

Dissertation

Between Ballots and Bullets: Political Competition, Uncertainty, and MNE Strategies in Politically Challenging Environments

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Multinational enterprises encounter political competition in all of the environments in which they operate, whether it manifests as elections between political parties or war between armed factions – that is, ballots and bullets. Yet, the literature on MNE strategies has yet to fully and systematically incorporate political competition and probe the challenges and opportunities that it poses to firms. In my dissertation research, I delve into three distinct contexts – the Democratic Republic of Congo, the United States, and Russia – to explore political competition and the strategies that MNEs develop to navigate these environments, aiming to build a unified theory to drive new IB scholarship and generate valuable insights for managers.

BIG QUESTION

How do MNEs strategically manage political competition in the different environments in which they operate?

INTRODUCTION

A ubiquitous feature of the political environments encountered by multinational enterprises (MNEs) is the existence of two or more opposing political groups; even countries with more authoritarian regimes will have organized, though perhaps outlawed, opposition to the prevailing order. Moreover, opposition between political entities also exists at the international level, as relations between nation-states can be conflictual as well as cooperative. Found at all levels of geographic organization – the subnational, national, and international – this “political competition” is a defining dimension common to all landscapes within which MNEs operate. In some contexts, this competition manifests as elections between political parties, who vie for the support of a voting constituency; in other contexts, political competition erupts into violent civil or international conflict between armed militaries. Thus, MNEs often must navigate amidst ballots or bullets.

Despite how common a feature political competition is across MNEs’ business environments, scholarship has yet to fully and systematically incorporate the theoretical implications for how firms can strategically manage various

types of opposition between political entities. Approaching the concept of political competition through this broad, all-encompassing lens requires studying the phenomenon at different levels of analysis, across a range of contexts, and with a focus on the breadth of market and nonmarket strategies deployed by MNEs as a response to the uncertainty of politics. The aim of my dissertation is to begin working towards a unified theory of political competition and MNE strategic management by exploring several distinct contexts that individually capture facets of the broader concept and collectively contribute insights that are applicable across contexts. Accordingly, to the general question of how MNEs strategically manage political competition in the different environments in which they operate, I offer several insights relevant for MNE managers strategizing in uncertain political environments and generative of future research.

POLITICAL COMPETITION AND MNE POLITICAL BEHAVIOR

Recognizing the intrinsically political nature of MNEs (e.g., Boddewyn & Brewer, 1994), a growing literature on MNE-government relations (e.g., Boddewyn, 2016), bargaining power (e.g., Grosse, 2005), and corporate political activities [CPA] (e.g., Hillman & Wan, 2005) increasingly considers the challenges and opportunities facing MNEs from their exposure to (and engagement with) opposing political en-

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tities. However, despite the ubiquity of political competition, the extent of research specifically exploring how MNEs strategically manage political competition in their operational contexts is surprisingly limited. Although Bodewyn and Brewer (1994: 123) propose that “the political behavior of international firms is affected by...the nonmarket environments in which the firms operate”, within which they include opposition parties and other stakeholders, their model of political behavior does not explore the implications of political competition for an MNE’s market and nonmarket strategies.

While subsequent research has focused attention on various features of complexity in the political environment, little attention has been given to political competition. For example, additions to the original bargaining model (e.g., Grosse & Behrman, 1992) – which provides a framework for a single MNE negotiating with a single host-country government – include considerations such as home-host country bargaining relations (e.g., Ramamurti, 2001) and the role of international institutions and NGOs (e.g., Henisz & Zelner, 2005) – but not other political entities opposed to or in competition with the government. Areas of research that have incorporated political competition, such as the corporate political activity literature and nonmarket strategy domain (e.g., Baron, 2001; Bonardi, Hillman, & Keim, 2005), remain in an early theoretical stage, focus on narrow manifestations of political competition (i.e., electoral party politics), and feature limited empirical exploration. With some exceptions related to MNE strategic responses in the midst of host-country political transitions (e.g., Bucheli & Salvaj, 2018), there is considerable room for further exploration of how MNEs strategically manage opposing political groups across multiple levels of analysis and with recourse to both market and nonmarket strategies that can also enrich managerial approaches to challenging political environments.

THE BIG QUESTION ACROSS THREE CONTEXTS

To begin expanding the scope of research on MNE political behavior towards incorporating the dynamics of political competition, my dissertation consists of three substantive chapters seeking to improve our understanding of MNE strategic decision-making across different levels of analysis. Each chapter approaches this unifying theme through a specific contextual lens within which novel theoretical insights are heavily embedded and particularized to the context, following the argument of Welch et al. (2022: 5) that “it is not possible to explain adequately how and why phenomena in the social world occur without treating context as explanatory – not just descriptive – material”. Accordingly, each part of my dissertation, though partially limited by contextual specificity, serves to contribute one piece towards building a unified theoretical puzzle, demonstrating the relevance of the phenomenon across a range of contexts while also highlighting the value of different methodological approaches for putting this puzzle together. [Table 1](#) summarizes key features of each of the three chapters.

In one chapter, I explore the processes by which mining MNEs entered the Democratic Republic of Congo during and after the Congo Wars, a series of civil conflicts that ushered in a transition from a decades-long dictatorship to a nascent democratic regime marked by instability. With uncertainty around the duration and outcome of the conflicts, MNEs needed to manage the manner and timing of entry by accounting for the shifting political environment composed of multiple armed factions. From documentary sources including mining contracts, NGO reports, and corporate annual reports, I discern processes involving a political division of labor between smaller firms entering early (“political speculators”) and larger firms joining later (“political avoiders”). The meaning of “first-mover advantages” is different in such a context of political conflict, as the case study reveals a distinct pattern of nonmarket host-country entries, in which political first-movers bet on establishing ties with emergent factions while conflict persists, with the hope of following up with market entry once conflict has subsided. Managers of firms that may be compelled to enter countries in the midst of transitional conflict should consider the risks of late entry, lest they be outmaneuvered by firms with already established political ties as a result of early entry.

In another chapter, I examine how the subsidiaries of foreign MNEs investing in the United States use both market-oriented behaviors and political activities to mitigate location-specific uncertainties arising from political competition between the two major parties. Based on the assumption that foreign subsidiaries engage in politics to benefit their local, host-country operations, I theorize that subsidiary political activity will moderate the effect of location-specific political competition on the firm’s investment capital intensity. Analyzing a sample of foreign firms making foreign direct investments – and some also engaging in lobbying and campaign finance activities – in the United States, I find that political competition, otherwise representing a source of uncertainty resulting in a reduction of investment capital intensity, can represent an opportunity for enhanced bargaining power for subsidiaries engaged in political activities. Even in developed market contexts, uncertainty from political competition can create the imperative for foreign subsidiary managers to mitigate potential political risks, for which they may be able to leverage political activities when investing in locations where robust opposition between political factions.

In the final substantive chapter, I investigate the divestment decisions of MNEs with business in Russia following that country’s escalation of a global geopolitical conflict with its invasion of Ukraine. This study incorporates a range of country-, industry-, and firm-level determinants of divestment, both theoretically and contextually derived, analyzing these using across-time qualitative comparative analysis (QCA) to uncover what combinations of factors are associated with divestment and how these change as the conflict unfolds. My analysis reveals how certain country- and firm-specific exit barriers obsolesce over time, first limiting divestment during earlier stages of the conflict before becoming irrelevant. As this obsolescence occurs, the near-

Table 1. Unique features of each dissertation chapter

	Chapter 2	Chapter 3	Chapter 4
Phenomena	Market/Nonmarket Entry	FDI and CPA	Foreign Divestment
Context	DR Congo	United States	Russia
Method	Process Case Study	Panel Regression	QCA

Table 2. Key thematic insights with examples

Managerial Insight	Examples
Greater uncertainty from political competition should result in strategies that retain flexibility.	- Reducing investment capital intensity in politically competitive locations - Establishing political ties with emergent factions during armed conflict before market entry - Staging partial (or delayed) divestments from geopolitical conflict zones
Greater competition between political actors enhances the value of firm political engagement.	- Forging political ties during the height of armed conflict when factions have greater needs - Deploying political activities such as lobbying and financial contributions where political parties are equally matched
Political competition, at its extreme, can render neutral positions for firms untenable.	- Aligning with home country according to its position vis-à-vis a wider geopolitical conflict - Switching support from one armed faction to the other based on shifting trends in the war's outcome

singular importance of a firm's home-country relations to a now-hostile Russia comes to dominate divestment decisions, as the global implications of the conflict force firms to align with the geopolitical interests of their home country. Managers of firms invested in current geopolitical hotspots should prepare for the possibility of needing to align with their host-country positions in the event of escalation of tensions into wider conflict.

TOWARDS A THEORY OF POLITICAL COMPETITION AND MNE STRATEGIC MANAGEMENT

The combination of these individual chapters results in an emergent picture of how MNEs manage politically competitive contexts, whether this involves political parties and elections or armed factions and war – that is, ballots or bullets. Caught in between – or, sometimes, deliberately joining the fray – MNEs and their managers encounter both challenges and opportunities intrinsic to political competition and, by necessity, must develop a range of strategies built around an awareness of their ever-changing, often highly contested political environments. Cutting across these chapters are observations that generate several emergent themes with both theoretical and practical implications. [Table 2](#) summarizes some of these insights and examples.

First, when uncertainty arising from political competition is greater (meaning that the opposition between political actors is more contentious and the resolution less certain), managers of MNEs benefit from deploying strategies that retain a greater degree of flexibility. Whether navigating a context engulfed in civil war in which the victor

is uncertain, investing in an environment with highly contested elections, or determining the degree and timing of exit from a geopolitical foe, firms take caution with committing to certain market or nonmarket actions that are difficult to reverse. They stage their nonmarket and market entries, as well as their exits; they temper the intensity of their sunk cost investments; and they recognize that the timing of decisions is often as important as the decisions themselves if the uncertainty of political competition can be diminished by waiting.

Second, MNEs approach highly competitive politics through political engagement that takes advantage of that competition. Political actors in competition with each other have needs that firms can satisfy to garner a political advantage, and, importantly, this feature of competitive politics characterizes political parties engaged in elections and armed factions engaged in war. However, the specific needs of political actors – and, additionally, the moral and legal implications of engaging to satisfy those needs – vary across contexts. This variation requires MNEs to be aware of the kinds of actions applicable in a given context (for example, campaign contributions in one, or bribes in another) and *all* the potential costs associated with those actions – financial, reputational, legal. In some circumstances, such as in a violent civil war during uncertain political transition, it might be essential to engage in certain ethically and legally questionable activities in order to survive, which should give managers pause as to whether to enter such markets at all. On the other hand, delaying entry risks being pre-empted by less morally scrupulous actors who seize the advantage that can be leveraged when conflict between political entities is at its fiercest.

Third, while MNEs typically avoid taking sides among political opponents, there are circumstances in which neu-

trality becomes untenable. When alignment with one side becomes delegitimizing for the other side, MNEs are then forced to make a choice that involves, to a certain degree, a gamble about who will prevail and when. Political competition tending towards extremes – that is, having devolved, or on the verge of devolving, into violent conflict – are the likely circumstances under which playing both sides becomes a strategy that will make the MNE an enemy of both, endeared to none. In civil and international warfare, I observe that firms, though at first hoping to retain the flexibility of a neutral stance, are increasingly pushed to take a side: for example, aligning with the home-country in a geopolitical conflict such as the Western opposition to Russia by divesting their Russian business, or switching allegiances mid-conflict when one armed faction turns the tide of war against the other. Neutrality is a position that cannot always be maintained, and the managers of MNEs need to know when to take a side, and with whom.

Though not limited to the above, the themes emerging from my dissertation involve insights for both scholars and practitioners. For the former, each theme offers a potential avenue for future research, across different contexts, towards building a unified theory that applies generally to political competition in all its manifestations. As a feature central to all the environments in which MNEs operate, it behooves researchers to consider how opposing political actors in a given place create challenges, but also opportunities, for firms to gain a competitive advantage. For the latter, each theme provides a valuable insight to consider when deciding which markets to enter, which to exit, and the various market and nonmarket strategies to deploy to

mitigate political risks while maximizing benefits. In our increasingly uncertain global political landscape, ignoring these dynamics risks ignoring the consequential nature of ballots and bullets for businesses everywhere.

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BIOGRAPHICAL SKETCH

Thomas DeBerge is a professor of strategy and international business at the Quinlan School of Business, Loyola University of Chicago. He received his PhD from the Gies College of Business, University of Illinois at Urbana-Champaign. His research focuses on how multinational enterprises can navigate social and political complexities through market and nonmarket strategies. Additionally, he carries out research on African markets, with an interest in access to finance, human rights, and environmental sustainability.



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