock and Guillén, 2001), permitting a firm to develop and leverage its social, reputational and political capital (Peng, Lee, and Wang, 2005), and providing it with preferential access to new growth opportunities (Manikandan and Ramachandran, 2014), with less risk of the value thus created being appropriated by exchange partners.

Weak institutional environments not only increase the costs of market transactions, they may also increase the costs of hierarchical governance, reducing the viability of internalization strategies. This is the case, for instance, in politically risky environments where firms face the hazard of state expropriation (Kobrin, 1979; Murtha and Lenway, 1994; Tallman, 1988; Uhlenbruck and Castro, 2000), either as a result of the political ideologies of those in power (Spencer, Murtha, and Lenway, 2005; Vaaler, 2008), or due to a lack of institutional checks and balances that limit executive discretion (Henisz, 2000a, 2000b; Henisz and Zelner, 2001). Firms operating in such environments prefer *partnership* strategies to internalization, using hybrid structures such as joint ventures and alliances (Brouthers, Brouthers, and Werner, 2003; Delios and Henisz, 2000; Henisz, 2000b; Meyer *et al.*, 2009) to attain greater legitimacy and influence (Delios and Henisz, 2000; Vasudeva, Spencer, and Teegen, 2012) and superior information access (Delios and Henisz, 2003), while limiting their exposure to the hazard of expropriation (Chan and Makino, 2007; Hill, Hwang, and W. Chan Kim, 1990). Similarly, firms prefer partnership strategies in contexts where pervasive corruption pressures raise the costs of placing activities within a hierarchical structure (Rodriguez, Uhlenbruck, and Eden, 2005; Smarzynska and Wei, 2000; Uhlenbruck *et al.*, 2006), choosing instead to use local partners to manage these pressures (Spencer and Gomez, 2011).

In addition to joint ventures and alliances with other firms, partnership strategies also include collaborations with non-market stakeholders to access valuable resources, better understand the institutional environment, generate support for local operations, and ultimately protect firm investments. These include forming political connections to key institutional actors such as the ruling elite (Baum and Oliver, 1991; Faccio, 2006; Leuz and Oberholzer-Gee, 2006; Siegel, 2007) or the military (Hiatt and Sine, 2016) in order to appropriate greater value within the existing institutional context.[6]. Such connections enhance firm value (Ferguson and Voth, 2008; Fisman, 2001; Johnson and Mitton, 2003; Khwaja and Mian, 2005) in a variety of ways, including by providing preferential access to government contracts and subsidies (Faccio, 2006; Johnson and Mitton, 2003) or capital (Boubakri, Cosset, and Saffar, 2008; Khwaja and Mian, 2005; Leuz and Oberholzer-Gee, 2006), especially in times of distress (Faccio, Masulis, and McConnell, 2006); obtaining less stringent oversight from regulators (Cho, Patten, and Roberts, 2006; Faccio, 2006; Fisman and Wang, 2015) and the judiciary (Ang and Jia, 2014); and securing superior access to those in power, resulting in such firms' being better informed (Hillman, Zardkoohi, and Bierman, 1999) and more attractive to potential partners (Siegel, 2007). Political ties are especially valuable in countries with higher levels of political corruption, lower protection of property rights, and a highly interventionist or non-democratic government (Faccio, 2006; Hellman, Jones, and Kaufmann, 2003); and in industries that are subject to more stringent government regulations (Ang, Ding, and Thong, 2013). At the same time, political connections are vulnerable to regime change, so that the advantage from such ties is likely short-lived in institutional environments characterized by macroeconomic or

[6] We discuss political strategies aimed at changing the existing institutional context in the section on transformative approaches below.

political instability (Fan, Wong, and Zhang, 2007; Leuz and Oberholzer-Gee, 2006).

In addition to ties with key political actors, firms also pursue partnerships with other influential and locally knowledgeable stakeholders (Baysinger, 1984; Keim and Zeithaml, 1986; O'Faircheallaigh, 2013, 2015), such as relationships with local communities (Dorobantu and Odziemkowska, 2016; Marquis and Battilana, 2009; Pfeffer and Salancik, 1978) and cross-sector collaborations with non-profits and government organizations (Capron and Gatignon, 2015; McDermott, Corredoira, and Kruse, 2009; Rangan, Samii, and Wassenhove, 2006). Research to understand the formation of these relations and their benefits is in its early days (Baron *et al.*, 2016; Dorobantu, Henisz, and Nartey, 2015; Henisz *et al.*, 2014), and more work in this area is required.

The choice of adaptive approaches is influenced by several factors.[7] First, firms with stronger technological capabilities face a higher risk of appropriation from exchange partners (Anderson and Gatignon, 1986; Williamson, 1975), and may therefore continue to prefer vertical integration, even in contexts where high political risks increase the institutional costs of hierarchical governance (Delios and Henisz, 2000; Guillén, 2003; Henisz, 2000b). For the same reason, firms pursuing more technologically sophisticated activities in countries with weak contracting regimes will have a stronger preference for vertical integration (Acemoglu *et al.*, 2009; Berry and Kaul, 2015). Second, a firm's prior experience influences its choice of an adaptive approach. Thus, firms with experience in countries with high institutional costs are less sensitive to political hazards (Delios and Henisz, 2003; García-Canal and Guillén, 2008; Holburn and Zelner, 2010), corruption pressures (Cuervo-Cazurra, 2006; Habib and Zurawicki, 2002), and other sources of institutional costs (Isobe, Makino, and Montgomery, 2000), as are those with prior contracting experience more generally (Fabrizio, 2012b), while those lacking such experience are especially susceptible to high institutional costs (Delios and Henisz, 2000; Guillén,

[7] As a vast body of work in the TCE tradition has pointed out, the choice of optimal governance mode is also influenced by transaction-level factors such as asset specificity, uncertainty, and frequency (Macher and Richman, 2008; Williamson, 1975, 1985).

2003; Perkins, 2014). Finally, the rules and norms of the institutional environment itself selectively privileges some governance forms, with legal restrictions limiting the range of alternatives available to firms (Brouthers, 2002; Brouthers *et al.*, 2003; Yiu and Makino, 2002), and making it harder for entrepreneurial startups (Brewer, 1993; Djankov *et al.*, 2002; Globerman and Shapiro, 2003) or foreign subsidiaries (Chan, Isobe, and Makino, 2008) to appropriate value. Firms also prefer strategies that are more prevalent in a given environment due to these forms' greater local legitimacy (Lu, 2002; Salomon and Wu, 2012; Wu and Salomon, 2016; Yiu and Makino, 2002).

Additive Approaches

While adaptive approaches leave the institutional costs of different governance structures unchanged, with firms choosing the optimal structure from among the existing options, additive approaches seek to lower institutional costs. They do so not by altering existing institutional structures, but by supplementing these structures with new, decentralized ones (Ingram and Clay, 2000; King *et al.*, 2005) to which participants commit voluntarily rather than in response to a mandate from the state, thus creating a polycentric institutional structure (Ostrom, 2005; Andersson and Ostrom, 2008). These new structures—which include both formal rules and informal norms—are local in that they only impact the institutional costs for those who voluntarily participate in these strategies, leaving the institutional costs for all others unaffected. Moreover, to succeed, these additional institutional structures must be consistent with the broader institutional environment (Ostrom, 1990).

Additive approaches are especially helpful in solving collective action problems, i.e., situations where interdependencies among actors create the potential for the creation of joint value, but this value is hard to realize in the absence of strong institutions (Olson, 1965). One important application of such approaches is in the management of common pool resources through *collective* strategies (Ostrom, 1990), in which actors define and voluntarily bind themselves to a constitution of shared rules and actions, that enable them to realize mutual gains through collaboration[8] (Ostrom, Gardner, and Walker, 1994) while using mutual monitoring or third-party agents to detect violations and impose appropriate penalties (Ostrom, 1990). By undertaking self-regulation, firms not only obtain the means to create and appropriate value through collaboration, but also avoid being subject to government rules (Gupta and Lad, 1983; Ingram and Clay, 2000; Maitland, 1985), which may be more onerous/less efficient than the rules defined locally by the actors themselves (Ostrom, 1990, 2005). Examples of such collective strategies include trade associations with explicit standards of conduct (Barnett and King, 2008; King and Lenox, 2000), industry peer networks (Zuckerman and Sgourev, 2006), commitment to voluntary disclosure norms (Bansal, 2005; Reid and Toffel, 2009) and certification by professional bodies (King *et al.*, 2005; Maxwell *et al.*, 2000). Market platforms that create the institutional infrastructure to enable cooperation and transactions among actors, such as crowdfunding or sharing economy platforms, represent collective strategies as well (Mair, Martí, and Ventresca, 2012). Collective strategies also include voluntary standard-setting organizations in technology-intensive industries (Chiao, Lerner, and Tirole, 2007; Leiponen, 2008; Rosenkopf and Tushman, 1998) that benefit the industry as a whole by creating consensus and managing fragmented intellectual property rights (Rysman and Simcoe, 2008).

In addition to forming collectives, firms may pursue an additive approach on their own by *proactively* sharing value with others in the expectation of being rewarded for doing so. Proactive strategies are valuable in the face of externalities: depending on the institutional environment, firms may be unable to appropriate value from the provision of positive externalities or the abatement of negative externalities, and consequently underinvest in the provision or abatement of these

[8] In so far as they involve collaboration with actors beyond the firm's dyadic relationships, and rely on the threat of collective sanctions to enforce cooperation, collective strategies are similar to network governance arrangements (Jones et al., 1997); the distinguishing characteristic of collective strategies being the explicit definition of, and self-enforced adherence to, a mutually agreed constitution of rules (Ostrom, 2010; Ostrom *et al.*, 1994)

externalities. For example, a firm with a manufacturing plant that produces harmful effluents located on a river bank might potentially create value for downstream communities by adopting (costly) practices to reduce or eliminate pollution, but may be unable to appropriate the value thus created given the diffuse and non-excludable nature of the benefit.

Firms facing such circumstances adopt proactive strategies and visibly commit to the provision (abatement) of a positive (negative) externality, in the hope that they will be rewarded for establishing a norm of better behavior, either by those who benefit from their actions directly, or from those who value responsible behavior more generally (Kaul and Luo, 2016; Vogel, 2006). In pursuing such a strategy, firms behave as "conditional cooperators" (Frey and Meier, 2004; Ostrom, 2005), sending a one-sided signal of responsible behavior in the expectation that actors involved in repeated transactions with the focal firm will reciprocate (Bosse, Phillips, and Harrison, 2009)[9]. So, for instance, the downstream communities in the river pollution example above are motivated to reward the focal firm because they recognize that not doing so will reduce the firm's profitability, leading it to revert to its original polluting ways.

Many activities under the CSR rubric may be considered proactive strategies. Thus, firms adopt sustainable resource practices (Hart, 1995; Hart and Dowell, 2010), socially responsible activities (Vogel, 2006), "bottom of the pyramid" strategies (London and Hart, 2010; Prahalad, 2007), and other proactive strategies to share value with their key stakeholders (Porter and Kramer, 2011) in the hope that such behavior will be financially rewarded (Barnett and Salomon, 2012; Eichholtz, Kok, and Quigley, 2010; Flammer, 2013; Henisz *et al.*, 2014; Hillman and Keim, 2001;

[9] It is the unilateral nature of proactive strategies that chiefly distinguishes them from strategies of partnership with stakeholders. Unlike partnerships, proactive strategies involve no formal or informal contracts with specific stakeholders promising their cooperation; just the general expectation of reciprocity, often from diffuse or indirectly linked actors.

Klassen and McLaughlin, 1996; Russo and Fouts, 1997; Waddock and Graves, 1997, 1997).[10] The rewards for proactive behavior take a variety of forms, including price premia (Casadesus-Masanell *et al.*, 2009; Elfenbein and McManus, 2010; Fosfuri, Giarratana, and Roca, 2014; Lev, Petrovits, and Radhakrishnan, 2010), reduced labor costs (Burbano, 2014; Flammer and Luo, 2016; Greening and Turban, 2000; Turban and Greening, 1997), lower capital costs (Eccles, Ioannou, and Serafeim, 2014; Mackey, Mackey, and Barney, 2007; Porter and Kramer, 2006), insurance against adverse events (Fombrun, Gardberg, and Barnett, 2000; Godfrey, 2005; Godfrey *et al.*, 2009), cooperation by key stakeholder groups (Boutilier, 2009; Coff, 1999; Henisz *et al.*, 2014), and better reputation (Minor and Morgan, 2011). Proactive strategies also help firms to be better prepared for anticipated regulation (Fremeth and Shaver, 2014), giving them a competitive advantage in the future.

Several factors make additive approaches—both collective and proactive—more attractive. First, additive approaches are especially attractive in contexts where pressure from activist stakeholders (Hoffman, 1999; King, 2008; Lyon and Maxwell, 2004a; Marquis, Glynn, and Davis, 2007; Soule, 2009) increases the chance of stricter regulations (Maxwell *et al.*, 2000) or threatens firm financial performance more generally (Bartley and Child, 2011; Davidson, Worrell, and El-Jelly, 1995; King and Soule, 2007; Vasi and King, 2012). Such strategies are thus preferred where firms face sustained grassroots opposition (Hiatt, Sine, and Tolbert, 2009; Soule, 2009; Soule, Swaminathan, and Tihanyi, 2014; Weber, Heinze, and DeSoucey, 2008; Weber, Rao, and Thomas, 2009b) from powerful stakeholders (Mitchell, Agle, and Wood, 1997) with urgent demands (Eesley and Lenox, 2006; King and Soule, 2007). These stakeholders include activists (Baron, 2001, 2009; Baron and Diermeier, 2007; den Hond and de Bakker, 2007; Sharma and Henriques, 2005), public interest groups (Greening and Gray, 1994), market stakeholders (Stevens *et al.*, 2005), consumers

[10] There may, of course, be ethical arguments for firms pursuing socially responsible activities, even if they do not result in value appropriation. In this review, however, we follow recent strategy literature in taking a more instrumental view of CSR activities (Aguilera *et al.*, 2007; McWilliams and Siegel, 2010).

(Christmann and Taylor, 2006; Sen and Bhattacharya, 2001; Servaes and Tamayo, 2013) and local communities (Marquis *et al.*, 2007). By the same logic, additive approaches are also especially attractive to firms that are highly vulnerable to institutional pressures (Bartley and Child, 2014; Briscoe, Chin, and Hambrick, 2014; Delmas and Toffel, 2008; King, 2008).

Second, additive approaches have a greater chance of success when they are supported by strong norms of reciprocity (Bosse *et al.*, 2009; Ostrom, 2005) and an institutional environment that facilitates transparency and information diffusion. Firms operating in countries with strong civil society and press freedom (Dyck, Volchkova, and Zingales, 2008; Toffel, Short, and Ouellet, 2015) are thus more likely to pursue additive approaches. By the same logic, such strategies are also more attractive in countries with more stringent domestic laws and enforcement regimes (Locke, 2013; Locke, Qin, and Brause, 2007; Short and Toffel, 2010) and for multinational firms originating in or exporting to countries with stronger social norms (Harrison and Scorse, 2010; Vasudeva, 2013).

Third, additive approaches are more likely to succeed if the actors involved are structurally embedded in a network of prior ties (Granovetter, 1985), both because the trust associated with structural embeddedness makes it easier to recruit for and organize the collective governance arrangement in the first place (Yenkey, 2015), and because the network of existing relationships facilitates the collection and dissemination of information, as well as the coordination of collective sanctions to limit non-compliance (Jones *et al.*, 1997). Thus, collective strategies in particular are more successful if they involve actors joined by prior common bonds (Seamans, Luo, and Chatterji, 2015), and proactive strategies yield greater rewards when strongly embedded within a local community (Marquis *et al.*, 2007). Structural embeddedness may also prove harmful, however, if subsets of actors cluster together to try to co-opt the collective to their own ends (Yue, Luo, and Ingram, 2013), or if they engage in political conflicts with each other (Simcoe, 2012).

Finally, additive approaches are more likely to succeed where competitive conditions, information technologies, or the presence of third party monitors make signals about compliance with self-imposed rules widely available. Such arrangements are more successful when monitoring is in the hands of a private, independent body with relevant capabilities (King and Lenox, 2000; Lenox, 2006; Terlaak and King, 2006), where industry or general economic factors create competitive conditions that incentivize high-performing firms to differentiate themselves (Bagnoli and Watts, 2003; Campbell, 2007; McWilliams and Siegel, 2001), and where mechanisms exist to distinguish substantive efforts to act responsibly from symbolic actions (Bansal and Clelland, 2004; Delmas and Montes-Sancho, 2010; Hawn and Ioannou, 2014; McDonnell and King, 2013).

Transformative Approaches

A third type of non-market strategy focuses on transforming the existing institutional environment, altering the institutional costs not just for those who voluntarily commit (as with additive approaches), but for all relevant parties. Importantly, such transformative approaches involve not only lowering the institutional costs for those undertaking the strategy themselves, but may also involve raising the institutional costs for others, e.g., through lobbying for protective trade policies (Bonardi, 2004; Schuler, 1996) or regulatory barriers to competition (Dean and Brown, 1995; Maijoor and Witteloostuijn, 1996; McWilliams, Van Fleet, and Cory, 2002). Such approaches include *influence* strategies whereby firms seek to alter the institutional environment to their exclusive advantage (Hillman and Hitt, 1999), or *coalition* strategies whereby firms collaborate to effect institutional changes that benefit all firms or a subgroup of them (Jia, 2014; Kaufman *et al*., 1993). Thus, coalition strategies work either to lower institutional costs for all relevant parties, or to provide an asymmetric advantage for members of the coalition by either lowering their institutional costs exclusively, or raising the institutional costs for non-members.

Firms pursuing transformative approaches undertake various forms of corporate political activity (Hillman and Hitt, 1999; Hillman, Keim, and Schuler, 2004; Ring, Lenway, and Govekar,

1990) intended to alter elements of the institutional environment (Boddewyn and Brewer, 1994; Burris, 1987; Oliver, 1991; Stigler, 1971). Specific activities include lobbying (De Figueiredo and Silverman, 2006; De Figueiredo and Tiller, 2001) and making campaign contributions (Burris, 1987; De Figueiredo and Edwards, 2007; Hadani and Schuler, 2013). Such activities are targeted either at the legislators who formulate laws and policies or at the regulators who implement and enforce them (De Figueiredo and Tiller, 2001; De Figueiredo and Edwards, 2007), with the choice between the two driven by which is more pivotal for the firm (Holburn and Bergh, 2004, 2008). Transformative approaches include co-opting key institutional actors to the firm's advantage, or convincing such actors of the need for new or modified rules by providing relevant information and evidence of grassroots support (Hillman and Hitt, 1999; Hillman and Wan, 2005; Keim and Zeithaml, 1986)

Because transformative approaches have the potential to negatively affect non-participants, they are inherently prone to political contestation by other firms and interest groups (Bonardi, Hillman, and Keim, 2005; Laffont and Tirole, 1991; Peltzman, 1976; Stigler, 1971). As a result, research seeking to assess the average effect of such strategies on firm performance is inconclusive (Hadani and Schuler, 2013), and the success of a transformative approach depends on the nature of the political context (Hillman and Keim, 1995; Hillman and Hitt, 1999; Hillman and Wan, 2005; Oliver and Holzinger, 2008; Schuler, Rehbein, and Cramer, 2002) as well as the firm's resources and capabilities (Boddewyn and Brewer, 1994; Henisz and Zelner, 2012, 2003; Sawant, 2012).

Consider the political context first. The costs of driving institutional change are typically lower in contexts with fewer effective checks and balances to limit the discretion of government actors (Bonardi *et al.*, 2006; Henisz and Zelner, 2005, 2006; Sawant, 2012). Specific examples include environments with less powerful bureaucracies (Hillman and Keim, 1995), less economic freedom (Blumentritt, 2003), weaker or less autonomous agencies (Clougherty, 2005), greater political rivalry (Bonardi *et al.*, 2006), less independent judiciaries (Boubakri *et al.*, 2008), and greater corruption

(Faccio, 2006). The cost of transforming the institutional environment is also lower when existing institutions diverge from a legitimate reference point (Henisz and Zelner, 2005) and when the issue being considered is narrower, less salient, or newer, imbuing government officials with greater discretion (Bonardi and Keim, 2005; Henisz and Zelner, 2005; Keim and Zeithaml, 1986). In addition, the cost of transforming the institutional environment is likely to be higher in the face of stronger competition from groups with opposed interests (Bonardi *et al.*, 2006; Henisz and Zelner, 2006; Laffont and Tirole, 1991). In contrast, when a firm is able to seek institutional change in collaboration with others, as would be the case in concentrated industries (Grier, Munger, and Roberts, 1994; Schuler *et al.*, 2002) or industries with strong inter-firm networks (Mizruchi, 1989; Mizruchi and Koenig, 1986), this cost is likely lower. Finally, transformative approaches are also more likely to be pursued in contexts where the impact of existing institutional structures on the firm's business is greater (Hadani and Schuler, 2013; Hillman, 2005), as in more tightly regulated industries or those that rely more heavily on government contracts (Burris, 1987; Grier *et al.*, 1994; Schuler *et al.*, 2002).

In addition to being influenced by the political context, the success of transformative approaches also depends on the capabilities and experience of the firm itself. Firms with greater size, age, diversification and slack (Lenway and Rehbein, 1991; Meznar and Nigh, 1995; Schuler, 1996; Schuler *et al.*, 2002) find it easier to influence political actors on account of their greater credibility and bargaining power (Hillman and Hitt, 1999; Hillman *et al.*, 2004). Similarly, firms with a strong record of social performance may be seen as more legitimate by political actors, and therefore find it less costly to effect institutional change (McDonnell and Werner, 2014; Werner, 2015). The costs of such strategies are also lower for firms that have superior access through political representation (De Figueiredo and Silverman, 2006; Schuler *et al.*, 2002) or offices near the seat of power (Ma and Delios, 2010; Rehbein and Schuler, 1999), and for firms with experience effecting regulatory change (Bonardi *et al.*, 2006; Holburn and Zelner, 2010) and greater adaptability to different institutional environments (Oliver and Holzinger, 2008).

NON-MARKET STRATEGIES: CHOICE AND IMPLICATIONS

Having used our integrative framework to review prior work on non-market strategy, we now extend the framework to highlight new opportunities for future research. In particular, we focus on the *choice* among the six types of non-market strategies identified by the typology. In what follows, we therefore consider the various factors—the nature of the institutional environment, the capabilities of the firm, and the nature of the costs associated with the focal activity—that may drive firms to prefer one type of non-market strategy over the other. In addition, we also consider the relationship among the various strategies, and their implications for social performance. Our discussion of these implications is necessarily somewhat speculative, and is meant not so much to provide a definite theory of non-market strategy choice as to provoke further research and exploration of these important questions.

Incomplete vs. captured institutions

As we move beyond the prior literature to consider the theoretical implications of our integrative framework, we start by considering how the six types of non-market strategies relate to the nature of the institutional environment. Specifically, we focus on a distinction between *incomplete institutions,* wherein the rules and structures governing value appropriation are either absent or insufficiently enforced to support value creation and appropriation, and *captured institutions*, wherein robust rules and structures exist, but have been captured by a narrow set of elite interests.[11] This distinction reflects two alternate theories of the state: a "contract theory" wherein the state provides a legal framework that enables exchange partners to contract with each other; and a "predatory theory" in which state serves an instrument for transferring resources from one group to another (Acemoglu

[11] Institutional diversity has been the focus of extensive research in both political science and political economy (e.g., Acemoglu and Robinson, 2013; Hall and Soskice, 2001; North, 1981; North and Weingast, 1989; Olson, 1993; Ostrom, 2005) and sociology and organizational theory (e.g., Boisot and Child, 1996; Fligstein, 1996; Meyer and Rowan, 1977; Powell and DiMaggio, 1991), a full review of which is beyond our current scope.

and Johnson, 2005; North, 1981). Under incomplete institutions, institutional costs are symmetric and high for all involved, while under captured institutions such costs are low for those who have captured the institutions (insiders) and high for all others (outsiders).[12]

Contexts characterized by *incomplete* institutions thus include those where regulations are either absent (Acemoglu and Johnson, 2005; Nunn, 2007) or too unpredictable or weakly enforced for transacting parties to rely on them (Henisz and Zelner, 2003; Jandhyala, 2013; La Porta, Lopez-de-Silanes, and Shleifer, 2008; Perkins, Morck, and Yeung, 2014), with the result that firms face high ex ante uncertainty about their ability to appropriate value. This uncertainty is symmetric, however: the state does not discriminate between parties, it simply provides weak protection for everyone.[13] Examples of incomplete institutions include weak rule of law (Kaufmann et al., 2009), weak IP protection (Zhao, 2006), underdeveloped stock exchanges (Weber, Davis, and Lounsbury, 2009a) and the lack of minority shareholder protection (Djankov *et al.*, 2008; Guillén and Capron, 2016). Such situations are most likely to arise where changes in technologies or preferences create new market conditions for which rules do not yet exist (North, 1990), where the state lacks the information or the ability to design institutions that are conducive to economic exchange (Ostrom, 1990), or where sudden changes in the political and economic system (such as those in former communist countries) have de-legitimized the old institutions without replacing them with new ones. Firms operating in environments characterized by incomplete institutions face high institutional costs due to the risk of opportunistic action by their transaction partners (Cull and Xu, 2005; Lee and Mansfield, 1996; Markusen, 2001).

[12] An institutional environment may be both incomplete and captured, as it is the case in situations of "partial reform equilibrium," where *de jure* formal regulations are insufficiently specified or contradictory, and *de facto* government policies serve merely to further the interests of a few elite actors (Hellman, 1998; Hellman, Jones, and Kaufmann, 2003). In such cases, the incompleteness of the environment is reflected in the difference in average institutional costs *between* this environment and others, while the extent of capture is reflected in the difference in relative costs *within* the environment.

[13] Of course, firms may differ in their ability to deal with the incompleteness of institutions; a point we return to below.

In contexts characterized by *captured* institutions, institutional costs are asymmetric because existing structures prioritize the interests of a narrow set of elite actors, impairing the ability of others to capture value from a transaction (Hellman, 1998; Holburn and Vanden Bergh, 2006; Laffont and Tirole, 1991). This would be the case where regulations are unduly burdensome or restrictive (Brewer, 1993; Djankov *et al.*, 2002; Globerman and Shapiro, 2003), where autocratic regimes place few checks and balances on political actors (Bonardi *et al.*, 2006; Henisz, 2000a, 2000b; Henisz and Zelner, 2001; Li and Resnick, 2003), or where high levels of corruption (Mauro, 1995; Weitzel and Berns, 2006) or ethnic polarization (Holburn and Zelner, 2010; Montalvo and Reynal-Querol, 2005) disproportionately favor insiders[14]. Firms seeking to operate in such environments face high institutional costs due to the risk of value expropriation by the state and its elites (Delios and Henisz, 2003; Henisz and Delios, 2001; Kobrin, 1984; Spiller, 2013). Captured institutions may begin as incomplete institutions that motivated, powerful actors shape to favor their own interests, becoming more entrenched over time (North, 1990). Table 3 summarizes the distinction between incomplete and captured institutions.

Insert Table 3 about here

Non-market strategy choice

This distinction between incomplete institutions and captured institutions has important implications for firms' *choices* of non-market strategy, with the appropriate strategy for a given firm depending on whether the existing institutional environment is incomplete or captured and, in the case of captured institutions, whether the institutional costs that the firm faces are relatively low or high (i.e., whether the focal firm is part of the insider group that captured the institutions or not). Of

[14] Empirical measures of institutional capture used in the literature include Polity IV measures (Marshall and Jaggers, 2000), POLCON (Henisz, 2000a), measures of country risk for foreign investors (Knack and Keefer, 1995) and of corruption (Kaufmann, Kraay, and Mastruzzi, 2009), and various indicators of checks and balances from the World Bank Database of Political Institutions (Beck *et al.*, 2001).

course, these are not the only factors that drive non-market strategy choice; as discussed in our review above, prior research suggests several other influential factors as well. In the discussion that follows, we emphasize the role of incomplete vs. captured institutions here as being a relatively underexplored antecedent of non-market strategy, one that complements and potentially moderates the effect of the other drivers considered in prior research.

First consider the case where the firm's intent is to pursue an adaptive approach. In environments characterized by incomplete institutions, institutional costs are driven by the risk of opportunistic behavior by transaction partners, so that firms in such environments are likely to prefer *internalization* strategies, placing key economic transactions within the firm in order to secure property rights and avoid hold-up (Alchian and Demsetz, 1972; Williamson, 1975). By vertically integrating critical transactions (Berry and Kaul, 2015; Lee and Mansfield, 1996; Nunn, 2007) or diversifying into multiple related product lines (Kogut *et al.*, 2002; Wan and Hoskisson, 2003) to share key resources and capabilities—possibly among business group affiliates (Chang and Hong, 2000; Ghemawat and Khanna, 1998; Khanna and Palepu, 2000; Khanna and Rivkin, 2001)—firms are more likely to minimize the institutional costs associated with incomplete institutions.

In contrast, firms operating in captured institutional environments are more likely to choose *partnership* strategies. In such environments, outsider firms will seek to forge connections with better connected actors through political ties (Chen *et al.*, 2011; Faccio, 2006), alliances with politically connected firms (Baum and Oliver, 1991; Hiatt and Sine, 2014; Siegel, 2007; Vasudeva *et al.*, 2012; Xin and Pearce, 1996), or links to influential or high status global actors (Hainz and Kleimeier, 2012; Woodhouse, 2005). Such connections will afford firms access to better local information (Delios and Henisz, 2003; Henisz and Delios, 2004) and opportunities to influence decisions on the appropriation of value and regulatory treatment (García-Canal and Guillén, 2008; Kock and Guillén, 2001; Peng *et al.*, 2005), effectively lowering their institutional costs to the level of their partners. For insider firms, their political ties (and the relatively low institutional costs that result) will reflect a source of competitive advantage that also increases these firms' attractiveness as potential partners (Siegel, 2007). Thus, outsider firms are likely to pursue partnerships with insider firms when they operate under captured institutions.

Next consider firms seeking to augment the institutional environment. Firms operating in environments characterized by incomplete institutions will be strongly motivated to adopt *proactive* strategies, differentiating themselves from the competition through corporate philanthropy (Marquis and Lee, 2013) or other CSR initiatives (Porter and Kramer, 2011), and thereby securing the future cooperation of key stakeholders (Dorobantu *et al.*, 2015). Proactive strategies are less likely to be pursued under captured institutions, because such strategies may be viewed with suspicion given the perception of widespread corruption (Montiel, Husted and Christmann 2012), and are subject to sabotage by government and elite interests seeking to protect the status quo (Hellman, 1998). If proactive strategies are pursued in captured institutional contexts, they are more likely to be pursued by insider firms, who may choose to share some of the value gained from institutional asymmetry with key stakeholders in order to maintain the legitimacy of their political connections and protect them from disruption (McDonnell and Werner, 2014), though such activities may be largely symbolic (Marquis and Qian, 2013).

Similarly, *collective* strategies are also more likely to be pursued under incomplete institutions, with firms collaborating with each other and with non-market stakeholders to establish new self-regulatory institutions (Barnett and King, 2008; King and Lenox, 2000; Lenox, 2006; Ostrom, 1990) in order to limit the likelihood or reach of new regulations (Lyon and Maxwell, 2004b, 2011; Maxwell *et al.*, 2000), or to prepare for the future strengthening of institutional structures (Fremeth and Shaver, 2014). Collective strategies are less likely to be pursued under captured institutions because attempts to establish alternative institutions are likely to fail unless supported by the state

(Ostrom, 1990), which may view these as a threat to its ability to appropriate value. Where collective strategies are, in fact, pursued under captured institutions, they are likely to be undertaken by outsider firms working collaboratively to supplement existing regulations, potentially as a precursor to transformative action.

Finally, consider strategies intended to transform the environment. Firms facing incomplete institutions are likely to pursue *coalition* strategies because high institutional costs affect all firms symmetrically, so that political action to lower these costs is in the mutual interest of all parties (Jia, 2014; Kaufmann et al., 1993; Schuler *et al.*, 2002) and initiatives providing broad benefits are relatively easy to design (Oliver, 1991). In contrast, firms operating in captured institutional environments are more likely to pursue *influence* strategies in the political contestation over favored status. Independent political action (Bonardi, 2004; Hansen, Mitchell, and Drope, 2005; Hillman and Hitt, 1999) to concentrate the benefits of such status is more common in this case, with this effect being stronger for insider firms that already enjoy favored status and are therefore in a strong position to further improve their situation (Hellman *et al.*, 2003; Stigler, 1971). Conversely, outsider firms under captured institutions may be driven to pursue coalition strategies, collaborating with each other to overcome the disadvantage of their inferior status in an attempt either to lower their own institutional costs, or raise to those of the beneficiaries of existing institutional structures.

The propositions arising from this discussion are summarized in Table 4. Note that the logic underlying these propositions is that the firm will choose the non-market strategy that best enables it to create and appropriate value in the given institutional environment. It follows that that firms conforming to these predictions should exhibit stronger financial performance. In this sense, Table 4 does not simply predict non-market strategy choice, it also offers predictions about the effect of the existing institutional environment on the financial impact of non-market strategies.

Insert Table 4 about here

Other predictors of non-market strategy choice

The choice of non-market strategy may also depend on characteristics of the firm itself, as shown in Table 4. Specifically, firms with strong capabilities[15] may prefer to pursue non-market strategies independently so as to enhance their competitive advantage. Such firms are likely to prefer strategies of vertical integration to protect their superior resources and capabilities (Delios and Henisz, 2000; Guillén, 2003). To the extent that they have more value to share with stakeholders and are able to undertake socially responsible actions more efficiently, they may also be in a better position to pursue proactive strategies (Kaul and Luo, 2016). When it comes to transforming the existing institutional context, however, firms with superior capabilities may prefer coalition strategies, as they are better positioned to provide information and build consensus in the political arena in an effort to sway the coalition in their favor (Jia and Mayer, 2015). For the same reason, firms with superior capabilities are also more likely to pursue collective strategies, persuading other, less capable firms to join them in creating value, and thus conferring legitimacy to the collective arrangement.

Conversely, partnership strategies may be more common among firms with inferior capabilities, which perceive greater benefits from partnering with politically connected actors despite the possible risk of expropriation by the partner (Perkins *et al.*, 2014). Indeed, political connections may be a way for firms with inferior strategic capabilities to attract partners with greater technological and business expertise, as noted above. Firms with inferior capabilities are also more likely to rely on regulatory barriers to protect themselves from competition, and they may be well positioned to pursue influence strategies (Bonardi *et al.*, 2005; Henisz and Zelner, 2004) under captured institutions, especially if they are entrenched incumbents that benefit under the status quo

[15] These may include technological or other functional (marketing, manufacturing, etc.) capabilities, as well as strategic resources (Barney, 1991).

(Hillman and Hitt, 1999; Hillman *et al.*, 2004; Schuler *et al.*, 2002), which they find relatively easy to maintain (Oliver and Holzinger, 2008).

The choice of non-market strategy may further depend on the extent to which institutional costs are specific to a given firm (Kaufman *et al.*, 1993). In particular, firms facing institutional costs that are relatively specific to them are more likely to choose adaptive approaches. So, for instance, firms that introduce radical new technologies may be confronted with previously unrevealed gaps in the institutional environment (North, 1990), and may therefore prefer adaptive approaches (Langlois and Robertson, 1995; Kaul, 2013). Similarly, additive approaches are likely to be preferred only where there is a natural or well-defined bound to the local institutional structure, i.e., where the high institutional costs apply to a clearly bounded set of actors (e.g. firms in the same industry or the same country), and where the benefits establishing and enforcing new rules are at least partially excludable (Ostrom, 1990). In the absence of such boundaries, additive approaches are likely to be subject to free-riding problems, and therefore unlikely to succeed. Thus, where institutional costs are general rather than bounded (or where the benefits from the local institution are non-excludable), transformative approaches may be the most appropriate, because changes to the existing institutions are in the general interest, and may therefore be less costly to undertake.

The six strategies discussed above are not mutually exclusive and may complement each other. For instance, in environments characterized by incomplete institutions, proactive and collective strategies will frequently be pursued together, with firms using the former to differentiate themselves, while simultaneously pursuing the latter to create greater awareness and legitimacy for their actions. Collective strategies may also naturally complement coalition strategies, with firms collaborating with each other to both create new local institutions and transform higher level institutions within a polycentric structure (Andersson and Ostrom, 2008; Ostrom, 2010). Similarly, strategies of partnership and influence may be natural complements, especially under captured institutions, with the same political ties that give a firm access to better information and preferential treatment under existing institutional structures proving useful when the firm tries to change those rules to its advantage.

Implications for social performance

Finally, it is worth noting that while the firm's choice of non-market strategy is driven by its own interests, such strategies may have broader social performance consequences. For example, additive approaches are likely to have positive consequences: because participation in (and reciprocation of) these strategies is voluntary, and they only impact the institutional costs of the firms that pursue them, the success of such strategies requires that they be Pareto optimal. Positive social performance may be especially salient for proactive strategies, a central feature of which is that they enable firms to do well while doing good (Margolis and Walsh, 2003; Porter and Kramer, 2006; Russo and Fouts, 1997; Waddock and Graves, 1997).

On the other hand, influence strategies aim to create asymmetric institutional costs, benefiting the focal firm at the cost of others. Such strategies may be socially harmful, serving to restrict competition and limit innovation (Khwaja and Mian, 2005; Luo and Chung, 2012), and helping to create and maintain institutional capture (Luo and Chung, 2012; Morck, Wolfenzon, and Yeung, 2005). Similarly, strategies of partnership with political or other elite actors may also be socially harmful insofar as they serve to strengthen and perpetuate captured institutions, further harming those who are excluded or marginalized by captured institutions (Jong-sung and Khagram, 2005; Morck *et al.*, 2005; Morck and Yeung, 2004).

In between these two extremes, internalization strategies are likely to be neutral in terms of social impact, since the essence of these strategies is that the value created by the firm's action is captured internally. The effect of coalition strategies depends on whether the coalition seeks to lower institutional costs for all, possibly in the face of incomplete institutions, in which case such strategies are socially beneficial; or to lower the institutional costs for its members only, while potentially raising them for others, thus perpetuating socially harmful institutional capture.

CONCLUSION

Using a novel, theoretically-motivated framework, we have provided an integrative review of multiple research streams under the umbrella of non-market strategy. Our review makes several specific contributions to the study of non-market strategy. First, we have used our novel framework to synthesize multiple streams of research that have hitherto been seen as largely distinct, highlighting the connections among these streams. Specifically, we have reconceptualized non-market strategy research as being fundamentally concerned with how best to organize activities subject to high transaction costs resulting from weak institutional environments. This reconceptualization is especially novel in its incorporation of work on stakeholder relations and corporate social responsibility. While much research views these activities as being primarily concerned with firms' responsibility to their stakeholders or society at large, our alternative perspective views them as ways to create and appropriate value from externalities without internalizing the relevant transactions within the firm. For example, viewed through the theoretical lens that we offer, CSR represents not just a way to "do good" (while possibly doing well), but is mainly a strategy through which firms realize the value of their externalities by establishing and voluntarily committing to a new set of local institutional structures, with the expectation that they will be rewarded for such activities by stakeholders who find it in their own best interest to incentivize the firm to continue its CSR activities.

Second, our review not only highlights the links among diverse streams of non-market strategy research, but also draws attention to the strategic choice among them. By developing a set of propositions linking the choice among different types of non-market strategies to the nature of the existing institutional environment, and by discussing several other factors that may drive this choice, we offer an exciting new agenda for research in the non-market strategy domain. A stronger understanding of the factors driving the choice of non-market strategy is important not only because it may help us better predict and inform managerial decision-making in this increasingly important area, but also because a better accounting for the endogeneity of these choices may help to resolve some of the mixed findings about the financial benefits of pursuing these different strategies (Shaver, 1998). Attention to the antecedents of non-market strategy choice is critical to all areas of non-market research, and can provide important resolutions to enduring debates regarding the financial value of corporate political activities and the relationship between corporate financial performance and social performance. Further, by considering the complementary relationships among the different strategies, we have highlighted the need to conceive of non-market strategy choices in combination rather than in isolation from each other.

Our review also contributes to research on an institution-based perspective on strategy more generally (Ahuja and Yayavaram, 2011; Henisz and Zelner, 2003; Peng *et al.*, 2009). Specifically, we have emphasized the distinction between incomplete institutions and captured institutions, discussing how these two distinct types of weak institutions are associated with different sources of transaction costs, and may therefore demand distinct strategic responses. In doing so, we have also drawn attention to the implications of alternative strategies for social performance, suggesting that partnership and influence strategies—which have frequently been discussed as ways of addressing weak institutions—may have negative social consequences insofar as they create or perpetuate asymmetries in the distribution of institutional costs (Luo and Chung, 2012; Morck *et al.*, 2005). Moreover, our review emphasizes that firm strategies in the face of weak institutions are not limited to adapting to such institutions, but may include attempts to augment or transform them, either independently or in collaboration with others.

Finally, we have contributed to work in institutional and organizational economics. Specifically, we have highlighted the need for greater attention by strategy scholars to the attributes of the institutional environment that drive transaction costs (Henisz and Williamson, 1999), beyond the attributes of the transaction that have been the traditional focus of TCE research. By conceptualizing non-market strategy as being concerned with the creation and appropriation of value in the face of high institutional costs, we have not only highlighted the strategic nature of non-market activities, we have paved the way for more research applying insights from transaction cost-based thinking to non-market strategy research, including research on how non-market initiatives are best organized and governed (Boddewyn and Doh, 2011; Kaul and Luo, 2016). In addition, we have extended work on collective governance and the creation of polycentric institutions (Ostrom, 1990; 2005) into the non-market strategy domain, applying this perspective to an important area where it has received relatively limited attention.

Our decision to ground our review in the NIE also defines the boundary conditions of our review. In emphasizing the creation and appropriation of value through non-market strategies, we have chosen not to discuss the ethical, social, or institutional imperatives (Aguilera *et al.*, 2007; Campbell, 2007) that may drive firms to pursue non-market activities. Similarly, in discussing the nature of the institutional environment, we have chosen to focus on a distinction between incomplete and captured institutions that draws on work in the NIE tradition (North, 1981), rather than on other types of institutional variation, such as that emphasized in the varieties of capitalism tradition (Hall and Soskice, 2001) or in work on network capitalism (Boisot and Child, 1996, 1999). This is not to take issue with or deny the importance of these perspectives, which we view as complementing the perspective we take here. These limitations notwithstanding, we offer a fresh conceptualization of non-market strategy and bring together hitherto disparate streams of research, in the hope that doing so will inspire further research in this important and exciting area.

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Table 1. A typology of non-market strategies

		STRATEGIC INTENT		
		Adaptive	**Additive**	**Transformative**
GOVERNANCE	**Independent**	*Internalization strategies*	*Proactive strategies*	*Influence strategies*
	Collaborative	*Partnership strategies*	*Collective Strategies*	*Coalition strategies*

Table 2. Six types of non-market strategy

Strategy	Value creation mechanism	Value appropriation mechanism	Impact on institutional costs	Examples	Representative studies
Internalization	Coordination of activities within firm boundaries	Ownership / employment contracts	Unchanged	Vertical integration; wholly-owned subsidiaries; conglomerate diversification	Acemoglu, Johnson, and Mitton, 2009; Antras and Helpman, 2004; Chari, Ouimet, and Tesar, 2009; Fabrizio, 2012b; Nunn, 2007; Lee and Mansfield, 1996; Oxley, 1999
Partnership	Coordination between partners with complementary resources / capabilities	Formal or relational contracts between partners	Unchanged	Alliances; joint ventures; political connections; stakeholder relations	Baum and Oliver, 1991; Brouthers, Brouthers, and Werner, 2003; Capron and Gatignon, 2015; Delios and Henisz, 2000; Faccio, 2006; Henisz, Dorobantu, and Nartey 2014; Leuz and Oberholzer-Gee, 2006; McDermott, Corredoira, and Kruse, 2009; Meyer et al., 2009; Siegel, 2007
Proactive	Realization of positive externalities / abatement of negative externalities	Rewards received from beneficiaries or other stakeholders for conditional cooperation	Lower for focal actor; unchanged for others	CSR initiatives; sustainable business practices; bottom of the pyramid strategies	Barnett and Salomon, 2012; Eichholtz, Kok, and Quigley, 2010; Flammer, 2013; Hart, 1995; Hart and Dowell, 2010; Kaul and Luo, 2016; Klassen and McLaughlin, 1996; London and Hart, 2010; Porter and Kramer, 2011; Prahalad, 2007; Russo and Fouts, 1997; Vogel, 2006; Waddock and Graves, 1997
Collective	Coordination for the creation of positive externalities / abatement of negative externalities	Enforcement of voluntary rules through mutual / third party monitoring	Lower for participating actors; unchanged for others	Industry self-regulation; voluntary commitment to third-party disclosure or certification standards	Bansal, 2005; Baron et al., 2016; Barnett and King, 2008; Chiao, Lerner, and Tirole, 2007; King and Lenox, 2000; King et al., 2005; Leiponen, 2008; Mair, Martí, and Ventresca, 2012; Maxwell et al., 2000; Ostrom, 1990; Ostrom, Gardner, and Walker, 1994; Reid and Toffel, 2009; Rosenkopf and Tushman, 1998; Rysman and Simcoe, 2008; Zuckerman and Sgourev, 2006
Influence	Competitive advantage from preferential regulation	Regulatory / legal fiat	Lower for focal actor and/or higher for others	Political donations; firm lobbying	Boddewyn and Brewer, 1994; Burris, 1987; De Figueiredo and Tiller, 2001; De Figueiredo and Silverman, 2006; Hadani and Schuler, 2013; Hellman et al., 2003; Hillman and Hitt, 1999; Hillman, Keim, and Schuler, 2004; Holburn and Bergh, 2004, 2008; Oliver, 1991; Ring, Lenway, and Govekar, 1990; Stigler, 1971
Coalition	Group advantage from preferential regulation	Regulatory / legal fiat	Lower for participating actors and/or higher for others	Industry lobbying for regulatory change	Bonardi, 2004; Hansen, Mitchell, and Drope, 2005; Hillman and Hitt, 1999; Jia, 2014; Kaufmann et al., 1993; Oliver, 1991; Schuler et al., 2002; Stigler, 1971

Table 3: Incomplete vs. Captured Institutions

	Incomplete Institutions	**Captured Institutions**
Antecedents	Emergence of new preferences and technologies; Political and economic transition	Institutional path dependence; Disproportionate control by insiders
Formal Regulation	Non-existing or insufficient	Excessive or biased
Source of institutional cost	Uncertainty about value appropriation	Low probability of value appropriation
Affected actors	All market actors (Institutional costs are symmetric)	Outsiders to the system (Institutional costs are asymmetric: low for the insiders who captured the institutions and high for outsiders)
Opportunistic actors	Transaction partners	Insiders to the system
Empirical Measures	Rule of law (Kaufmann et al., 2009); Minority shareholder protection (Djankov et al., 2008; Guillen and Capron, 2016); Establishment of stock exchanges (Weber, Davis and Lounsbury, 2009)	Polity IV (Marshall and Jaggers, 2000); POLCON (Henisz, 2000); Political institutions checks and balances (Beck et al., 2001); Corruption (Kaufmann et al., 2009); Country risk for FDI (Knack and Keefer, 1995)

Table 4. Non-Market Strategy Choice & Implications

Non-market strategy	**Institutional context most conducive to adoption**	**Firm strategic capability**	**Complementary strategies**	**Effect on social performance**
Internalization	Incomplete	Superior		Neutral
Partnership	Captured	Inferior	Influence	Negative
Proactive	Incomplete; Captured (insider firms)	Superior	Collective	Positive
Collective	Incomplete: Captured (outsider firms)	Superior	Collective; coalition	Positive
Influence	Captured	Inferior	Partnership	Negative
Coalition	Incomplete; Captured (outsider firms)	Superior	Collective	Positive (if inclusive); Negative (if exclusive)