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John Da Silva Luiz

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The Nexus between Business, Government and Society under Extreme Institutional Turbulence: Integrating Market and Nonmarket Strategies in the Democratic Republic of the Congo and Zimbabwe

John M. Luiz*

Takudzwa Magada **

Regis Mukumbuzi **

* University of Sussex Business School, UK, and University of Cape Town, South Africa

** Graduate School of Business, University of Cape Town, South Africa

1. Introduction

The existence of stable and quality institutional environments is central to business development and success (Lawton & Rajwani, 2015). Institutions are malleable as they can be reproduced and adapted, with rules being formed or reformed as new practices are accepted and embedded to replace existing institutional arrangements (Shand, 2015). However, if such changes occur too frequently, unpredictably and over a prolonged period of time, it may present a turbulent environment for business, making it difficult to plan, manage transaction costs, and create stable long-term strategies for profitability. Faced with conditions of sustained and extreme institutional turbulence, firms, particularly foreign multinational enterprises (MNEs), may end up fleeing the host country to seek more stable environments (Holburn & Zelner, 2010). Those that remain face

higher transaction costs associated with the lack of predictability and security of investment and operations and thus have to develop mitigating strategies and unique capabilities to succeed in these settings.

This study focuses on companies that operate in turbulent institutional environments and seeks to understand the strategies they employ in order to adapt to and succeed in these conditions and particularly the interplay between market and nonmarket strategies. We assess both the impact of these extreme institutional milieus on firms but also how firms in turn may seek to affect the institutional environment through deliberate strategies. We additionally unpack the influence of the home country on the strategies employed by these firms in these extreme conditions. The research adopts a qualitative methods approach in two African countries which have been beset by extreme institutional instability for over two decades, namely the Democratic Republic of the Congo (DRC) and Zimbabwe.

The research contributes to our understanding of how institutions affect the internationalization strategies of firms. First, by focusing on extreme institutional settings we are able to highlight the institutional impact in very particular ways and follow the advice made by Barnard, Cuervo-Cazurra and Manning (2017) about the value of theorizing by analyzing extreme conditions by exploring laboratory-type conditions for theory modification. Second, we demonstrate how capabilities can be constructed to operate in these extreme conditions and how this is affected by the home country experiences and institutional complementarities, resulting in a resource-based and institution-based assimilation (Cuervo-Cazurra et al., 2018; Luiz et al., 2017). Lastly, we highlight the dynamics and the interplay between market and nonmarket strategies in environments of institutional turbulence and show that these are not dichotomous and can be integrated to create unique capabilities arising from context and experiences (Henisz & Zelner,

2012) and respond to the call for more empirical evidence on the integration of market and nonmarket strategies (Mellahi et al., 2016).

The paper is structured as follows. Section 2 provides a literature review which examines how institutions affect the internationalization process of firms in contexts of institutional turbulence. This is followed by an overview of the research methodology. The results and discussion follow which is structured around how the institutional turbulence manifests and the strategies (both market and nonmarket) that firms employ to address this and how this is affected by the home country context. The conclusion provides a framework that summarizes our contribution and provide areas for future research.

2. Literature review

2.1 Institutions, investment and international business

Institutions are the collective rules, laws, regulations, norms and conventions or rules of the game that underpin the economic environment (North, 1991). The inherent differences in the nature of institutional arrangements from one country to the other has an influence on the level of economic activity and can present both opportunities and constraints for doing business there (Fainshmidt, Judge, Aguilera, & Smith, 2018). Institutional arrangements can evolve or change quite rapidly with new rules being formed and reformed as new practices are adopted (Shand, 2015). While strong forces may work to preserve particular institutional arrangements in order to maintain some form of stability or to protect some elite interests, changes still occur as system actors interact and react to existing arrangements.

Institutional changes, whether occurring rapidly or over a protracted period of time, may result in the creation of better institutional arrangements or the emergence of institutional voids and weaknesses. Such voids are often associated with the absence of crucial legal and regulatory

systems which are necessary to stabilize and reduce risks in the business environment (Khanna & Palepu, 2010). Thus, institutional changes have profound implications on business and particularly business strategy as new rules have to be considered which may work to either strengthen or weaken a firm's competitive advantage (Bucheli & Kim, 2015).

Countries with weak institutions may find it difficult to attract and retain foreign direct investments (Bevan et al., 2004). Political instability, for instance, can affect governance creating uncertainty or an inherent risk that the host government can without warning change the rules of the game in which businesses operate (Butler & Joaquin, 1998). Such changes in government policies and the prevailing political environment can influence the risk premium incorporated in an investment, and hence affect investment activities of MNEs (Cuervo-Cazurra et al., 2018).

Weak institutional conditions related to poor governance, social instability, political and regulatory uncertainty, and various arbitrary fees imposed by government agencies, can lead to rising business transaction costs (Luo & Tung, 2007) and can significantly affect a company's profit margins. Ultimately, if the institutional arrangements in an environment are perceived to be too difficult to handle, companies can avoid entering that market to avoid their market risk exposure (Mingo, Junkunc, & Morales, 2018). However, perceptions and risk appetites differ from one company to the other as well as the abilities to manage and mitigate risks especially when it comes to investing in riskier emerging market contexts (Makhija & Stewart, 2012). These differences may be due to the home country institutional context, its product offering (for example, services versus commodities), and its industry (Bucheli & Kim, 2015). There is research to suggest that emerging multinational enterprises (EMNEs) may invest in countries characterized by political instability, uncertainty in government policies, and corruption as these firms engage in forms of institutional complementarity as a strategy (Holburn & Zelner, 2010;

Luiz et al., 2017). This suggests that experiences that may have been gained by the EMNEs whilst operating in home country institutions can affect investment location decisions (Gaur, Kumar, & Singh, 2014).

For some firms, difficult institutional conditions at home may drive their internationalization in a bid to escape (Barnard & Luiz, 2018) or to leverage the experience gained from operating in such tough conditions in other potential markets (learning driver) (Cuervo-Cazurra et al., 2018). This experience may become a source of competitive advantage for EMNEs as they expand into different emerging markets (Cuervo-Cazurra et al., 2018) and in managing the diversity in political systems across many countries (Holburn & Zelner, 2010; Luo & Bu, 2018).

Understanding these institutional factors and how they affect investment decisions can be critical in trying to understand how MNEs might respond to institutional changes and difficulties in host countries but also how it may affect competitive strategies.

2.2 Market and nonmarket strategies in institutionally turbulent environments

Scholars have suggested that firms operating in difficult institutional environments can often find ways to either fill in or abuse existing voids (Doh et al., 2017); accommodate or circumvent institutional constraints (Cantwell et al., 2010); or to even become entrepreneurial in these hardships (Ge et al., 2018). This may be achieved by engaging in various market and nonmarket strategies such as cost leadership, lobbying and corporate political activities which helps to minimize and manage the risks involved (Holburn & Zelner, 2010; Banerjee, Venaik, & Brewer, 2018). Some local companies may engage in foreign expansion to help spread their risks (Barnard & Luiz, 2018). Such institutional environments can still sustain significant economic activity depending on the strategies that both local and multinational companies in these contexts

adopt. These strategies can broadly be categorized into market and nonmarket strategies. The existence of institutional voids and weaknesses, whether in the form of missing or malfunctioning institutions, may create an opportunity to gain competitive advantages for those firms that have the skills and resources to address them (Doh et al., 2017) and how they do so is the subject of our research.

MNEs may try to leverage their unique competitive advantages in a bid to adapt and become better positioned in institutionally weak environments. For instance, some advanced multinational enterprises (AMNEs) can navigate and become dominant in these environments through their unparalleled market power, vast resources and strategic links. They may focus on fully amplifying their critical areas of competitive differentiation and these can include their proprietary technologies, strong global brands, good reputation and managerial competences (Elango & Pattnaik, 2007).

Many EMNEs may fall short on a number of these competitive advantages but they often possess their own unique areas of competitive edge such as their cost innovation capabilities, quick market responses, low-cost solutions, and superior organizational resilience (Guillén & García-Canal, 2009; Hoskisson et al., 2013). Luo and Bu (2018) further suggest that many of these competitive advantages and strategic approaches have to work in combination in order to be fully effective when operating in environments marked by weak institutions and high institutional changeability.

Banerjee et al. (2018) highlight that even when MNEs possess advantages allowing for the exportation of market strategies the liability of foreignness remains an obstacle. They posit that though there may be a basic understanding of general market and institutional conditions, there is always a liability in being foreign in these environments associated with fully grasping the

complexities in market dynamics, the socio-political situation and the appropriate responses to action. In such complex settings they state that some MNEs may resort to nonmarket strategies to gain legitimacy and favorable government decisions. Such nonmarket strategies can help shape public policy in favor of a MNEs as the company gains influence in the process of public policy formulation and government regulation.

Cantwell et al. (2010) highlight that some MNEs will react to weak institutions by trying to adjust their own structures and policies to better fit what the environment requires through a process of co-evolution. A MNE can attempt to ‘go native’ by mimicking a local firm in the host country and hiding aspects of the firm which make it appear foreign. But this is not easily achievable and MNEs often combine this with extensive nonmarket strategies in an attempt to influence the presiding rules of the game through various elements. In operational terms, the nonmarket strategy involves a strategic liaison between an organization and its relevant public, institutions, government entities, media sources, and other stakeholders (Baron, 1995). When incurring institutional costs in any environment, MNEs are expected to go beyond the market to influence the transactions and attempt to claw back any share of the value that could be lost or redistributed from that given transaction (Dorobantu et al., 2017). When formal institutions are weak or absent, actors are likely to construct substitutes for formal institutional support (Ge, Carney, & Kellermanns, 2018).

An example of how this change can be affected is through engaging in lobbying activities with other firms, both domestic and foreign, to try and influence the institutional conditions more favorably towards their activities. Specific forms of nonmarket strategies can come with a host of advantages for MNEs in these contexts in terms of preserving value. A strategy involving MNE corporate political activity can help in forging relationships with governmental authorities and

key local stakeholders. This in turn can lessen the liability of being foreign in the host country. Additionally, Banerjee et al. (2018) argue that gaining legitimacy (or acceptance) in the host country environment is one of the most critical concerns of MNEs. Furthermore, effectively executed corporate political activity can potentially result in a range of favorable competitive outcomes for an MNE and these can include the elimination of competition through secured exclusive government contracts or 'monopoly rights', reduced regulatory intrusion, subsidy grants, favorable terms of lending, or even the adoption of the firm's technology, or services as a national standard (Banerjee et al., 2018, Estrin, Meyer, & Pelletier, 2018).

Dorobantu et al. (2017) state that there are three ways in which companies can respond to institutional weakness namely: by *adapting* to existing institutional structures, *adding* to such structures by establishing supplementary local institutional structures, or *transforming* the institutional context itself. The types of market and nonmarket strategies employed by companies is influenced by the type of industry. While strategic options may be limited for companies in more site specific industries such as mining and infrastructure, other companies with highly mobile assets such as those in retail and finance, can have additional options to choose from. The latter companies can more easily choose to exit or they can at least successfully threaten to do so if they are faced with an unfavorable operating environment such as a perceived risk in their assets being expropriated. The high mobility of their assets can gives them significant bargaining power in these situations (Bucheli & Kim, 2015).

Under extreme conditions of institutional turbulence these strategies may become less effective. In environments characterized by intense institutional volatility, the survival of companies often necessitates developing sensitivity to the signals and evolving rapidly, even while attempting to influence the institutional context (Feinberg et al., 2015). According to

Johanson and Johanson (2006), when firms are faced with radical uncertainty, ‘they simply do not know and they cannot know what they need to know’ (p. 180). Using an example of the sweeping institutional changes that occurred across Eastern Europe in the 1990s when several planned economies gave way to more market-oriented economies, they argue that firms can only try to interpret and relate to such typical changes as they occur. They posit that in such instances, firms are faced with no choice but to accept and go through the process of learning by discovery. Consequently, they suggest that the behavior of firms in these situations can only be heterogeneous, unpredictable and variable with time as their commitment to the market is constantly challenged by the extreme uncertainty.

Institutional turbulence is characterized by extreme institutional changeability and this forces firms to repeatedly question their perceptions of the market as changes can significantly affect both the ends and means of production. Thus, in these conditions there is radical uncertainty as both the ends and means of production have shifting meanings which makes it difficult to run a business sustainably. The institutional turbulence is also fueled and sustained by the shifting behavior of system actors as their perceptions and expectations of the market change in the process (Johanson & Johanson, 2006). This radical uncertainty in these conditions makes it difficult to formulate long term strategies and results in increased transaction costs or what Dorobantu et al. (2017) refer to as institutional costs.

However, studies show a number of strategies companies engage in to try and manage this uncertainty and the variety of these strategies has grown in recent years. George et al. (2016) argue that in the presence of extreme institutional turbulence, some MNEs engage in novel cross sector partnerships and collaborations to compensate for the challenges that the environment presents. These strategies help MNEs to push favorable policies that can, as an example, cover

gaps in areas with severe institutional voids. The complexities associated with these environments may make it nearly impossible to manage the situation alone and hence cross-sector alliances can become crucial to success to fill in missing gaps in the institutional architecture (Hanekom and Luiz, 2017; Kolk & Lenfant, 2016; Murphy et al., 2012).

Rosenau et al. (2009) mention other strategic responses which include state-building initiatives and participating in social and community development programs that help shape the operating environment. The former initiatives may be actions or activities that enhance the capacity of governing authorities, holding workshops on good governance, making MNE investments conditional to the state implementing 'corrective' state action and engaging with local village communities to influencing their customs. Such cross-sector partnerships can help to fill in voids that render institutions weak, resulting in institutional turbulence when manipulated by system actors. Rivera-Santos et al. (2012) suggest that in turbulent environments with significant institutions voids, nonmarket activities such as informal contracts and in-kind contributions become more prominent. The study posits that the prevalence and pronouncement of such substitute mechanisms increases with institutional distance between the home and host country.

Nonmarket strategies can be complemented by market strategies to deal with institutional turbulence and these include developing mechanisms that help hedge against risks resulting from currency fluctuations and disadvantageous trade policies, and limiting investment activities in the country or changing the investment profile by investing in more mobile assets that are less prone to government expropriation. Other strategies involve building redundant capacity and processes of operation, and improving information sharing in the organization to come up with effective operational strategies from those that might have experienced the situation before (Ciravegna &

Brenes, 2016). These mechanisms and processes can result in companies becoming more resilient to unpredictable events such as sudden market fluctuations.

The interplay between market and nonmarket strategies in environments of institutional turbulence and how it may affect competitive capabilities is a key consideration for our research and empirical evidence unpacking this integration is still very limited (Mellahi et al., 2016).

2.3 Home country influences on strategy and capabilities in institutionally turbulent environments

Local companies, EMNEs and AMNEs operating and competing in the same industry can often display significant differences in their business approaches. The sources of these differences can be wide-ranging but it is often related to their countries of origin. Estrin, Meyer and Pelletier (2018) argue that the level of institutional development and quality of resources present in MNE home countries, provides a basis for the resources MNEs develop and deploy in host countries. In particular, they see the home environment as a factor that influences the nature of initial resources MNEs mobilize in host countries and also their ability to accumulate management capabilities.

Fathallah, Branzei, and Schaan (2018) suggest that firms from home countries characterized by institutional changeability, such as frequent policy changes, are relatively less sensitive to similar uncertainty in host countries. They emphasize that these firms gain ‘political resources’ such as those that can give them access to pivotal political actors in governments. The knowledge and experience they gain in operating in their particular home country environments is transferred to subsidiaries operating in similar host country configurations. They go further to state that a firm’s home country policies and shared experiences can even become so engrained

in the organization that decision-making processes become cognitively imprinted in the minds of managers. Hence, managers develop mental models which shape their interpretation of the environment and guides their actions according to their experiences in similar situations. This can come as a benefit or cost to a firm depending on whether the policies, resource allocation and decision processes employed between the home and host countries are compatible with the situation presented by the environment.

Fathallah et al. (2018) show that EMNEs coming from hyper-turbulent contexts can become very aggressive performers in foreign markets through their evolving relationship with their changing home context. They do this by deliberately arbitraging disparities between their home and host country contexts and this can include exploiting, compensating and, or building existing skills between the two markets (Marano et al., 2016). Furthermore, Cuervo-Cazurra et al. (2018) argue that home countries, through the effect of institutional learning, have a significant impact on the internationalization of firms. They analyze the impact of home country uncertainty on the performance of EMNEs and argue that the worse the home country institutions in terms of corruption and political risk the better its performance in turbulent host countries. This they attribute to the fact that their experience and exposure to these conditions and uncertainties at home pushes them to inherently develop an uncertainty management capability in tough foreign markets.

Exposure to home country conditions leads to organizational learning such that firms become better positioned to act and react to conditions of extreme institutional turbulence in host country markets. Hence, such EMNEs are by nature more resilient, flexible and can easily adapt to changes occurring in these contexts (Ciravegna & Brenes, 2016). Additionally, Cuervo-Cazurra et al. (2018) argue that political risk management learning can help firms to acquire an

uncertainty management capability critical to handling the instabilities faced in turbulent environments. This capability is acquired as managers and employees accumulate experiential knowledge while operating in environments where crises is the norm, and change is frequent. Routines and processes end up being generated to manage this uncertainty thus helping to form, in part, this institutional uncertainty management capability (Martin, 2014).

Thus, the comparatively higher the uncertainty in a firms' home market, the better positioned it is in the host country due to the experiential knowledge the firm possesses as a consequence of operating in its tougher home country landscape. We explore the impact of country of origin on MNE strategies in institutionally turbulent environments in what follows.

3. Research methodology

The aim of this research was exploratory in nature, to try and gain an understanding of the strategic effects of extreme institutional turbulence on companies with different home countries of origin. The nature of the study made a process of qualitative inquiry appropriate to bring out the full complexities of the situation and paint a more holistic picture as it involved exploring how each company had navigated this environment over time (Creswell, 2009). The backward looking nature of the research also lent itself to this approach as it necessary to 'see through the eyes' of actors in these organizations that have lived through this period to develop an understanding of the interplay between companies and institutions according to the meanings they impart (Creswell, 2009). Qualitative research is also very effective in extracting rich data from small sample size situations. This was particularly suitable for this study as comparable companies fitting the profile of the research were very limited.

Data collection for this study was through one-on-one interviews which were conducted in person or via technology through Skype or Zoom. The interviews were semi-structured and standardized for all participants which ensured that the same questions were asked of all participants for comparability. However, questions were open-ended to enable rich data exploration and to permit the free flow of the conversation while still allowing for a significant degree of comparison to be made between data collected from other participants. Three pilot interviews were conducted to improve interview delivery before conducting the actual interviews and to test the phrasing of questions.

The research population for this study was composed of large firms operating in the mining sector in the DRC and financial services in Zimbabwe. We limited it to companies that had at least 100 employees and total revenue of over $50 million in the host country to ensure a significant size of operation. Given the nature of these economies, the effective population was relatively small and we thus relied upon purposive sampling that would most effectively allow us to examine our research questions. Furthermore, participants were selected purposively so as to interview those with detailed knowledge of the company strategy and operations. All respondents were in senior management positions and had been with their respective companies for at least seven years. We interviewed 12 respondents in Zimbabwe and 15 in the DRC - see table 1 for a description of participants and company profiles. Interviews took between 60 and 90 minutes and were recorded with the consent of the participants for transcribing and coding. All data was kept anonymously with no identifiable information linking to the participant or company.

Insert table 1 here

The data analysis employed thematic coding which involved the categorization of transcribed data from the interviews into common themes for easier analysis. We followed the coding process suggested by Creswell (2009): after data was transcribed and organized, initial reading occurred where broad ideas were noted. Then precoding occurred, where the researchers inductively coded the interviews. This list of inductive codes was refined as codes and were grouped together in the first cycle coding phase. Thereafter, these codes were grouped and categories and themes were proposed in second cycle coding. This allowed for better interpreting the findings and in ensuring a theoretical contribution. Validation strategies were used together with reliability checks. For instance, data obtained was compared to information in company annual reports to substantiate the findings obtained. Furthermore, all interviews were conducted based on clear protocols and the procedures of these interviews were documented to ensure replicability. Interviews were audio recorded and transcribed verbatim to reduce researcher bias and to help ensure consistency in coding and data analysis. Assurance of the anonymity and confidentiality of interviews was guaranteed to participants which made the interviews more open, reducing subject or participant bias.

4. Results and Discussion

4.1 Country contexts

The DRC is the largest Francophone country in Africa with over 77 million inhabitants and with fewer than 40% living in urban areas (World Bank, 2018). 77% are considered to be extremely poor and live on less than USD1.90 a day (World Bank, 2018). This former Belgian colony has vast arable land and a very rich mineral endowment – the DRC possesses the potential to become one of the wealthiest countries on the continent with over 1,100 minerals and precious metals (World Bank, 2018). However, the country shows high fragility; it has a fractious

political setting, heightened political uncertainty, and residual security risks (World Bank , 2018). In 2015, the extractive sector of the DRC generated USD 1.7 billion in revenue, 82% of this coming from mining and hence our focus on this sector in this case. During the same year, the Congolese Parliament passed a new administrative law that divided the country's eleven (11) existing provinces into twenty-six (26), reconfiguring the beneficiaries of the mining revenues (Iwerks & Toroskainen, 2017). Increasing the number of provinces exacerbated the already complicated political economy of the country where political power bases reflected the regional and ethnic fragmentation of the country. Both the extractive industry and the development agenda are highly politicized with systematic instability prevalent due to the contest of power resulting in decisions in the extractive sector favoring the frontloading of revenues through bonuses and bundled deals (Natural Resource Governance Institute, 2015). Policymakers have attempted contract renegotiations to increase and accelerate government revenues, at the same time, rent-seeking is prevalent at every level of government with a proliferating cast of actors—within both government and the private sector (Natural Resource Governance Institute, 2015). The central government has limited reach outside the capital and regional strongmen are a defining feature of operating in the country. The recent Ebola epidemic and the government's inability to contain it spread is an example of its limited reach. The business environment in turn is characterized by high transaction costs associated with this turbulent institutional context.

Zimbabwe is a country that has seen amongst the most extreme conditions of institutional turbulence over the past two decades. It gained independence in 1980 and its first leader Robert Mugabe ended up in power for almost three decades only releasing that power in November 2017 during an attempted coup. Key events in the country's political economy include the following. In the mid-1980s an estimated 20,000 people were killed in Matabeleland in a

massacre by Mugabe's Fifth Brigade. Between 1998 and 2002 the country actively intervened in the civil war in the DRC. After following an unsuccessful structural adjustment program in the early 1990s, this was followed by a chaotic land reform program which saw white farmers being evicted off their land without compensation and often violently. This saw a sharp drop in food production and an economic crisis resulted with shortages of basic commodities appearing. Hyperinflation resulted and at its peak in 2008 inflation was estimated at 79.6% billion percent month-on-month, 89.7% sextillion percent year-on-year (Hanke & Kwok, 2009). The government was forced to stop printing its currency and switch to alternative currencies. This period coincided with high levels of violence and a clampdown on opposition movements and political and civil rights. This was accompanied by high levels of emigration and rapidly declining social indicators. The economy remains in serious condition with a foreign exchange crisis resulting in the country unable to trade freely and increasing debt burden compounding the problems. Although the post Mugabe government has brought about some improvements to the institutional environment, investment continues to be hindered by the insecurity of land tenure, an inability to repatriate dividends to foreign overseas, and a continued lack of clarity regarding the government's Indigenization and Economic Empowerment Act. Although the country remains heavily dependent upon agriculture and mining, the services sector makes the single largest contribution of almost 66% to the economy and hence our focus on financial services firms in Zimbabwe.

4.2 Manifestation of institutional voids in these extreme country contexts

Our first order coding revealed the manifestation of institutional voids in the form of heightened political risk, corruption, aggressive tax regimes, lacking social and physical infrastructure, and

uncertain rules of the game, amongst others. This was seen as increasing the transaction costs of doing business in these countries.

a) Corruption

Respondents stated that one of the most significant risks of operating in these extreme institutional conditions is the presence of corruption. Corruption by its very nature increases the cost of transacting within a market by creating uncertainty about the actual cost of being in the market. Such costs are therefore deemed to be creating an imbalance between participants in the market:

> *You could argue the only way to get things done there is corruption. You could also argue the point of view that it is the only way people can survive and there's a significant number of people. There are government officials who are not paid (well) and the only way they get paid is by being paid a facilitation fee by businesses working in their Province saying, well if you want this stuff to be released, pay a couple of thousand dollars. Yes, it is low key, yes it is not necessarily going to break the bank for a business but what it does do is it destroys the moral fabric of the society. It is almost impossible to have a principles-based system* (R17).

Participants argued that although they did not engage in corruption (as one would expect) it was difficult to do business without engaging in such behavior. Listed companies in particular stated how problematic it was because of the stringent stock exchange listing requirements which resulted in zero tolerance as company policy. One participant lamented that headquarters do not know how business is done in the DRC and declared that pushing international conventions into a country like this with which they are not wholly familiar is problematic: '*What makes it very*

difficult in Congo is that basically you're dealing with a defunct government' (R20). Some respondents mentioned that when it became impossible to do business without engaging in corruption, that the relationship between parties would be 'outsourced' and that they would engage with a local partner who would then 'liaise' with their counterparts in the country.

b) Political risk and instability

Political risk and instability was raised in both countries which have seen high levels of instability and conflict associated with the political environment. Respondents saw the risk manifested in various ways including how closely to align with the ruling party or potentially getting caught on the wrong side of any political change.

> *The DRC is a country that is politically turbulent, (and) politically charged at the moment. It always has been quite factional, but at the moment it seems to be under pressure. It's corrupt; politicians are very greedy. … The problem is there just doesn't seem to be any solid governance structure anywhere in the regime throughout the state institutions* (R19).

> *The factor that has played a bigger role in the struggles of this country is political. I think right from independence to where we are now, Zimbabwean politics has led everything in this market (R12).*

c) Institutional inconsistency and ambiguity concerning the rules of the game

This point was raised by all respondents in both countries. Respondents were either concerned about not being able to be compliant with the current laws and regulations or expressed their frustration on the drafting of new laws, especially those conflicting with other laws. They also expressed frustration about not being involved in the process of making new legislation through

public comments and debate. All respondents felt the legislative changes recently enacted were ambiguous and left room for interpretation as a result of lack of drafting clarity:

> *There's this constant threat that's just sort of lurking over you, where you know that you're not compliant to every single rule that they have, (and) they can dig out something from 1980, or 1875 or whatever and they can come and hit you with an administrative penalty* (R22).

> *Normally you have three fundamental levels of regulatory authority the constitution, the codified law and then the civil law. And in the Congo, these can be short circuited quite often (at) times conflicting with ministerial directives and other levels of government just putting in contradictory and out of context regulations that first of all are not widely publicized* (R13).

> *So they make big, big decisions without understanding the complexity or understanding the impact of the complexity of the value chain and how it is going to impact on that value chain. So I am going to use the mining code as a new example. They've brought in legislation which we actually can't really comply with. Not even almost, it is definitely impossible to comply fully with the new legislation. They've given no timeframes to implement. … They haven't considered feedback from industry. Again, it just creates a very difficult relationship. So, you've got a politically charged, difficult set of circumstances on the one side and you've got terrible legislation, which has just been enacted with no time allowance. No recognition for prior agreements with major investment companie*s (R19).

> *The tax regime is very unclear. So, we don't really know how we're going to be taxed and for what we're going to be taxed* (R21).

In Zimbabwe, state governance and politics has been the source of many challenges in the business environment. It has affected business both directly and indirectly in terms of trade, investment, sectoral regulations and economic policy. Several participants highlighted this as a root cause of their struggles:

> *The political environment hasn't been easy, the country has just been ruled by one political party for the longest time and at times if you've got one governing party for a long time, they become relaxed, they definitely become corrupt, they tend to capture the system that will cause them to continue being voted into power but without necessarily delivering* (R11).

Participants highlighted the impact of international sanctions which have isolated the country and made access to capital markets difficult, destroyed important trade networks, and have limited the counterparties with whom they could do business:

> *The restrictive measures cut the country off and that means we cannot do business with certain companies outside Zimbabwe and that also included banks and also whatever transaction that you do with an external party, you have to verify that this person or counterparty or entity has been cleared in terms of any anti money laundering regulations across borders. So your whole compliance environment and framework then changes because of sanctions* (R4).

d) Inadequate infrastructure

Africa in general suffers from an infrastructure deficit and this raises the cost of doing business as it forces firms to find alternative ways of buying and selling in markets.

> *It is a power constrained country. … Logistics is very critical as well, because it is inland, there's no ports, there's no dry ports, there's no bonded warehouses, the roads are not well-developed and obviously the country is very expensive as well. And there's lots of borders you have to cross as well. So, it becomes a whole logistics piece as well* (R16).

Not only is physical infrastructure inadequate but likewise with social infrastructure and both countries have seen deteriorating social conditions with high levels of poverty and unemployment. In the DRC, respondents alluded to the fact that disease affects their business model significantly with both malaria and Ebola being singled out. Parts of the country have seen a significant Ebola outbreak over the past two years. Furthermore, companies rely on expatriate workers who do not want to be based in these dangerously unhealthy contexts. Furthermore high levels of poverty and inequality result in volatile environments which can easily spill over into violence. It also can result in antagonistic views towards private enterprise who are seen to be part of the problem having been co-opted by elites:

> *Extreme poverty in the DRC has created resentment towards mining companies. Since 2014, DRC has been producing tons of copper (biggest copper producer in Africa) and little development has happened, and the communities are said to be very suspicious towards mining companies* (R18).

e) Extreme economic instability

This was an issue that particularly manifested in Zimbabwe where respondents spoke of the 'absence' of a monetary control system and that this creates a virtual institutional void in the system. Speaking specifically of the period after the host country abandoned its excessively devalued local currency for the US dollar, participant R1 stated that:

> *We have had to deal with the reality that this country has not had a monetary policy framework over the last few years. … The country was left in a position where it does not have control of its own monetary environment. So, the monetary ecosystem has not been functional.*

The absence of this working and effective monetary policy has led to chronic cash shortages in the country creating sustained economic turbulence and limited productivity for both companies and individuals. Furthermore during the period of hyperinflation businesses and their operations were impacted in the extreme:

> *With the level of turbulence in the economy naturally default risk will be high, the risk that you lend someone money and you lose it is high, so how do you navigate such an environment? How do you deploy such a huge amount of capital and yet the opportunities to sweat that capital are very limited?* (R3).

> *The hyperinflationary environment which just wiped out everyone's money and as a result people lost confidence in the financial sector* (R4).

Participants also reflected on how economic institutions are weak because some of the structures like the central bank which are supposed to be independent are influenced by political institutions. One participant argued that political influence overpowers the economic landscape stating that several government policies had been geared towards short term political gains instead of building

sound long term economic policy: *'Economic institutions are a function of political institutions, so you can't have good economic institutions if you have bad political institutions'* (R3).

f) Sectoral regulatory concerns

In the DRC, the government's heavy reliance on the mining sector for most of its foreign exchange meant that the sector was regarded as a cash cow for exploitation. Volatile commodity prices exacerbated the problem as it put pressure on the fiscus to raise additional revenue during downturns leading to unpredictable policy environments:

> *The government is clearly targeting the mining industry in a way that is quite unsustainable so that's trying to kill the golden goose to be honest* (R13).

In Zimbabwe's financial sector, concern was expressed at the overburdened regulation within the sector and how this had been affected by the economic collapse and periods of hyperinflation and currency shortages. Whilst financial sectors are always highly regulated this is particularly problematic where shortages of capital, sanctions, and a lack of monetary policy make it difficult for financial firms to comply with basic things such as capital asset requirements.

4.3 Nonmarket strategies in environments of institutional turbulence

Our two cases thus represent examples of extreme institutional turbulence and this requires an adaptation of business models and unique capabilities but also the ability to do the basics really well to compensate for the additional risk of operating in these settings through a combination of sound market and nonmarket strategies:

> *Don't do marginal projects. There are poor institutional capacities, lack of investment infrastructure etc. (Therefore) the cost of doing business is high. You cannot solve the*

> *inefficiencies alone, you are going to absorb them; you will need to be left with some margin left. So, you must pick a good project with a good return and execute the plan* (R18).

The same respondent highlighted the importance of excelling with market strategies to ensure that a 'tight ship is run' as there is 'little room for error' or for inefficiencies in such institutional environments which result in inherently higher transaction costs. Thus a necessary but not sufficient condition lies with mastering the market operations. But these need to be complemented by nonmarket strategies as these contexts require a diverse range of ways of addressing institutional settings that make transactions costly (or impossible) to undertake in a market (Dorobantu et al., 2017). In terms of nonmarket strategies, we see all three broad methods identified by Dorobantu et al. (2017) at work but with novel twists reflecting the extremity of the environment: adaptive, additive, and transformative approaches.

a) Adaptive approaches whereby firms use nonmarket strategies to adapt to the institutional environment to create and appropriate value were widely employed. For example, all participants raised concerns about the level of infrastructure development in the DRC. Participants indicated that depending on how well funded a firm is, it would be beneficial to vertically integrate into service lines that would assist in maintaining control over the value chain, especially if the cost of the service required is excessive. In order to export minerals out of the country, miners have to vertically integrate and invest in logistics themselves. By creating logistics divisions, firms internalize the cost in order to control the value chain better and reduce the uncertainty about the share of the value that they expect to appropriate. Whilst mining companies could not shift the production elsewhere as they were tied to the resource base they actively shifted some of their value addition activities offshore.

Other examples provided by participants of internalization strategies include favoring out-of-court settlements as a form of solving/ maintaining control of litigation issues, stakeholder engagement, preferring negotiations as a form of dealing with problems and avoiding getting into fights with political actors.

Partnerships are widely employed with firms using hybrid structures, and joint ventures and alliances. In the DRC, there is a legal requirement to share shareholding with the state for mining, and each mine has joint venture agreements with the state-owned mining company, Gecamines. This partnership is more about preserving the rights of the country in each mining venture. But some partnerships are mutually beneficial and participants highlighted the importance of public-private partnerships involving infrastructure development. Over the last few years, mining companies have been taking part in investment in the power sector as a lack of power is considered a significant limiting factor to production by miners. Mines have sought to pre-finance the refurbishment of some old power stations with the promise of receiving their investment back through power credits. Such agreements are becoming frequent in DRC where private-public partnerships are created in order to reach a win-win situation – the DRC is unable to raise cheaper funding in the capital markets, whilst miners are able to tap into their resources in order to pave the way for their energy needs in the future.

Firms also indicated preference for using partnership strategies where there are pervasive corruption pressures working with a local partner to ‘ease pressures’. Respondents indicated mixed opinions as regards taking advantage of politically connected individuals to facilitate connections between the state and the miners. Recently, Swiss mining giant, Glencore cut ties with a politically connected person with ties to then DRC President, Joseph Kabila. In December 2017, the United States government designated this person and his affiliated companies, as

specially designated nationals thereby imposing blocking sanctions on them. This left Glencore in a precarious situation with the same person serving the mining giant with a freezing order worth USD 2.28 billion for breach of contract (Wilson, 2018). This example illustrates how in turbulent institutional environments political connections can equally be treacherous territory.

b) Additive approaches whereby firms supplement existing structures with more decentralized ones that help solve collective action problems through voluntary activities. All participants acknowledged the need to be proactive and present in enhancing the social conditions in the country, noting that this is part of creating and enhancing the social licence to operate. The participants argued that the dynamic country environments together with the history of colonialism and civil wars, and economic and social deprivation meant that they as investors needed to work with and develop the communities where they operate. Not doing so would harm them, as investors, in the long-term. Often this would require our companies to deliver services which fall into the government realm but because of its incapacity the expectation was that these companies fill that void. For example, one of the MNEs provided free health care through two hospitals which included experienced expatriate doctors together with state-of-the-art hospitals. In addition to this, the same MNE provided electricity to the community free of charge. Both of these are examples of costs which firms carry in order to operate in this region where they usually would not be carrying these costs. The benefit is that the communities are motivated to support this MNE and local politicians would do likewise, which is important in unstable contexts.

Respondents utilized collective strategies to share resources through co-ordination with other players for the creation of positive externalities or the abatement of negative externalities. This was often coordinated through general chambers of business or sector specific chambers which

sought not only to defend the interests of its members but also to facilitate their cooperation with economic and social development activities. This was not always successful and some participants indicated that chambers could be captured by government aligned interests. For example, in the DRC the body which was supposed to defend the interests of the industry was headed by the CEO of the state-owned miner with close ties to the president and some respondents felt that this created a conflict of interest. This was hard to bypass given the fact that the state-owned miner had a compulsory carry on all mining activities.

c) Transformative approaches which attempt to transform the very institutional context manifested in coalitions within business generally or within sector specific codes. For example in the DRC, a new Mining Code was enacted in 2018 when former President Joseph Kabila signed it into power, replacing the DRC's first code dating from 2002. During the period working towards the gazetting of the Code, mining MNEs expressed that they were not involved in the preparation of the new law. The top miners, called the G7, argued that the new code violates terms of the previous version, which provided a 10-year stability clause after any fiscal change, and some of them could be preparing for legal action as a result (Wilson, 2018). The G7's formation was directed at lobbying to the government to reconsider the new law that was to be enacted and even though it failed to gain a reprieve it demonstrates how coalitions can be enacted. Part of the rigidity and intransigence of the government of the DRC is related to the fact that mining companies have made very substantial profits and taken advantage of the initial liberalization of mining regulations in the country which have raised questions of their legitimacy and has resulted in the government seeking to adopt a new restitutive and remedial approach.

4.4 Impact of home country of origin on perceptions and strategies

We demonstrate how firms view and respond to institutional turbulence in host countries is affected by their country of origin which provides the lens through which they make sense of the institutional setting. The institutional environment of their home country frame both their perception of the turbulence and their strategies to mitigate it.

4.4.1 Advanced multinational enterprises – defensive strategies

The AMNEs of our sample desired familiarity and stability of institutional settings. They highlighted the importance of the regulations – the rules of the game, and economic and political stability and their frame of reference was the predictability of rules in their home country:

> *Regulations in the sector are important to ensure that players in the system operate in a manner that is consistent with best practice* (R5).

> *You want to look at the general political environment as far as governance and policy is concerned. Investors prefer a country where there's policy consistency and clarity* (R11).

These firms demonstrated a key concern around security and institutional stability. They developed strong strategic business relationships with a number of international companies in the country that shared similar home country origins - the utilization of a common lens and a common defensive platform. The strategies they adopted mostly concentrated on robust risk management focusing on reviewing and adjusting their risk matrices in the face of changing risk profiles as a result of the turbulence - a portfolio approach was apparent:

> W*e continually review our risk appetite. We've got risk appetite metrics that define the amount of risk that we are prepared to take so were we find that we're taking risk, we adjust our strategy in terms of our target market and the amount of business that we underwrite, to align with our expectations* (R11).

The AMNEs explicitly deliberated on how they could continuously affect their bargaining power relative to the government authorities mindful of protecting their assets from expropriation which was always top of mind. They reflected on how they could make themselves more indispensable to the local authorities and how they could leverage that in terms of their provision, for example, of vital lines of credit and foreign currency for the country or their foreign resource networks more generally.

In general their strategies can be categorized as defensive and even resorting to forms of hibernation when turbulence becomes extreme in terms of reducing their market activities and only engaging in maintaining and protecting their most critical clients and sources of revenue.

4.4.2 Emerging multinational enterprises - Opportunistic, aggressive agility

Respondents from EMNEs concentrated on the opportunities that existed in these turbulent markets and stated that it played to their strengths in that they were better able to absorb institutional instability given their home country environments which often also reflected institutional weaknesses although not to these extremes. Their focus was on growth opportunities in these unsaturated markets. Furthermore, the institutional turbulence provided entry barriers to other firms which increased the sense that there are unexploited opportunities to be capitalized upon in these unsaturated markets:

> *I think our main thrust was Sub-Saharan Africa and also trying to look at markets which are not completely saturated in terms of financial services. For example, you will find that, it was one of the reasons we did not go into South Africa because it was already saturated* (R9).

The focus of EMNEs is not on institutional stability but rather on the growth opportunities that exist behind this market instability. They focused on entrepreneurial and agile strategies that allowed for growth exploitation. Their home country experience provided them with improved capabilities in terms of managing uncertainty along the lines proposed by Cuervo-Cazurra et al. (2018: 219) who write of these capabilities as a form of 'contextual knowledge' that is applicable to diverse situations. Luiz et al. (2017) refer to this as capabilities associated with institutional complementarity. Although these firms are not actively welcoming more turbulence they are aware of the opportunities it provides and how they need to adapt their strategies to these contexts:

> *A government can take a position and say we're going to support industry 1, 2 and 3 and so you will know that if you don't play in those industries that are getting government support you are finished. So, strategy can result from the institutional arrangements* (R3).

> *Strategy are choices that you make. So given the choices that you have to make there are alternatives and opportunity costs that you incur. They can also have cascading effects, so you then find that because of that your strategy should be fluid to adjust. Strategy at the end of the day in the 21st century is not static but fluid* (R9).

Hence for them it is not about stability per se but about their agility or ability to quickly adjust to a position that maximizes their value creation in that particular market. Their fluid, agile strategy is a competitive advantage well suited to unstable institutional environments and it helps them to be competitive in these environments. EMNEs engage in dynamic and aggressive approaches directed at managing both the results of institutional turbulence and also the source of turbulence. Their focus is on a combination of market and nonmarket strategies. In terms of the

former, strategies that became apparent include the following. Firstly, opportunistic entrepreneurialism related to the institutional turbulence:

> *So, in a way the current institutional environment of unavailability of forex has enabled us to develop specific products for this market. We realized we had a good exporter book, a supportive regulator and a huge base of importers seeking to import products into the country. So, we organized trade structures to support these three parties as a strategy. Hence we have now shifted our strategy from just general services to trade focused services* (R4).

Secondly, adjusting the business model in terms of revenue streams by moving into less restricted areas or adjusting the risk management through the bundling-in of risks along the value chain:

> *I spoke a bit about price controls especially on interest rates so how we have related to that as a business is that we have tried to create a mix of the type and source of revenues to concentrate less on the revenues that are controlled. We are growing our non-interest revenue because there we have more room to charge economic rates* (R3).

> *If we are going to be lending to an SME, we want that SME to be part of the value chain of a big corporate that we know already because then that reduces information asymmetry and hence reduce default risk because remember these guys especially the small guys, they normally have one big contract so chances are they survive purely on the big corporate's business* (R11)

Lastly, bridging gaps or institutional voids by adopting new systems and solutions. For example, in Zimbabwe shortages of cash and hyperinflation have seen financial services go fully digital and seen branches closing down.

As regards nonmarket strategies, respondents engaged in diverse activities to mitigate the impact of institutional turbulence. These strategies were aimed less at trying to change the institutional landscape as the space for doing so was not seen to be viable and thus it was more around mitigation. This included lobbying policymakers through business associations to adjust policies that are detrimental to business, or bridging voids by collaborating with sector regulators to facilitate greater efficiency in transactions within the sector.

The research demonstrates that our EMNEs expanded into these market to take advantage of opportunities and make use of the learnings they have gained from operating in their own tough home country institutional environments. Their learning and experience provides the opportunity for dynamic strategies that allow them to maximize gaps within the market to gain market share in these conditions and provide services and solutions that are needed in the host country. Their adaptations to the radical uncertainty is aggressive, opportunistic and agile:

> *Policies often change overnight so the best way to just manage it is to adjust your target market strategy as you go …you can't really pre-empt policy because, you don't know what policy is going to come out before it actually comes out. You almost react as it comes through* (R3).

4.4.3 Local companies - embedded rationalization and reconciliation

Local companies demonstrated a rationalization of a thought process as regards the institutional turbulence and focused on the upside potential domestically and that the instability was part and parcel of operating in African markets more generally. Their home countries were seen less as outliers and there was more of a placatory approach towards government:

> *The Zimbabwean economy, despite it being in a fragile state as you would want to call it, still has significant opportunities for growth relative to other financial markets within for instance southern Africa. So, you will find that in as much as the Zimbabwean financial sector is a bit lagging behind, from an investor perspective it demonstrates the upside potential in terms of you scaling it up to the levels that everyone else is at. So, there is strategic merit in locating ourselves in Zimbabwe* (R7).

> *We look at the political environment in terms of the stability of government and its policies. And by stability of government it does not necessarily mean that we are in agreement nor disagreement but it is purely from a stability perspective* (R8).

This approach is most likely associated with the significant exposure that they have to the environment and not having the luxury to opt out. In terms of market strategies they resorted to diversification of the business to reduce risks that come with depending on one portfolio, hedging with financial instruments as far as possible and adapting business processes to dealing with the institutional weaknesses.

Their nonmarket strategies have included lobbying to help shape policy so that it is more favorable to business, and stakeholder management to ensure their interests are heard:

> *What we have been doing as well is to push most of our staff members to participate in some of the lobby groups that are within the country. For instance, we have got strong representation on [mentions three bodies which their managers chair or are board members of]. So we try to have as much representation as possible in all the regulatory bodies and lobby groups so that our positions can be explained* (R1).

But their responses indicated a sense of resignation to the institutional environment and a rationalization of what it means for their business:

> *The political environment is something that is outside our control. So we have to deal with whatever comes through but we can now often anticipate. For instance, if we are going towards elections, we have gone through so many cycles now, we know what happens immediately after elections so we are to an extent prepared* (R8).

5. Conclusion

Research in international business increasingly recognizes the significance of institutional conditions in both home and host countries and that this may affect locational decisions, entry strategies, and firm performance, amongst other things. This strand of work has become central given the growing importance of emerging markets as both home and host countries in the process of internationalization. But we need to better understand how this work is affected by more extreme institutional environments which are often characteristic of the next generation of frontier markets.

Our research demonstrates the interplay between home and host country institutions and its significant influence on company strategies in institutionally turbulent environments. The ability of firms to maneuver through these riskier milieus is affected by their home country context and the capabilities that they have built up at home and these get translated into extreme host conditions – see figure 1. AMNEs tend to take more protective, defensive approaches when locating and operating in institutional turbulence. Their perceptions are more skewed towards risk mitigation than opportunity maximization. EMNEs, on the other hand, show more entrepreneurialism and adopt opportunistic, aggressive and agile strategies that build on their

capabilities of operating in more unstable home country contexts. Local companies depend heavily on relationships and connections to survive in these environments due to their limited domain of operation and significant exposure to institutional risk. They therefore have to adopt a more reconciliatory approach with policymakers whilst trying to influence at the same time. There is also an embedded rationalization in terms of how they make sense of the extremity and their rationalization that this is part and parcel of operating in African markets.

Insert figure 1 here

Figure 2 provides a framework demonstrating the key propositions to emerge from our research. It emphasizes the importance of context as regards the institutional environment (Doh et al., 2012) and this is particularly pronounced in situations of extreme institutional turbulence. This context is associated with higher transaction costs or what Dorobantu et al. (2017) refer to as 'institutional costs' linked to the lack of predictability and security of investment and operations (P1). This, in turn, sees firms developing a combination of market and nonmarket strategies to successfully operate in these environments (P2, P3). The interplay between these market and nonmarket strategies can create unique competitive capabilities which are affected by the characteristics and resources of the firm itself (Dorobantu et al., 2017) and its institutional aptitudes (Luiz et al., 2017) - combining a resource and institution-based approach (P4). This strategic interplay and aptitude is influenced by the home country institutional environment and firms' experiences and capabilities arising from that home context (P5). Lastly, the combination of these propositions associated with firms' contexts and strategies result in unique capabilities that can contribute towards improved firm performance (Mellahi et al., 2016) associated with operating in environments of institutional turbulence (P6).

Insert figure 2 here

Implications and Relevance

The research contributes to our understanding of how institutions affect the internationalization strategies of firms. Firstly, by simultaneously examining both home and host country institutional contexts we demonstrate how capabilities are constructed out of home experiences that can be capitalized upon in other settings. It unpacks these capabilities and thereby extends the research of Cuervo-Cazurra et al. (2018) and Luiz et al. (2017) around institutional learning, capabilities, and complementarities. Secondly, whilst international business increasingly explores contexts of institutional uncertainty, we unpack this research in extreme institutional conditions. Barnard et al. (2017) point to the value of theorizing by analyzing extreme conditions and in particular how it can contribute towards institutional and resource-based approaches. We show how institutional settings can provide particular capabilities which leverage off both institutional and resource-based approaches. Thirdly, often research focuses either on market or nonmarket strategies in environments of institutional uncertainty and the limitation of this is that it does not explore the interplay between these and how they can feed off one another and we demonstrate how this can create distinct capabilities through the integration of these approaches. In the real world firms do not necessarily see this distinction and we illustrate this in our research.

Limitations and Future Research

Several limitations manifest as regards this research. The nature of the sample in terms of countries, firms and sectors selected mean that we cannot generalize but that was not the purpose of this research which was exploratory in nature. Future research could extend this work by exploring how it generalizes to other settings and sectors. Mining has particular characteristics tied to the resource base which may affect risk appetites and strategies although our comparative

case in financial services reveals similar results that the interplay between home and host country institutions are an important determinant of strategic approaches. An interesting theme that emerged for future research was related to the ability to utilize business associations for lobbying as part of nonmarket strategies in environments where state-owned enterprises played substantial roles within these associations and how this may affect their effectiveness. In the case of the DRC we see the state mining company playing a leading role within the industry association making it difficult for other firms to effectively explore the full suite of nonmarket strategies, which has seen the leading players creating a parallel grouping with a more limited mandate. Likewise, respondents discussed the importance of strengthening bargaining power in host countries where expropriation was a real threat and more work is needed to examine the efficacy of strategies in these contexts. Additionally, more work of a longitudinal nature will allow us to explore the dynamics of how strategies adapt to fast-changing institutional conditions such as those explored here. Lastly, future research should build on our results to further explore the relationship between market and nonmarket strategies which is still underdeveloped (Mellahi et al., 2016) and further integrate context and resource- and institution-based approaches.

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Figure 1: The impact of home and host countries' institutions in strategy formulation in environments of extreme institutional turbulence

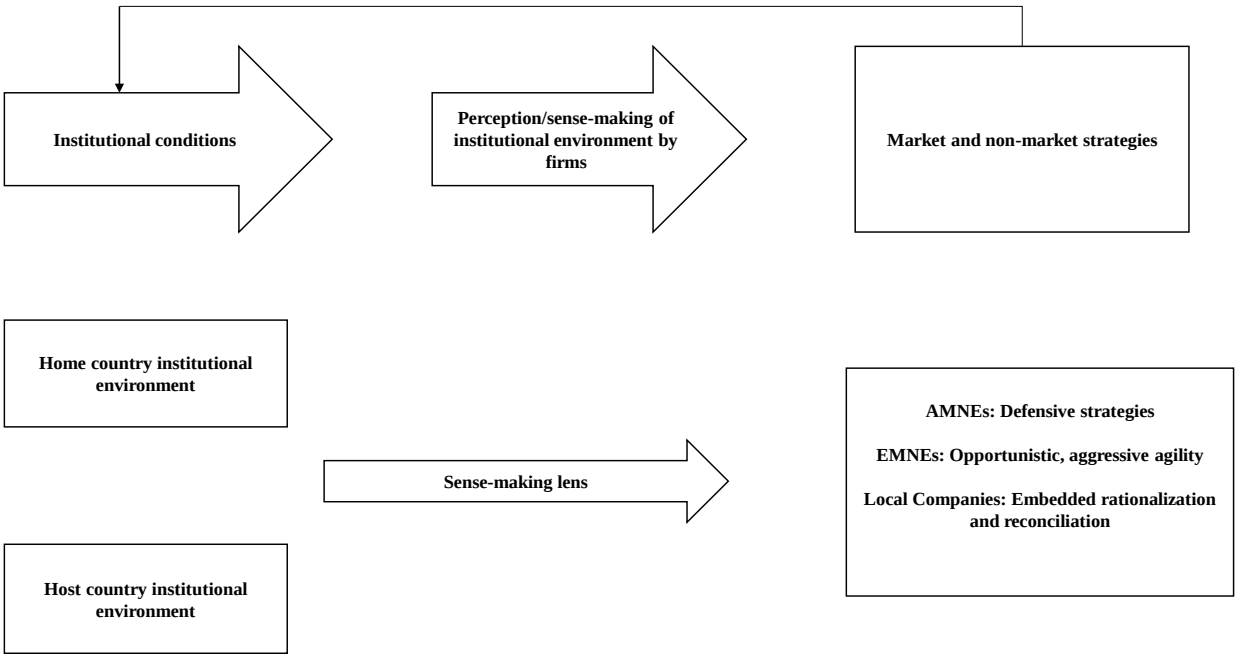

Figure 2: A framework integrating market and nonmarket strategies and context in environments of extreme institutional turbulence