

MGMT 8404
SEMINAR IN NONMARKET STRATEGY

Fall 2019

Instructor: Aseem Kaul

Office: 3-412 CSOM

Office Hours: By appointment

Class time: 1.15 – 4.15 pm; Thursdays (B term)

Class location: CSOM 3-377 (except Nov 21, when we'll be in CSOM 3-166!)

Course Introduction and Objectives

This is a Ph.D. seminar in the field of nonmarket strategy, *i.e.*, the strategies by which firms alter, influence, or adapt to their existing institutional environment in order to gain competitive advantage. Drawing on foundations in both institutional economics and institutional theory, the seminar examines a body of recent research in the field of strategic management that studies how and to what effect firms engage with political, legal, and social stakeholders. While the primary focus of the course is on the antecedents and consequences of such nonmarket strategies for firms, we shall also consider the impact of these strategies on social welfare, and the resulting implications for public policy.

The objective of the seminar is to provide a survey of the various streams of research within this important and growing literature. To that end, each week of the seminar discusses a key topic within this broader literature, covering both foundational pieces and current research, and examining both central theoretical arguments and the most advanced empirical findings. By exposing you to the work of some of the more prominent and productive scholars in the field, my goal is to not only provide an introduction to various aspects of nonmarket strategy research, but to help develop your critical appreciation of high quality research in this area.

Course Requirements

Readings and discussion

I have assigned a set of readings for each session. These readings are divided into three sets: a set of four *starred* readings that shall be the focus of a discussion led by you (see below), a set of other (non-starred) required readings, and a set of optional readings. Please note that **all readings other than those marked optional are required**. While our discussion may focus more on the starred readings, I expect you to have read and thought about all the readings for the day and to incorporate insights from them all in our classroom discussions. The readings I have starred are simply the easiest to build a discussion off; this is not to suggest that the other readings are somehow less useful or important. The optional readings are readings I suggest you read, especially if you're interested in the day's topic, but I'm not requiring you to do so.

In addition to going over the readings and coming prepared to discuss them in class, you will be individually assigned a specific paper on which you will lead the class discussion. A one-page (typed, single spaced, \geq 11-point font) critical summary of the assigned paper will be required, which should typically include:

- (a) a summary of the research question or problem the paper addresses,
- (b) the paper's strengths and limitations, and
- (c) the contribution it makes to the field, and a couple of major obvious **and non-obvious** links to the other pieces in the session or the course

Please bring enough paper summaries to the class to distribute to all the participants. Please also email a copy of your summary to all participants before the start of the class. The paper summaries will not be graded separately but will contribute to the class participation grade.

Term paper

You will also be required to write a term paper. Please use the following to guide the structure of the paper.

- Identify a research question of interest.
- Develop a theoretical argument and derive *ONE* testable hypothesis related to this question
- Sketch a research design of how you would test that question.

By research design I want to know (a) what you are measuring and (b) how you plan to invoke variance to facilitate your analysis. I do not need to know the specific data source or the statistical technique(s) that you would employ. These are things that you could flesh-out later if you wish to continue with this work. My evaluation of your term paper will focus on your ability to develop an interesting and potentially testable idea that addresses an important research question in the nonmarket strategy area.

Evaluation

Evaluation will be on the basis of the following weights:

Class discussion and summaries	50%
Term paper	50%

Week 1 Introduction and overview

- *Coase, R. H. (1960 / 2013). The problem of social cost. *Journal of Law and Economics*, 56(4): 837-877.
- *Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review*, 16(1), 145-179.
- *Ahuja, G., & Yayavaram, S. (2011). Perspective—Explaining influence rents: The case for an institutions-based view of strategy. *Organization Science*, 22(6), 1631-1652.
- *Dorobantu, S., Kaul, A. & Zelner, B. (2017), Nonmarket strategy research through the lens of new institutional economics: An integrative review and future directions. *Strategic Management Journal*, 38(1), 114–140
- Ingram, P., & Clay, K. (2000). The choice-within-constraints new institutionalism and implications for sociology. *Annual Review of Sociology*, 26(1), 525-546
- Mahoney, J. T., McGahan, A. M., & Pitelis, C. N. (2009). Perspective—The interdependence of private and public interests. *Organization science*, 20(6), 1034-1052.
- Marquis, C., & Raynard, M. (2015). Institutional strategies in emerging markets. *Academy of Management Annals*, 9(1), 291-335
- Williamson, O. E. (2000). The new institutional economics: taking stock, looking ahead. *Journal of Economic Literature*, 38(3), 595-613.
- Oberholzer-Gee, F. and Yao, D.A. (2018) Integrated strategy: Residual market and exchange imperfections as the foundation of sustainable competitive advantage. *Strategy Science* 3(2):463-480.
- (Optional) Mellahi, K., Frynas, J. G., Sun, P., & Siegel, D. (2016). A review of the nonmarket strategy literature: toward a multi-theoretical integration. *Journal of Management*, 42(1), 143-173.
- (Optional) Ingram, P., & Silverman, B. S. (2000). Introduction: The new institutionalism in strategic management. In *The new institutionalism in strategic management* (pp. 1-30). Emerald Group Publishing Limited.
- (Optional) Ahuja, G., Capron, L., Lenox, M., & Yao, D. A. (2018). Strategy and the institutional envelope. *Strategy Science*, 3(2), ii-x.

Week 2 Corporate Political Activity

- *De Figueiredo, J. M., & Silverman, B. S. (2006). Academic earmarks and the returns to lobbying. *The Journal of Law and Economics*, 49(2), 597-625.
- *Jia, N. (2014). Are collective political actions and private political actions substitutes or complements? Empirical evidence from China's private sector. *Strategic Management Journal*, 35(2), 292-315.
- *Fremeth, A. R., & Shaver, J. M. (2014). Strategic rationale for responding to extra-jurisdictional regulation: Evidence from firm adoption of renewable power in the US. *Strategic Management Journal*, 35(5), 629-651.
- *McDonnell, M. H., & Werner, T. (2016). Blacklisted businesses: Social activists' challenges and the disruption of corporate political activity. *Administrative Science Quarterly*, 61(4), 584-620.
- Holburn, G. L., & Bergh, R. G. V. (2004). Influencing agencies through pivotal political institutions. *Journal of Law, Economics, and Organization*, 20(2), 458-483.
- Oliver, C., & Holzinger, I. (2008). The effectiveness of strategic political management: A dynamic capabilities framework. *Academy of Management Review*, 33(2), 496-520.
- Hadani, M., & Schuler, D. A. (2013). In search of El Dorado: The elusive financial returns on corporate political investments. *Strategic Management Journal*, 34(2), 165-181.
- Werner, T. (2017). Investor reaction to covert corporate political activity. *Strategic Management Journal*, 38(12), 2424-2443.
- Funk, R. J., & Hirschman, D. (2017). Beyond nonmarket strategy: Market actions as corporate political activity. *Academy of Management Review*, 42(1), 32-52.
- (Optional) Delmas, M., & Marcus, A. (2004). Firms' choice of regulatory instruments to reduce pollution: a transaction cost approach. *Business and Politics*, 6(3), 1-20.
- (Optional) Vaaler, P. M. (2008). How do MNCs vote in developing country elections?. *Academy of Management Journal*, 51(1), 21-43.
- (Optional) Holburn, G. L., & Zelner, B. A. (2010). Political capabilities, policy risk, and international investment strategy: evidence from the global electric power generation industry. *Strategic Management Journal*, 31(12), 1290-1315.
- (Optional) Albino-Pimentel, J., Dussauge, P., & Shaver, J. M. (2018). Firm non-market capabilities and the effect of supranational institutional safeguards on the location choice of international investments. *Strategic Management Journal*, 39(10), 2770-2793.
- (Optional) Kim, J. H. (2019). Is your playing field unlevelled? US defense contracts and foreign firm lobbying. *Strategic Management Journal*.

Week 3: Stakeholders

- *Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of management review*, 20(2), 404-437.
- *Garcia-Castro, R., & Francoeur, C. (2016). When more is not better: Complementarities, costs and contingencies in stakeholder management. *Strategic Management Journal*, 37(2), 406-424.
- *Dorobantu, S., Henisz, W. J., & Nartey, L. (2017). Not all sparks light a fire: Stakeholder and shareholder reactions to critical events in contested markets. *Administrative Science Quarterly*, 62(3), 561-597.
- *Klein, P. G., Mahoney, J. T., McGahan, A. M., & Pitelis, C. N. (2019). Organizational governance adaptation: Who is in, who is out, and who gets what. *Academy of Management Review*, 44(1), 6-27.
- Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of management Review*, 20(1), 65-91.
- Choi, J., & Wang, H. (2009). Stakeholder relations and the persistence of corporate financial performance. *Strategic management journal*, 30(8), 895-907.
- Henisz, W. J., Dorobantu, S., & Nartey, L. J. (2014). Spinning gold: The financial returns to stakeholder engagement. *Strategic Management Journal*, 35(12), 1727-1748.
- Tantalo, C., & Priem, R. L. (2016). Value creation through stakeholder synergy. *Strategic Management Journal*, 37(2), 314-329.
- Barney, J. B. (2018). Why resource-based theory's model of profit appropriation must incorporate a stakeholder perspective. *Strategic Management Journal*, 39(13), 3305-3325.
- (Optional) Freeman, R. E. (1994). The politics of stakeholder theory: Some future directions. *Business ethics quarterly*, 409-421.
- (Optional) Rowley, T. I., & Moldoveanu, M. (2003). When will stakeholder groups act? An interest-and identity-based model of stakeholder group mobilization. *Academy of Management Review*, 28(2), 204-219.
- (Optional) Bridoux, F., & Stoelhorst, J. W. (2014). Microfoundations for stakeholder theory: Managing stakeholders with heterogeneous motives. *Strategic management journal*, 35(1), 107-125.
- (Optional) Jones, T. M., Harrison, J. S., & Felps, W. (2018). How applying instrumental stakeholder theory can provide sustainable competitive advantage. *Academy of Management Review*, 43(3), 371-391.
- (Optional) Bundy, J., Vogel, R. M., & Zachary, M. A. (2018). Organization–stakeholder fit: A dynamic theory of cooperation, compromise, and conflict between an organization and its stakeholders. *Strategic Management Journal*, 39(2), 476-501.
- (Optional) Nartey, L. J., Henisz, W. J., & Dorobantu, S. (2018). Status climbing vs. bridging: Multinational stakeholder engagement strategies. *Strategy Science*, 3(2), 367-392.

Week 4: Activists and social movements

- *Briscoe, F., & Safford, S. (2008). The Nixon-in-China effect: Activism, imitation, and the institutionalization of contentious practices. *Administrative science quarterly*, 53(3), 460-491.
- *Hiatt, S. R., Sine, W. D., & Tolbert, P. S. (2009). From Pabst to Pepsi: The deinstitutionalization of social practices and the creation of entrepreneurial opportunities. *Admin. Science Quarterly*, 54(4), 635-667.
- *Ingram, P., Yue, L. Q., & Rao, H. (2010). Trouble in store: Probes, protests, and store openings by Wal-Mart, 1998–2007. *American Journal of Sociology*, 116(1), 53-92.
- *McDonnell, M. H., & King, B. (2013). Keeping up appearances: Reputational threat and impression management after social movement boycotts. *Administrative Science Quarterly*, 58(3), 387-419.
- McCarthy, J. D., & Mayer N.Z. (1977). Resource Mobilization and Social Movements: A Partial Theory. *American Journal of Sociology* 82:1212-41.
- Baron, D. P. (2001). Private politics, corporate social responsibility, and integrated strategy. *Journal of Economics & Management Strategy*, 10(1), 7-45.
- King, B. G., & Soule, S. A. (2007). Social movements as extra-institutional entrepreneurs: The effect of protests on stock price returns. *Administrative Science Quarterly*, 52(3), 413-442.
- Marquis, C., Glynn, M. A., & Davis, G. F. (2007). Community isomorphism and corporate social action. *Academy of Management Review*, 32(3), 925-945
- Briscoe, F., & Gupta, A. (2016). Social activism in and around organizations. *The Academy of Management Annals*, 10(1), 671-727.
- (Optional) Walker, E. T., Martin, A. W., & McCarthy, J. D. (2008). Confronting the state, the corporation, and the academy: The influence of institutional targets on social movement repertoires. *American Journal of Sociology*, 114(1), 35-76.
- (Optional) Weber, K., Rao, H. & Thomas, L.G. (2009). From Streets to Suites: How the Anti-Biotech Movement Affected German Pharmaceutical Firms. *American Sociological Review* 74:106-127.
- (Optional) King, B. G., & Pearce, N. A. (2010). The contentiousness of markets: Politics, social movements, and institutional change in markets. *Annual review of sociology*, 36, 249-267.
- (Optional) Briscoe, F., Gupta, A., & Anner, M. S. (2015). Social activism and practice diffusion: How activist tactics affect non-targeted organizations. *Administrative Science Quarterly*, 60(2), 300-332.
- (Optional) Hiatt, S. R., Grandy, J. B., & Lee, B. H. (2015). Organizational responses to public and private politics: An analysis of climate change activists and US oil and gas firms. *Organization Science*, 26(6), 1769-1786.
- (Optional) McDonnell, M. H., King, B. G., & Soule, S. A. (2015). A dynamic process model of private politics: Activist targeting and corporate receptivity to social challenges. *Amer. Soc. Rev.*, 80(3), 654-678.
- (Optional) Baron, D. P., Neale, M., & Rao, H. (2016). Extending nonmarket strategy: Political economy and the radical flank effect in private politics. *Strategy Science*, 1(2), 105-126.

Week 5 Strategic Corporate Social Responsibility

- *Flammer, C. (2015). Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. *Management Science*, 61(11), 2549-2568.
- *Fosfuri, A., Giarratana, M. S., & Roca, E. (2015). Walking a slippery line: Investments in social values and product longevity. *Strategic Management Journal*, 36(11), 1750-1760
- *Burbano, V. C. (2016). Social responsibility messages and worker wage requirements: Field experimental evidence from online labor marketplaces. *Organization Science*, 27(4), 1010-1028.
- *Seo, H., Luo, J. & Kaul, A. (2019). Giving a little to many or a lot to a few? The returns to variety in corporate philanthropy. *Working Paper*
- King, A., & Lenox, M. (2002). Exploring the locus of profitable pollution reduction. *Management Science*, 48(2), 289-299.
- Barnett, M. L., & Salomon, R. M. (2012). Does it pay to be really good? Addressing the shape of the relationship between social and financial performance. *Strategic Management Journal*, 33(11), 1304-1320.
- Werner, T. (2015). Gaining access by doing good: The effect of sociopolitical reputation on firm participation in public policy making. *Management Science*, 61(8), 1989-2011
- Koh, P. S., Qian, C., & Wang, H. (2014). Firm litigation risk and the insurance value of corporate social performance. *Strategic Management Journal*, 35(10), 1464-1482.
- Kaul, A., & Luo, J. (2018). An economic case for CSR: The comparative efficiency of for-profit firms in meeting consumer demand for social goods. *Strategic Management Journal* 39: 1650-1677
- (Optional) McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review*, 26(1), 117-127.
- (Optional) Godfrey, P. C., Merrill, C. B., & Hansen, J. M. (2009). The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis. *Strategic management journal*, 30(4), 425-445.
- (Optional) Elfenbein, D. W., & McManus, B. (2010). A greater price for a greater good? Evidence that consumers pay more for charity-linked products. *American Economic Journal: Economic Policy*, 2(2), 28-60.
- (Optional) Porter, M., & Kramer, M. R., (2011). Creating shared value. *Harvard Business Review*, 89(1/2), 62-77.
- (Optional) Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate social responsibility and access to finance. *Strategic Management Journal*, 35(1), 1-23.
- (Optional) Bode, C., Singh, J., & Rogan, M. (2015). Corporate social initiatives and employee retention. *Organization Science*, 26(6), 1702-1720.
- (Optional) Flammer, C., & Luo, J. (2017). Corporate social responsibility as an employee governance tool: Evidence from a quasi-experiment. *Strategic Management Journal*, 38(2), 163-183.

- (Optional) Carnahan, S., Kruscynski, D., & Olson, D. (2017). When does corporate social responsibility reduce employee turnover? Evidence from attorneys before and after 9/11. *Academy of Management Journal*, 60(5), 1932-1962.
- (Optional) Marquis, C., & Tilcsik, A. (2016). Institutional equivalence: How industry and community peers influence corporate philanthropy. *Organization Science*, 27(5), 1325-1341.
- (Optional) Gupta, A., Briscoe, F., & Hambrick, D. C. (2017). Red, blue, and purple firms: Organizational political ideology and corporate social responsibility. *Strategic Management Journal*, 38(5), 1018-1040.

Week 6 Social impact

- *Kim, E. H., & Lyon, T. P. (2014). Greenwash vs. brownwash: Exaggeration and undue modesty in corporate sustainability disclosure. *Organization Science*, 26(3), 705-723.
- *Ballesteros, L., Useem, M., & Wry, T. (2017). Masters of disasters? An empirical analysis of how societies benefit from corporate disaster aid. *Academy of Management Journal*, 60(5), 1682-1708.
- *Luo, J., Kaul, A., & Seo, H. (2018). Winning us with trifles: Adverse selection in the use of philanthropy as insurance. *Strategic Management Journal*, 39(10), 2591-2617.
- *Lee, M., Adbi, A., & Singh, J. (2019). Categorical cognition and outcome efficiency in impact investing decisions. *Strategic Management Journal* forthcoming
- Margolis, J. D., & Walsh, J. P. (2003). Misery loves companies: Rethinking social initiatives by business. *Administrative science quarterly*, 48(2), 268-305.
- Chatterji, A. K., Levine, D. I., & Toffel, M. W. (2009). How well do social ratings actually measure corporate social responsibility? *Journal of Economics & Management Strategy*, 18(1), 125-169.
- Lyon, T. P., & Maxwell, J. W. (2011). Greenwash: Corporate environmental disclosure under threat of audit. *Journal of Economics & Management Strategy*, 20(1), 3-41
- Marquis, C., Toffel, M. W., & Zhou, Y. (2016). Scrutiny, norms, and selective disclosure: A global study of greenwashing. *Organization Science*, 27(2), 483-504.
- Kaul, A., & Luo, J. (2019). From social responsibility to social impact: A framework and research agenda. *Working Paper*
- (Optional) Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits.
- (Optional) Bromiley, P., & Marcus, A. (1989). The deterrent to dubious corporate behavior: Profitability, probability and safety recalls. *Strategic Management Journal*, 233-250.
- (Optional) Banerjee, A. V., & Duflo, E. (2009). The experimental approach to development economics. *Annu. Rev. Econ.*, 1(1), 151-178.
- (Optional) Hawn, O., & Ioannou, I. (2016). Mind the gap: The interplay between external and internal actions in the case of corporate social responsibility. *Strategic Management Journal*, 37(13), 2569-2588.
- (Optional) Whiteman, G., & Cooper, W. H. (2016). Decoupling rape. *Academy of Management Discoveries*, 2(2), 115-154.
- (Optional) Asmussen, C. G., & Fosfuri, A. (2019). Orchestrating corporate social responsibility in the multinational enterprise. *Strategic Management Journal*, 40(6), 894-916.

Week 7 – Alternate Organizational Forms

- *King, A. A., & Lenox, M. J. (2000). Industry self-regulation without sanctions: The chemical industry's responsible care program. *Academy of Management Journal*, 43(4), 698-716
- *Ostrom, E. (2010). Beyond markets and states: Polycentric governance of complex economic systems. *American Economic Review*, 100(3), 641-672.
- *Dorobantu, S., & Odziemkowska, K. (2017). Valuing stakeholder governance: Property rights, community mobilization, and firm value. *Strategic Management Journal*, 38(13), 2682-2703.
- *Luo, J., & Kaul, A. (2019). Private action in public interest: The comparative governance of social issues. *Strategic Management Journal*, 40(4), 476-502.
- Hwang, H., & Powell, W. W. (2009). The rationalization of charity: The influences of professionalism in the nonprofit sector. *Administrative Science Quarterly*, 54(2), 268-298
- Short, J. L., & Toffel, M. W. (2010). Making self-regulation more than merely symbolic: The critical role of the legal environment. *Administrative Science Quarterly*, 55(3), 361-396
- Pache, A. C., & Santos, F. (2013). Inside the hybrid organization: Selective coupling as a response to competing institutional logics. *Academy of management journal*, 56(4), 972-1001.
- Battilana, J., & Lee, M. (2014). Advancing research on hybrid organizing—Insights from the study of social enterprises. *Academy of Management Annals*, 8(1), 397-441
- Fosfuri, A., Giarratana, M. S., & Roca, E. (2016). Social business hybrids: Demand externalities, competitive advantage, and growth through diversification. *Organization Science*, 27(5), 1275-1289.
- (Optional) Maxwell, J. W., Lyon, T. P., & Hackett, S. C. (2000). Self-regulation and social welfare: The political economy of corporate environmentalism. *Journal of Law and Economics*, 43(2), 583-618
- (Optional) Prakash, A., & Potoski, M. (2012). Voluntary environmental programs: A comparative perspective. *Journal of Policy Analysis and Management*, 31(1), 123-138
- (Optional) Yue, L. Q., Luo, J., & Ingram, P. (2013). The failure of private regulation: Elite control and market crises in the Manhattan banking industry. *Administrative Science Quarterly*, 58(1), 37-68.
- (Optional) Hansmann, H. (1987). Economic theories of nonprofit organization. *The nonprofit sector: A research handbook*, 1, 27-42
- (Optional) Zahra, S. A., Gedajlovic, E., Neubaum, D. O., & Shulman, J. M. (2009). A typology of social entrepreneurs: Motives, search processes and ethical challenges. *Journal of Business Venturing*, 24(5), 519-532
- (Optional) Santos, F. M. (2012). A positive theory of social entrepreneurship. *Journal of business ethics*, 111(3), 335-351.
- (Optional) Dutta, S. (2017). Creating in the crucibles of nature's fury: Associational diversity and local social entrepreneurship after natural disasters in California, 1991–2010. *Administrative Science Quarterly*, 62(3): 443-483