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The Implications of COVID-19 for Nonmarket Strategy Research

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INTRODUCTION

The COVID-19 virus ignited social and economic turmoil around the world. Not since the Spanish Flu of 1918 had we seen a pandemic of such scale and severity. The resultant global transformation of industries, supply chains, work, communication, and institutional frameworks suggests we are entering a period of non-ergodic change, in which the future cannot be extrapolated from the past (North, 1999). This means that we do not know the probability distribution or the outcomes from the virus. So, we must find a way to coexist and build our resilience. Moreover, although pandemics cause short-term fear and disruption, they can also initiate long-term change for economies and societies. Thus, we suggest that although COVID-19 challenges the foundations of modern business and management, it reinforces the core assumptions of nonmarket strategy research. In particular – and especially during times of crisis and uncertainty – competitive advantage is predicated on proactive political and social awareness and engagement, aligned with strategic business objectives.

Nonmarket Strategy Research in COVID Times

Scholars studying nonmarket strategy – the configurations and activities through which firms strategically manage their political and social environments – have increasingly

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emphasized the importance of managing and mitigating socio-political risks (Doh *et al.*, 2012; Dorobantu *et al.*, 2017; Mellahi *et al.*, 2016). The underlying assumptions have focused on linear aspects of risk but, so far, this crisis advances different lessons, themes, and questions. Thus, how is the COVID-19 pandemic changing the nonmarket environment and the socio-political behaviours of organizations? We appreciate that the validity of these observations continues to evolve, but we highlight three major trends that constitute distinct elements of two broader countervailing forces in a coronavirus world: greater unity of purpose coupled with greater discord and divergence. We hope that our commentary serves as a catalyst for the nonmarket strategy research community to address these growing trends.

Major trend 1: Novel Cross-Sectoral Collaborations

A dramatic development observed during the COVID-19 pandemic is the growing number and scope of multi-stakeholder, cross-sectoral collaborations. The need to remedy the disruptions caused by the global pandemic, and address underlying public health issues, has put firms, governments, and nongovernmental organizations (including universities, foundations, and social and environmental groups) in situations that require extraordinary and rapid interdependence and coordination. For instance, these collaborations increased exponentially during 2020 to address shortages of medical and protective equipment, facilitate partnerships on vaccine research, and plan for the safe reopening of local economies.

While research on cross-sectoral collaborations has been growing (Dahan *et al.*, 2010; Odziemkowska and Dorobantu, forthcoming), the collaborations observed in response to the pandemic offer valuable research opportunities for understanding more about the emergence, governance, and operation of these new forms of partnerships. What do these cross-sectoral collaborations actually mean for long-term performance? Further, how do the requisite socio-political resources evolve between market and nonmarket activities during this crisis? Indeed, these novel hybrid partnerships have created unique processes, mechanisms, and configurations. For instance, in the UK, mechanical engineers at University College London worked with the National Institute for Health Research, clinicians at University College London Hospital, and Mercedes-AMG high performance powertrains, to develop a breathing aid for the National Health Service to help keep COVID-19 patients out of intensive care. Also of interest are the different, and often unique, collaborations that emerged to discover a COVID-19 vaccine. By September 2020, the World Health Organization (WHO) noted that there were more than 175 vaccine development efforts underway, including 33 in human trials. These included Operation Warp Speed, a large-scale public-private partnership incorporating rival vaccine candidates and engaging assorted elements of the US federal government such as the Department of Defense, the Department of Health and Human Services and the National Institutes of Health, academic researchers at the University of Oxford, and corporates (and habitual competitors) like AstraZeneca and Johnson & Johnson. It will be important to investigate how firms achieve market and nonmarket objectives through these novel arrangements, and to compare and contrast the different collaborative forms and functions that emerge globally.

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Major Trend 2: An Evolving Institutional Environment-Nonmarket Strategy Interplay

These cross-sectoral collaborations, however, are proliferating against the backdrop of a rapidly changing domestic and international institutional environment. The global pandemic has created tremendous uncertainties about economic and social exchanges and requires governmental and societal responses to address both short-term effects such as lockdown restrictions and social distancing, and long-term implications like economic stimulus packages or philanthropic donations to preserve cultural institutions. As a result, institutional environments – the rules and norms that govern economic and social interactions – changed considerably in 2020 and are likely to continue to evolve in potentially unpredictable ways.

Within countries, government policies – ranging from import and export tariffs to regulations on restaurant dining – have changed and are evolving even as we write this commentary. Social norms defining the nature of public interactions and approaches to where and how people work have already changed and continue to evolve. These political and social responses to the pandemic impact on firm culture and performance, highlighting not only the extent to which a firm's performance is a function of its broader institutional environment, but also the imperative for firms to understand how government policies and social behaviours evolve, and to participate in shaping responses. Research examining how firms have influenced institutional responses to the pandemic in different parts of the world can shed new light on the effectiveness of corporate political and social activities during times of increased uncertainty.

At the same time, the pandemic has catalysed already strained geopolitical relations, such as between China and the USA, and created corporate casualties that were hard to predict beforehand. For instance, the executive orders issued by President Trump in August 2020 to effectively ban Chinese-owned TikTok and WeChat in the USA on national security grounds. Increased geopolitical tensions calls for a higher degree of corporate awareness of geopolitics and a portfolio of market and nonmarket strategies (e.g., redundancies in supply chains and campaigns to depoliticize specific industries) to mitigate the negative impact of strained relationships among the world's largest economies. Thus, future research can leverage the pandemic context to examine the extent to which multinationals can engage effectively with both home and host socio-political stakeholders, particularly where home-host country tensions exist (De Villa *et al.*, 2019). This approach will also enable scholars to address the following questions: first, how do MNE-stakeholder relationships evolve over time in both home and host markets, including via any unintended consequences of the pandemic? Second, how do institutional environment-specific selection pressures, as well as MNE-based resources and capabilities, restrict the range of adaptation strategies available to MNEs confronted with pandemic related risks? The pandemic context also offers a unique opportunity to assess the feasibility of institutional arbitrage in an increasingly fractured global business landscape.

Major Trend 3: Increased Corporate Socio-Political Strategic Alignment

Another emerging trend is the increasing interdependence between corporate political and social activities – two distinct but related nonmarket strategies. To date, most

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firms have largely separated their corporate political activity, or CPA (e.g., lobbying or campaign contributions) and corporate social responsibility, or CSR endeavours (e.g., charitable giving or reducing carbon footprint), with limited efforts to enhance complementarities between these two core pillars of nonmarket strategy (den Hond *et al.*, 2014; Lawton *et al.*, 2014). Responses to the global pandemic, however, are highlighting the interdependencies between CPA and CSR. Emerging evidence suggests that firms possessing well-developed relationships with a wide range of stakeholders have been more successful in lobbying governments for preferential treatment or have been governments' preferred partners during the pandemic. In the mining industry, for instance, many firms have successfully lobbied governments to allow them to operate as essential services during lockdowns by emphasizing their ability to access and work with remote communities to supply them with critical resources.

New research might examine the extent to which positive and proactive relationships with nonmarket stakeholders such as local communities have given firms an advantage in their interactions with governments during the pandemic. Thus, there is an opportunity to observe if and how firms that have profited during the pandemic – Amazon and Zoom for instance – consequently develop novel strategies that align, or even integrate, nonmarket and market objectives. For example, Zoom has benefitted handsomely from the trend of more employees and students working and studying from home. As such, how might those firms that have benefitted from some of the changes wrought by the pandemic, and its social and economic implications, strategically support governmental policies and company employment practices that encourage flexible work arrangements? And, drawing from extant nonmarket theory, should they focus on national or subnational authorities, and ought they do so independently or as part of a broader industry coalition? Finally, how might they collaborate with social actors that can lend legitimacy to their positions?

CONCLUSION

International and domestic environments and strategies for doing business are likely to change profoundly and possibly irrevocably as a consequence of COVID-19. We have highlighted three trends that are already affecting firm strategy, structure, and context and that urgently need attention from nonmarket researchers to ensure that theory and practice remain aligned. Without a finer understanding of firms' responses during the COVID-19 pandemic, it remains unclear if the conventional nonmarket strategy toolkit discussed in extant literature is adequate to address new challenges.

At a domestic level, the coronavirus crisis has catalysed how firms develop authentic stakeholder engagement, highlighting the need for new nonmarket strategy research examining how firms build trust and reputational resilience. The epidemic has brought wellbeing, public health and the natural environment to the global vanguard, pushing business, governments and social actors to collectively address these transnational challenges. We encourage nonmarket strategy research to study these dynamics, examining how firms can survive and thrive in a COVID-19 world where profits need to be reconciled with national interests and global activism. At a global level, the pandemic has

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escalated emergent challenges to the post-1990 international order, causing some countries to embrace nationalism, autocracy and weaker rule of law, and to resort to punitive tariffs and the targeting of foreign firms to burnish their mercantilist credentials. Thus, multinationals will have to respond and are likely to become even more reliant on host country partners and cross-sectoral collaborations to gain nonmarket access and build influence.

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