International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 05 Issue 09 September 2022
DOI: 10.47191/ijcsrr/V5-i9-32, Impact Factor: 5.995
IJCSRR @ 2022
www.ijcsrr.org

Why Do Firms Apply Non-Market Strategies? Does it Really Pay?

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ABSTRACT: The purpose of this study is to provide a better understanding to non-market strategies of the firms, their external and internal drivers and whether firms attain gains from these strategies in practice by examining the selected existing studies on firms' non-market strategies. The vast literature on non-market strategies shows that companies' support in the political process of overcoming societal troubles and their collaboration with non-profit organizations increase. However, companies do not engage in non-market strategies with a pure altruism, contrarily they expect to reap benefits. The empirical studies on the relationship between non-market strategies and financial performance that are examined within the scope of this study indicate differentiating results. Based on these inconsistent findings of the present studies, the implications and directions for future studies are presented.

KEYWORDS: corporate social responsibility, external drivers, internal drivers, firms' political activities, non-market strategies.

INTRODUCTION

Extending their initiatives of corporate social responsibility (CSR) to the public policy dimensions, companies has started to exert political power in the borders of societal issues and therefore companies are inclined to cooperate with governments and intergovernmental agencies in sustainable development issues by adding a political dimension to their corporate strategies [1]. In other words, private enterprises may act in the borders of state or civil society through social responsibility policies [2] and this refers to an extension in the borders of CSR concept too [3], [4]. According to Besley and Ghatak, corporations may be compelled to show an increase in their social responsibilities due to inadequacies both in the government policies for the provision of public goods and its monitoring system and the negative public perception against governmental agencies or non-profit organizations for their possible inefficient use of sources [5].

The first examples of corporate engagement in political agency have emerged beginning from 19th century to post World War II era where American companies provided housing and community services, health care services, pension plans, established universities or funded public libraries [2]. The funding of University of Chicago by John Rockefeller, or public libraries by Andrew Carnegie in the late 19th and early 20th centuries and the establishment of the industrial town of Pullman in Illionis in 1880s by George Pullman with the aim of creating a model community show how corporations play as a social actor in public policy areas whereas these are the prominent role of the government in Europe at that time [2], [6]. Companies that played role in such public spheres with the impact of prevailing welfare capitalism which refers to business practices providing their workers with wide-scale community services and better working conditions, tried to avoid preventions of government or unions [2]. Especially industrial pension programs conducted under welfare capitalism favored American companies from several aspects [7]. For instance, companies held a lower rate of employee turnover by decreasing the mobility of workers, legitimized the lower wages among employees and took tax advantages in the first half of the 20th century [7]. Considering the gains companies held with these early CSR-related attempts, it can be said that such initiatives are instrumental to be able to tackle with external factors better. This instrumentalist inclination of US companies may be embedded with its societal context where companies may evaluate CSR as a redundant cost that hinders the profit maximization with the expectation of national governments to distribute public goods and their expectancy from such activities in societal interests might be higher thereof [8].

Scherer and Palazzo stress that production of codes through the collaboration of NGOs, the surveillance of CSR activities by external parties, involvement of civil society to the decision making process and dealing with societal issues delegate companies a political role overarching their position as economic actors [9]. In other words, companies conducting politically responsible actions through societal involvement go beyond both positivist (instrumental) and post positivist approaches (based on normative rules relying on either moral judgement of a single actor or joint communicative initiatives among different identities) of CSR and articulate stakeholder management to the process of public discourse [9], [10]. Such companies taking part in the development of global rules and provision of public goods are viewed as political actors [11] Political CSR delegates new roles to companies in the global regulation and in the field of state, specifically in the provision of public goods [10].

Besides, instead of focusing on political influence that favors merely the companies themselves, companies may play a wider role of corporate citizenship referring to acting in more responsible ways and touch the global financial issues (tax evasion, neutralizing the effect of mass media on democratic phases) in order to reach sustainable development [1]. In addition to this, Dubbink and Smith claim that private enterprises dominate the direction of investment and production in liberal market societies and therefore there is a political account of corporations' moral responsibilities that requires to view moral principles as a normal part of their decision making process by creating a self-governance capacity [12]. In this manner, when corporations incorporate moral principles proactively and conduct their business considering equality, fairness and liberty, they play an instrumental role in social coordination, joint-economic activity and stability within liberal political societies which ends up with the development of social welfare [12].

NON-MARKET STRATEGIES OF THE FIRMS

In the most general sense, the concept of non-market can be defined as the power-based corrective factors used for the development of organizations when the economic competition between organizations cannot increase the performance of these organizations [13]. In other words, these are internal and external factors providing the necessary order for markets, firms, other institutions and organizations to operate effectively and fix their mistakes [13].

Liberalism has made political intervention in the economy more complex and globalization has moved the field of competition from country level to global level [14] so companies have been faced with non-market activities as well as market activities. In a market environment where companies are surrounded by suppliers, customers and competitors and compete for resources, returns and profits [15], [16] companies are supposed to be shaped according to the conditions they are in to be able to continue their activities [15].

Holzer argues that there is a power coalition both inside (top management, managers and other employees) and outside (shareholders, environmental groups, society) the companies and competing interests are transformed into common goals in line with the ratio of this power [17]. In other words, companies' goals are a result of the bargaining process between the internal parties and are not taken by the top manager alone; thus, the company targets created by considering all levels of the company affect the outside interest groups [17]. Firms pursue competitive strategies by collaborating with or in conflict with political and social actors to protect their private interests within their own industry or between different industries through non-market activities [16] These strategies include forming coalitions, lobbying in legal circles, supporting political campaigns or providing information to corporations in favor of company revenues [16]; contributions to industry and commercial policy action committees; and having a government relations unit [18]. These and similar strategies are seen as political activities of companies [18]. Also, companies may tend to effect public policy processes such as standards of environmental emissions, policies for import tariff or anti-trust decisions in order to receive legislative support [19].

Thus, establishing and developing contacts with political actors and institutions, that is, companies' attempts to affect government policies in a manner that will benefit them are among these non-market factors [20], [21]. In this context, companies shape the industry structure with market strategies by engaging in activities such as pricing, quality improvement or product differentiation; it also shapes the institutional environment with non-market activities [16]. Because as the globalization rate of commercial activities increases, more political actors and institutions are included in the markets [22]. In line with this, firms are also turning to help with the provision of public goods -health care, education, and many other public services- and, where necessary, policy regulation [23].

WHY DO FIRMS IMPLEMENT NON-MARKET STRATEGIES?

Companies are trying to continue their activities effectively and efficiently with market strategies on the one hand and non-market strategies on the other. The non-market strategies firms implement a competitive advantage in many ways. Today, for companies struggling with many external factors, their relationship with the government is among the most important uncertainties, and companies that can access policy-making processes can reduce this ambiguity, reduce transaction costs or survive for a longer period [24]. In addition, political support may help firms to enter the market early, especially in countries that transition economy rule and free market mechanisms did not work fairly until recently [14].On the other hand, firms that follow strategies that will affect government policies can also gain sustainable competitive advantage by limiting the use of substitute resources by their competitors [25]. Together with these, the ability of a firm's nonmarket strategies depend on the firm's political and legal environment and firm's inherent prospects developed according to its experiences with regulators [19]. Competition among rival parties of public policies together with the assets of the regulatory agency in the relevant context influence the firm's nonmarket strategy performance for gaining regulatory approval for higher returns while rivalry among politicians that monitor public policies influence positively [19].

Palazzo and Scherer argue that globalization has the biggest role in erosion of lines among business enterprises, governments and civic society and the regulatory regime surpassed the borders of nation-state by pushing corporations into the territory of public-will formation and globalization itself has its own governance gaps with lack of capacity for enforcement mechanisms and weakness in democratic control [11]. For example, corporations in media sector led firms in private sector direct the political discourse by choosing the certain topics or diffusing certain concerns, drawing attention to specific issues as well as draining of information in order to protect the financial, societal and political interests of a certain group of hegemony [26].

The involvement of companies in political actions is the result of a serial criticism against voluntary CSR activities of companies because the limited number of companies practicing and shaping CSR agenda or such initiatives may cause ignorance of government interventions together with the loss of a critical perspective to CSR issues. Also detrimental effects of corporate lobbying by companies or business associations when implementing voluntary policies on environmental and societal issues seem to gain attention by activist groups; and the top management of the firms realized that they cannot reap the benefits of their voluntary CSR practices without industry-wide embraced codes or conducts. The reason why is that acting willingly on societal issues did not prevent the attacks by activist groups while their rivals not targeted and took the financial advantage of not making investments in CSR related codes [1].

EXTERNAL AND INTERNAL DRIVERS OF NON-MARKET STRATEGIES

An expansive range of external drivers such as pressures arises from product markets, capital markets as well as polity can trigger the nonmarket strategies of companies such as CSR [27]. Firstly, the increasing competition in product-market because of the involvement of developing countries such as China and replacement of power from producers to customers with the proliferation of information channels available to customers enabled the improvement of corporations' social responsibilities. Secondly, since the integration of assets market increased, MNEs tried to comply with the standards of market for corporate control including corporate accountability and independent directors and therefore posed legislative and regulatory practices focused on shareholder value in the capital markets. Together with anti-globalization movements against MNEs between 1999 to 2001, the governmental regulations -especially intensified by the strict rules of European Union that constitutes the largest market in the world- posed the conformity with a range of regulatory rules on safety, environmental and recycling bases and also improved their supply chains wherever they operate [27].

According to Chi, external drivers such as increasing legislative and regulatory policies in domestic and foreign markets, the awareness of CSR among consumers in the emerging markets; ongoing globalization (with the efforts of international consumers/MNCs to have a strong global supply chain in economic, environmental and social practices), and internal drivers such as companies' future oriented strategies play a driving force for the export trading companies in Chinese textile industry [28]. Approving Chi, in another study, it is claimed that international and national interest groups, government, NGOs, the characteristics of the globalized textile industry and lastly national transferring of the textile industrial products are all sound external drivers for CSR awareness in Chinese textile sector [29].

Different industries may face external drivers directing their activities to certain CSR practices pertaining to political strategies. Beddewela and Fairbrass argue that MNEs can use specific CSR activities according to the degree of governmental control and the

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www.ijcsrr.org

level of influence exerted by institutional actors such as NGOs and trade associations in an industry in Sri Lanka [30]. Therefore, CSR activities seem to be used pragmatically and instrumentally for legitimacy-seeking purposes, specifically for political advantage, when MNE subsidiaries confront state control and influential institutions in an industry. In other words, MNE subsidiaries do not apply CSR practices with pure desire of doing good to society, rather they seek after building and maintaining their relationships with powerful institutional stakeholders and ensuring their survival among such actors. While coercive and normative pressures play an important role, there is no sign of mimetic isomorphism which means applying similar strategies do not seem to be an important tool for those MNEs in Sri Lanka and this may arise from their dominating position in the Sri Lankan market [30]. Strategic factors such as competitor actions taken around social movements may motivate firms to concur with the demands of the activist groups despite limited levels of movement pressure [31]. In addition, Baron stated that non-market activities can prevent protests by activists against companies [32].

As for the internal drivers, there may be some internal motives when confronting to social activists. Spar & La Mure express the significance of the financial analysis including cost-benefit analyses and personal motives of managers in responding to social activists [33]. If companies feel that the activists may finally be effective at imposing their demands in an entire industry, then they may try to take first move against social movements as in the case of Novartis which has practiced some preemptive strategies in order to avoid the costs that other companies (Monsanto, ADM, etc.) had to bear after activist attacks [33]. Companies may respond to the demands of the activists when they see social movements as an industry/field-wide threat to their operations in other countries in the long term such as worlds' largest beer brewer Heineken's responses to activist concerns in Cambodia [34]. Activist pressure through dynamic interactions affected Heineken managers and after understanding the true nature of the problem stated by social activists and revising their company policies and principles, Heineken's managers take steps beyond in-house actions enabling them industry/field-level change [34].

While Spar & La Mure emphasize the significance of the financial analysis and personal beliefs and preferences of management in responding to social activists [33] , the Heineken case shows the important role of the company values or policies, interpretation of those principles by managers, control and coordination mechanisms and seeking novelties for change [34]. For firms that face movement pressures on the markets that they are highly dependent, responding to social movements become a strategic motivation regardless of the level of the movement pressure [31]. In other words, the possibility of firm responsiveness to social movements increases when activists target firm's critical markets that have an impact on overall performance (revenue etc.) even the level of the movement pressure is low [31].

Whether implemented with the effect of external drivers or internal drivers, companies expect to sustain their activities efficiently and effectively through their non-market strategies. In other words, they eventually expect to improve their financial performance with the help of their social or political non-market strategies. To be able to understand the impact of such strategies on firms' financial performance and whether they attain any gain from these implications, several empirical studies are presented in the following part of the study.

AN EVALUATION OF THE EMPIRICAL STUDIES RELATED TO FIRMS' NON-MARKET STRATEGIES

Studies ranging from 1985 to 2022 and their findings on firms' non-market strategies are presented in the following table. All of these studies seem to be conducted longitudinally except one and their findings whether companies benefit from their non-market strategies differ. First of all, several studies show that non-market strategies does not significantly affect the financial performance [35]; [36]. For instance, the study that Lin, Ho & Sambasivan conducted with a sampling which had 1294 firm-year observations representing 134 firms for the time span from 2007 to 2016, shows that CSR doesn't influence CFP and corporate political activity (CPA) has a negative moderating role on the relationship between CSR and CFP [35]. Similar to this, Lin, Sambasivan, Ho, & Law found out that CPA does not improve firm's financial performance. Moreover, corporate political activity and social responsibility replace each other when it comes to effect on financial performance [36].

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Table 1 : Empirical Studies on Firms' Non-Market Strategies

Article	Sample	Context	Theory	Findings
Lin, Ho & Sambasivan, 2018	134 firms, 2007-2016 Fortune's World's Most Admired Companies (WMAC)	Mixed	Stakeholder theory & Resource dependence theory	CSR does not significantly influence CFP. CPA has a negative moderating role on the relationship between CSR and CFP.
Liu, Liu & Xu, 2022	Chinese listed firms during 1999–2018	Emerging	Corporate legitimacy theory & Signaling theory	Firms higher spending in advertising or donations increase firms' legitimacy which enhances performance. In case strategies is implemented simultaneously, they interact and create an effect that decreases financial performance.
Wang & Qian, 2011	1453 Chinese listed firms and 2765 firm-year observations from 2001 to 2006	Emerging	Stakeholder theory	The philanthropy increases firm performances. Private firms or politically connected firms benefits more from philanthropy, as attaining political resources is more important for these firms.
Babajee, Seetanah, Nunkoo, Gopy-Ramdhany, 2022	43 hotels in Mauritius (in the Western Indian Ocean) 2007–2018	Emerging	Stakeholder theory	The results show that CSR significantly increases financial performance.
Al-Shammari, Banerjee & Rasheed, 2021	137 S&P 500 (US) firms, 2004-2013	Developed	Stakeholder theory & Reseource-based view	Firms' CSR is positively related to financial performance.
Kang, Germann & Grewal, 2016	Approximately 4,500 firms in the KLD database, 24,500 data points, 1991 to 2009, KLD	Mixed	Economic theory	Firms that implement CSR are likely to increase their financial performance. Together with this, no support is held for either the slack resources and firms seem to trail their corporate social irresponsible activities.
Smith & Sims, 1985	Plant level data from one industry, 1971-1980, Canada	Developed	-	It is revealed that pollution expenditures negatively affect financial performance.
Dixon-Fowler, Slater, Johnson, Ellstrand & Romi, 2013	Meta-Analysis	Mixed	-	Small firms seem to take advantage of environmental performance as much and their gains are more than large companies and US firms attain bigger profits compared to their counterparts overseas.
Endrikat, Guenther & Hoppe, 2014	Meta-analysis	Mixed	-	Results show that environmental performance and financial performance has not only positive but also partially bi-directional relationship. Findings also indicate that the relationship is more robust when environmental strategies are proactive.

Lin, Sambasivan, Ho, & Law, 2019	134 publicly traded Fortune WMAC, 2007-2016	Mixed	Organization's behavioral theory	Findings suggest that corporate political activity does not improve firm's financial performance. Moreover, corporate political activity and social responsibility replace each other when it comes to effect on financial performance.
Cooper, Gulen, Ovtchinnikov, 2010	1979-2004, US	Developed	-	Supporting campaigns of political candidates increases future financial performance.
Imai, 2006	2001–2005. Thailand	Developing	-	The political engagement of family members positively effects the level of family firms' financial performance.
Richter, Samphantharak, Timmons, 2009	1998 and 2005, US	Developed	-	As the firms' expenditures of lobbying increases, level of effective tax rates they pay in the next year decreases.
Wu, Wu, Zhou & Wu, 2012	Chinese listed 1408 firms, 8351 firm-year observations, 1999-2007	Developing	-	Managers' political connections of increase help firms outperform the firms without political connections.
Boubakri, Cosset, & Saffar, 2012	234 firms in 12 developed and 11 developing countries 1989-2003	Mixed	-	Firms increase their performance and their access to financing is easier.
Unsal, Hassan, & Zirek, 2016	2030 firms, 3765 CEOs for a total of 17,933 firm-year observations 2000-2012	Mixed	-	Firms' access to financing is easier.
Hillman, Zardkoohi & Bierman, 1999	31 companies, 1968-1992, US	Developed	-	Political connection affect positively firms' financial performance.
Lux, Crook and Woehr, 2011	Meta-Analysis	Mixed	-	Political activities of firms affect positively financial performance.
Zhu, Liu, & Lai, 2016	79 firms, 2011, Chinese national state owned firms	Emerging	Stakeholder theory	CSR practices increase financial performance.

On other side, Liu, Liu & Xu showed a mixed result in the study that they examined Chinese listed firms for the period from 1999-2018 [37]. They express that firms higher spending in advertising or donations increase firms' legitimacy which eventually enhances performance but in case these strategies are implemented simultaneously, they interact and create an effect that decreases financial performance [37]. In addition to these studies, there are findings reveal that the level of impact of nonmarket strategies on financial performance differs according to company characteristics [38], [39] or whether firms follow a proactive or reactive non-market strategy [40]. In this regard, Dixon-Fowler, Slater, Johnson, Ellstrand & Romi state that small firms seem to take advantage of environmental performance as much and their gains are more than large companies and US firms attain bigger profits compared to

ISSN: 2581-8341

Volume 05 Issue 09 September 2022

DOI: 10.47191/ijcsrr/V5-i9-32, Impact Factor: 5.995

IJCSRR @ 2022

www.ijcsrr.org

their counterparts overseas [38]. In a study that Wang & Qian conducted on 1453 Chinese listed firms and 2765 firm-year observations for the periods from 2001 to 2006, findings show that the philanthropy increases firm performances and private firms or politically connected firms benefits more from philanthropy, as attaining political resources is more important for these firms [39]. Finally, Endrikat, Guenther & Hoppe stress that environmental performance and financial performance has not only positive but also partially bi-directional relationship. Findings also indicate that the relationship is more robust when environmental strategies are proactive[40].

In addition to these, several studies indicate that firms' social non-market strategies [41], [42], [43], [44] or political non-market strategies [45], [46], [24], [18] increase firm performance. Besides, there are studies revealing that as firms' expenditures of lobbying enhance [47] or managers' political connections increase [48] firms are likely to take advantage of tax benefits. Apart from these gains, it is revealed [49], [50] that non-market strategies may help firms access easier to financial resources. Last but not least, a study based on plant-level data from one industry for the periods from 1971 to 1980 indicates negative impact of non-market strategies on financial performance [51].

CONCLUSION AND FUTURE REMARKS

To summarize, as it can be seen from the existing studies presented in the table, there are different findings on the effects of non-market strategies on firms' financial performance. While some studies show no effect, some reveal positive or negative impact or even mixed results. Based on these findings in the existing literature, it can be concluded that there is no consensus on whether firms reap the benefit from their investments in non-market strategies.

This study is not exempt from limitations. Firstly, the number of empirical studies is a small fraction of a wide range of studies regarding non-market strategies. Therefore, future studies examining larger number of studies may provide better results. Secondly, this study suffers from lack of a systematic literature review and thereof researchers may tackle with this problem by conducting the research within a systematic lens. Besides, differentiating macro-level factors such as country contexts (developed or developing), industries that the firms operate in or the type of markets they serve; or focusing on firm level factors including company ownership, characteristics of top management or corporate governance structure may help attain additional understanding of firms' non-market strategies and the benefits they gain from these strategies.

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Cite this Article: Elif Cemek (2022). Why Do Firms Apply Non-Market Strategies? Does it Really Pay?. International Journal of Current Science Research and Review, 5(9), 3539-3547