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Abstract

Despite recent currency crises, most of the Asia-Pacific economies continue to be among the most attractive markets in the world and now appear to be recovering rapidly. An important element in understanding the dynamics of firm strategies in Asia is the nature of nonmarket strategies, which concern efforts to respond to and influence the political-economic-social environment. To examine such nonmarket strategies and how they fit with other firm tasks, this article first focuses on "positional analysis"-that is, how market forces, firm competencies, and the nonmarket environment influence the choice of trade, investment, or some mix, at the national, regional, or global level. It then considers the nature of "strategic analysis," consisting of a firm's choices of market arena, a transaction cost analysis of organization forms for market penetration, and a distributive politics analysis of nonmarket issues. These factors combine to influence the firm's integrated strategic choice. Implementation of this choice is based on "tactical analysis" that focuses on the market, organizational, and nonmarket tactics that firms must pursue to succeed with their chosen strategy.

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Corporate Market and Nonmarket Strategies in Asia: A Conceptual Framework

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ABSTRACT *Despite recent currency crises, most of the Asia–Pacific economies continue to be among the most attractive markets in the world and now appear to be recovering rapidly. An important element in understanding the dynamics of firm strategies in Asia is the nature of nonmarket strategies, which concern efforts to respond to and influence the political–economic–social environment. To examine such nonmarket strategies and how they fit with other firm tasks, this article first focuses on "positional analysis"—that is, how market forces, firm competencies, and the nonmarket environment influence the choice of trade, investment, or some mix, at the national, regional, or global level. It then considers the nature of "strategic analysis," consisting of a firm's choices of market arena, a transaction cost analysis of organization forms for market penetration, and a distributive politics analysis of nonmarket issues. These factors combine to influence the firm's integrated strategic choice. Implementation of this choice is based on "tactical analysis" that focuses on the market, organizational, and nonmarket tactics that firms must pursue to succeed with their chosen strategy.*

1. Introduction

Despite the lingering effects of the regional currency crises in the late 1990s and Japan's stubborn economic affliction, the Asia–Pacific economies continue to be among the most attractive markets in the world. But the ups and downs of East Asian markets have forced Japanese, American, and European firms to rethink their regional market strategies. Some firms have responded by increasing investments in the region, hoping to acquire distressed assets and strengthen their position to profit from renewed growth. Other firms are concerned that excessive reliance on Asia has made them vulnerable to renewed upheaval in the region, pushing them to diversify their operations in newly emerging markets in Latin America, Eastern Europe, and elsewhere.

Another important element of firm strategies in Asia is their nonmarket component. While firms must pursue market strategies to position themselves in the global and regional economies, they also interact with governments to secure

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favorable policies. For example, firms are concerned about access to closed or restricted markets for exports and investment, regulations on their subsidiaries, and changing tax policies. They often work with both their home and host governments to implement policy changes. At the same time, governments have objectives of their own vis-à-vis both home-based and foreign-based firms, which requires firms to negotiate with governments.[1]

The Asian focus of this special issue on multinational firm strategies is driven by four key factors. First, East Asian countries provide recent examples of both rapid growth and severe recession, accompanied by International Monetary Fund (IMF) and U.S. pressures for liberalization. Thus, a focus on Asia provides an excellent laboratory to analyze shifting firm strategies in times of good and bad fortune. Second, firms from developing Asian countries pose a significant competitive challenge to foreign firms in some sectors. Not only do they often have dominant positions in their home markets, but they have also been successful in European and American markets. Third, many Asian firms have close ties to governments. Indeed, the nature of government–business relations is particularly intricate in the Asian context. Most of the newly industrializing countries, both the so-called first and second tiers, have actively used industrial policy measures to bolster their firms' competitiveness. Restrictions on investments, technology transfer, export performance requirements, preferential financing, and a host of other instruments have been commonplace in most of these countries. Fourth, the Asia–Pacific has been one of the most interesting arenas in the world to understand the interplay of different types of institutional arrangements. The existing mix of different regime forms—representing regionalism, sectoralism, and globalism—has played a role in shaping outcomes in what has generally been considered an institution-poor region.[2]

This article discusses the theoretical approach that informs the empirical analyses in this issue. The analytical framework proceeds as follows. Section 2 discusses what I term "positional analysis"—how market forces, firm competencies, and the nonmarket environment influence firms' choices of trade and investment at the national, regional, or global level. Section 3 turns to "strategic analysis," an examination of the choices firms make in response to their market environments. This topic includes a transaction cost analysis of organizational forms for market penetration, and a distributive politics analysis of nonmarket issues. These factors combine to influence the firm's integrated strategic choice. Once these strategies are formulated, firms can choose from a range of options for implementation, which are the subject of the "tactical analysis" presented in Section 4. The tactical analysis considers the market, nonmarket, and organizational tactics that firms employ to pursue their chosen strategies. Figure 1 provides a roadmap of the analysis that follows.

1. See Baron (2000) for an overview of nonmarket strategies.
2. This dynamic is illustrated by the evolution of the recent Information Technology Agreement (ITA). Although this agreement to liberalize trade in a host of information technology products was initially vetted in the Quad group (composed of the United States, Canada, European Union, and Japan), it was promoted actively on a sectoral basis in a regional grouping, the Asia-Pacific Economic Cooperation (APEC) forum. It was then globalized in 1996 at the Singapore World Trade Organization (WTO) ministerial meeting and has been accepted by most countries in the world.

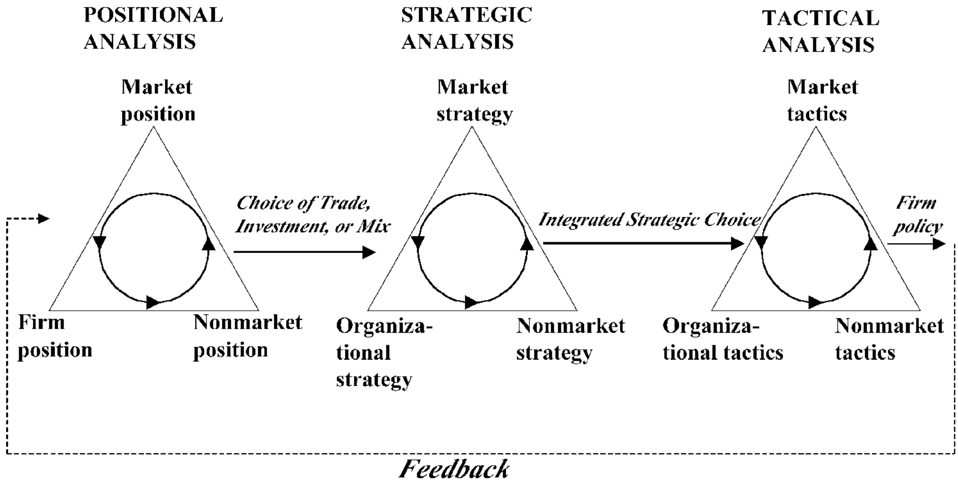

FIGURE 1. An overview of integrated strategy: triangulating strategic responses to market and nonmarket forces.

As Figure 1 indicates, the firm's choice of trade or investment, integrated strategic choice, and implementation efforts can be conceptualized using an analytical model of three "triangles:" positional, strategic, and tactical analysis. Each triangle, representing a phase or component of a firm's integrated strategy, includes factors that must be accounted for in its analysis. Moreover, the policy or policies that a firm pursues, along with those with which its competitors respond, can create a cycle of feedback and continued analysis.

2. Positional analysis: market factors, core competencies, and the nonmarket environment in diverse geographical arenas

Analysts have traditionally focused on the market environment in which firms operate, and on the organization of firms. Traditional market analysis focuses on elements such as an industry's technological profile, the number of major players, the barriers to entry, and so forth. Market analysis of corporate strategy and organization often also covers the internal structures of firms and their implications for competitiveness, the effects of different types of firm organization, the design of incentive systems, and so on.

In addition to these critical factors—the market environment and a firm's organization—a firm's performance also depends on the social, political, and legal context within which it operates: that is, its nonmarket environment.[3] This includes analyses of key issues, relevant interests, availability of information, and existing institutions (known as the "four I's"), and how these factors relate to a firm's positioning at the national, regional, or global level. For instance, as firms decide on whether or not to enter developing Asian markets, to increase their investments, or to alter their trading patterns, they must consider the

3. See Baron (2000) for a good overview of nonmarket strategies.

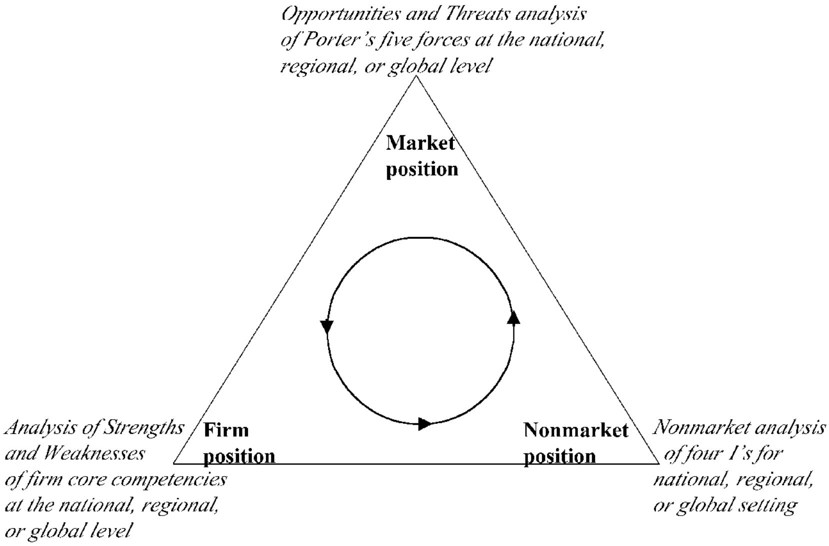

FIGURE 2. Positional analysis.

nonmarket characteristics of specific national markets. Their strategies must also be sensitive to the broader regional and global international environment, and especially to the roles played by various relevant international institutions.

These elements provide the basis for the positional analysis of the "triangle" of factors depicted in Figure 2. As illustrated in Figure 2, a positional analysis maps firms' initial strategic choices among trade, direct investment, and partnership with a local firm. Before examining the various elements of this analysis in more detail, the importance of the geographical arena is considered.

Geographical orientation

Before undertaking market, firm, or nonmarket analyses, we must consider the geographic context of firm operations. First of all, firms must focus on the market and nonmarket characteristics of the particular country or countries they plan to enter. This "multidomestic" focus suggests that a firm must be sensitive to the individual characteristics of different target countries.[4] Regarding a country's market, this involves a consideration of existing and potential competitors, suppliers, and the like. An assessment of a country's nonmarket environment focuses on the types of its existing or potential policies regarding investment, including joint venture requirements, export performance demands, local content rules, technology transfer agreements, and multilateral investment initiatives. In addition, both market and nonmarket environments are shaped by previous political bargains or coalitions, historical precedents, and cultural values.

4. Bartlett and Ghoshal (1989).

Increasingly, however, firms must look beyond factors at the country level to those of the regional and global environments as well. Theoretical work on global corporate positioning is quite advanced. However, analyses of regional strategies, both from a market and nonmarket perspective, have been given short shrift. From a nonmarket perspective, the proliferation of regional accords such as the Association of Southeast Asia Nations (ASEAN), the Asia-Pacific Economic Cooperation (APEC) forum, and the European Union (EU) is often accompanied by increasingly tight political or institutional ties. In the most advanced regional integration project, the movement toward a single European market radically altered market calculations and forced many European firms into mergers or alliances. Firms also began to develop a lobbying apparatus as many aspects of policymaking, at both the European and broader international levels, shifted to the European Commission in Brussels.[5] In the Asia–Pacific, APEC, ASEAN, and the Closer Economic Relations (CER) accord between Australia and New Zealand have become important arenas for firm influence, while the institutional policies of these accords affect corporate strategies.[6] The development of these regional institutions means that firms cannot focus only on the policymaking in specific countries, but must be aware of and engaged in policymaking at the regional level.

In particular, two ways in which regional institutions evolve can influence the trade and investment strategies of firms: widening and deepening. Widening refers to the accession of new members into existing arrangements. Deepening entails the enhanced coordination of monetary, fiscal, social, labor, foreign, and other policies. These can include trade policies such as regional content requirements, patent protection, and lobbying guidelines. Obviously, efforts to widen and deepen regional institutions can significantly alter regional market and nonmarket conditions.

Firms can, of course, concentrate on becoming globally oriented and competitive. From a global nonmarket perspective, the arrangements reached in the General Agreements on Tarriffs and Trade (GATT) and its successor, the World Trade Organization (WTO), have greatly influenced firm strategies. For example, the liberalization of specific sectors through the GATT—including tariff reductions and the removal of nontariff barriers—has considerably increased global competition. In aerospace, agriculture, steel, electronics, financial services, and other sectors, firms must take into account the new regulations of the WTO. The Uruguay Round of GATT introduced a host of new issues that affect firms, including changes in intellectual property protection and the linkage between trade and investment through the Trade Related Investment Measures (TRIMs) agreement. Firms have, of course, been a key driving force in setting the agenda of the GATT and WTO, and have lobbied their governments with specific concerns. For example, U.S. financial service firms were instrumental in putting the issue of financial sector liberalization on the Uruguay Round agenda in 1986,

5. Dupont (2001).
6. For discussion of such influence efforts, see Ravenhill (2001). For background on APEC, see Aggarwal and Morrison (1998).

		TARGET MARKET FOR SALES		
		National	Regional	Global
TRADE OR	National	(1) Domestic	(2)	(3)
INVESTMENT	Regional	(4)	(5)	(6)
LOCATION	Global	(7)	(8)	(9) Pure global

FIGURE 3. Geographical arenas—location and target markets.

and many information technology, entertainment, and pharmaceutical companies actively pushed for institutionalized protection of intellectual property.[7]

At the global sectoral level, arrangements such as the Multi-fiber Arrangement in textiles or steel voluntary export restraints have long influenced sourcing and production decisions. These arrangements have coexisted uneasily with the GATT and now the WTO, and pressure has built to eliminate such sectoral arrangements.[8] The latest trend at the global sectoral level, however, is the *opening* of markets.[9] Following the creation of the ITA in 1996, APEC ministers in 1997 agreed to consider nine additional sectors for fast-track trade barrier reduction: chemicals, energy-related equipment and services, environmental goods and services, forest products, medical equipment, telecommunications equipment, fish and fish products, toys, and gems and jewelry. Although firms actively lobbied on all sides of this issue to advance their interests, the 1998 APEC meeting in Kuala Lumpur saw a failure to advance this agenda due to Japanese resistance to liberalizing forestry and fishery products. At this point, the whole package of nine sectors has been shifted to the WTO for negotiations.[10]

When assessing geographically based strategies, it is useful to distinguish production from marketing orientations, both on a market and nonmarket basis. To graphically illustrate the possibilities, we can briefly consider the nine cells in Figure 3, with two extreme points labeled to provide some bearings on strategies. Thus, for example, one could invest in China, and simply sell there (national). Or, one could sell throughout Asia (regional), or globally. Or alternatively, one could invest or set up on a regional basis in several countries in Asia through a trading company or production hub, and then sell only in a single country, to the whole region, or worldwide. Finally, globally based firms could focus on single countries, a region, or in the "ultimate" globalization, be "pure global firms."

Thus our understanding of firm strategies must be informed by the particular geographical context as well as the relevant market forces, core competencies,

7. Aggarwal (1992).
8. See Aggarwal, Keohane, and Yoffie (1987).
9. For a discussion of the dangers of this approach, see Aggarwal and Ravenhill (2001).
10. Aggarwal (2000).

and nonmarket environment. Each of these latter elements will now be discussed individually.

Market forces

The most popular analytical approach to market-based decisionmaking is that developed by Michael Porter, based on the vast literature in industrial organization.[11] Porter proposed five specific factors, or the "five forces model." These forces are: (1) rivalry among established firms; (2) risk of entry by potential competitors; (3) threat of substitutes; (4) bargaining power of suppliers; and (5) bargaining power of buyers. These forces also provide a basis for the analysis of what firms face in terms of strategy formulation. Reflecting the second half of the well-known SWOT acronym (strengths, weaknesses, opportunities, and threats), market analysis examines the opportunities and threats posed by the five forces.[12]

The notion of rivalry among firms refers to the classic issue of market structure—that is, whether the market is atomistic, oligopolistic, duopolistic, or monopolistic. The implications of structure come from whether firms pursue strategy autonomously or interdependently. The other two elements of the rivalry concept are demand conditions and barriers to exit. The first of these refers to the growth potential of the industry, and the second concerns the impediments firms face in leaving the industry. In a market with high growth potential, rivalry will be less intense since the game is not zero-sum; competitive firm strategies can coexist with each yielding success. Attention to exit barriers can improve understanding of why firms might resist exiting a relatively poor market, because of the high costs such a move may entail. Exit barriers can also explain why firms might be more willing to take political action to block the entry of foreign competitors.[13]

The analysis of potential competitors is based on barriers to entry. These barriers include such factors as existing brand loyalty, the cost advantages of various production techniques, and economies of scale that arise from large-scale production.[14] Other factors include the need for extensive capital investments, the cost of switching to another product, and access to distribution channels. Each of these barriers poses an obstacle to entry. Over time, however, these barriers tend to erode, as in the example of the effect of the entry of minimills on the steel industry. Governments may also help their nationally based firms overcome barriers by subsidizing their initial efforts at entry.

The third factor—the threat of substitutes—is straightforward. With few substitutes, firms in an industry will face little competition from outsiders. Finally, the fourth and fifth factors—the bargaining power of buyers and

11. Porter (1980).
12. It is worth noting that other analysts have criticized Porter's approach for being excessively structural and unresponsive to firm strategies. This debate, similar to the "Great Man" vs. "Forces of History" argument in both political science and history, concerns the plasticity of structural forces as opposed to the initiative that firms might take to mold the factors themselves.
13. See Aggarwal, Keohane, and Yoffie (1987).
14. See Bain (1956).

suppliers—are part of the downstream and upstream game of market power. If buyers or suppliers are few in number, their oligopolistic position will allow them to secure better prices when interacting with firms in a particular industry.

Each of these five forces can be analyzed in terms of the opportunities and threats it poses. Put most simply, the stronger the market forces in a particular industry (a highly competitive market structure, low barriers to entry, many substitutes, and buyers and supplies with market power), the greater the challenges facing its firms.

Firm core competencies

Much has been written about the factors that contribute to a firm's competitive ability. Our focus in this special issue is primarily on the external factors of markets and nonmarket environments, rather than on corporate organization or management. Regarding a firm's ability to respond strategically to changing market and nonmarket conditions, most analysts focus on the division between a firm's resources and its capabilities.[15] The term "resources" refers to both tangible and intangible factors, ranging from buildings, plant, and the like, to less tangible items such as a firm's reputation, know-how, and patents. "Capabilities" refers to a firm's ability to use resources in a systematic way to advance its interests, based on its structure and control system.

In terms of analysis, the focus is on firm's strengths and weaknesses (the first elements of the SWOT agenda). Yet there is considerable debate as to which resources and capabilities constitute strengths—and under what conditions—and which constitute weaknesses. Thus, consultants and business school analysts have attempted to direct attention away from the actual products that firms produce to focus on their capabilities and competencies. The most popular work on core competencies, developed by C.K. Prahalad and Gary Hamel, examines firms in terms of their basic sets of competencies, ones which might be transferred to other areas and products. Rather than focusing on specific resources, core competencies focus on a vaguer sense of capabilities including "communication, involvement, and a deep commitment to working across organizational boundaries."[16] Starting from these core competencies, Hamel and Prahalad argue that firms must then go on to develop core products and organize their business accordingly. This view contrasts with the focus on products made by single business units within an organization that operate in a semi-autonomous manner.

There is a good deal of debate in the literature on firm-level abilities, but the basic view is that of the firm as capable of managing structural constraints systematically, rather than being at the mercy of Porter's five forces. Indeed, the literature on corporate strategy has evolved from a rather static picture of firms attempting to fit into the environment within which they are operating to a more dynamic perspective in which firms generate and create market opportunities for themselves.

15. Hill and Jones (1995).
16. Hamel and Prahalad (1989), p. 82.

Hamel and Pralahad, for example, speak of strategic "intent" as opposed to strategic fit.[17] In their view, firms draw on their resources and capabilities to affect their market environments and to position themselves dynamically to enhance their profit potential. To complete the picture, we must also add to these market strategies the manipulation by firms of their nonmarket environments.

Nonmarket environment

Just as firms must consider the prevailing market forces, so too must they be concerned about their nonmarket environments. As David Baron has argued, they must understand certain key nonmarket issues: the interests of major groups, the institutional setting within which policies are formulated, and the information available to actors.[18]

Issues can include market-related questions as well as nonmarket problems that may have an impact on market activity. In an international context, and particularly in Asia, issues such as environmental and labor standards immediately raise potential nonmarket constraints that can affect a firm's market strategy. Actors respond strategically to these issues in various institutional settings through negotiation, sometimes using tactics of "issue-packaging" or issue linkage. The strategic linking of issues may be based on knowledge (substantive links) or power (tactical linkages). Understanding the basis of a proposed issue linkage helps the analyst predict the likelihood of the linkage remaining stable and hence the formulation of strategy.[19]

Many analysts take a pluralist view of government–business relations, seeing nonstate actors as competing for government attention. More sophisticated approaches to the relationship between state and societal actors focus on the formulation of the interests of state actors. According to this analysis, institutions are not simply arenas for the political activity of governments, firms, and other nonstate actors; the norms, rules, and practices of institutions also influence the interests of major actors. That is, the motivations and capabilities of state actors both by themselves and within international institutions form an essential part of nonmarket analysis and strategy.

The last factor, information, refers to the commonly accepted bank of knowledge about particular issues. The word "information" as used by Baron is potentially misleading. The key component of the issue packaging and negotiation process is more aptly characterized as "knowledge," implying a certain type of theoretical and causal understanding rather than just an accumulation of facts. In this context, knowledge provides a conceptual framework for the formulation of policy and affects the evolution of institutions. From a strategic perspective, the creation of new knowledge may provide a basis for cognitive agreement among different groups, allowing them to supercede zero-sum competition and enter into a mutually beneficial bargaining situation.

17. Hamel and Prahalad (1989).
18. Baron (2000). The "four I's" noted here provide a useful but limited first cut to understand the nonmarket environment as discussed in the following paragraphs.
19. See, among others, Haas (1980), Stein (1980), Oye (1979), and Aggarwal (1998).

Positional analysis and the choice of trade and/or investment in Asia

The analysis to this point provides a basis for exploring the decision of firms to enter or to increase their presence in developing Asia through either a trade or investment strategy, or some combination of the two. This choice of strategy cannot be interpreted or predicted without a specific analysis of the market and nonmarket environment of the industry in question and the position of the firm in that industry. During the crisis period in the late 1990s, however, weakened domestic firms in several East Asian markets provided obvious opportunity for rapid market entry. This environment favored a strategy of investment, instead of increasing trade. Favorable exchange rates also encouraged foreign investors to increase their presence in Asia. IMF demands on East Asian countries to reduce their barriers to both trade and investment were an additional stimulus for investment and, to a lesser extent, to increased trade (though exports to East Asia obviously suffered from depressed regional demand).

By contrast, both before and after the crisis period, the determinants of a trade or investment strategy were not so clearly in favor of investment, despite the fact that some barriers have been reduced after the crisis. Under more normal conditions, the choice of strategy involves a more detailed analysis of the firm's core competencies, as well as the market and nonmarket environment for specific industries. The case studies in this in this issue provide some insights into these types of decisions.

3. Strategic analysis: arenas, organizational mode, and nonmarket evaluation

The decision to focus primarily on trade or investment, based on an integrated consideration of market forces, firm core competencies, and the nonmarket environment, provides a first cut at assessing a firm's overall strategy towards the Asian market. However, firms must face several other issues. What is a firm's market strategy with respect to product cost and quality, technology transfer, and market segments selection? How does a firm organize its regional or country-level trade or investment operations? What types of opposition or support is the strategy likely to receive from various nonmarket actors, and how should the firm position itself advantageously? Figure 4 depicts the components that make up the "strategic analysis" triangle.

The following conceptual tools can be applied in analyzing these various strategic dimensions.

Arena strategy

Richard D'Aveni's work regarding the transformation of markets into states of hypercompetition can help us understand strategic choices in markets.[20] According to his analysis, firms compete in four different arenas: cost and quality, timing and know-how, strongholds, and "deep pockets." Traditional analysis

20. D'Aveni (1994).

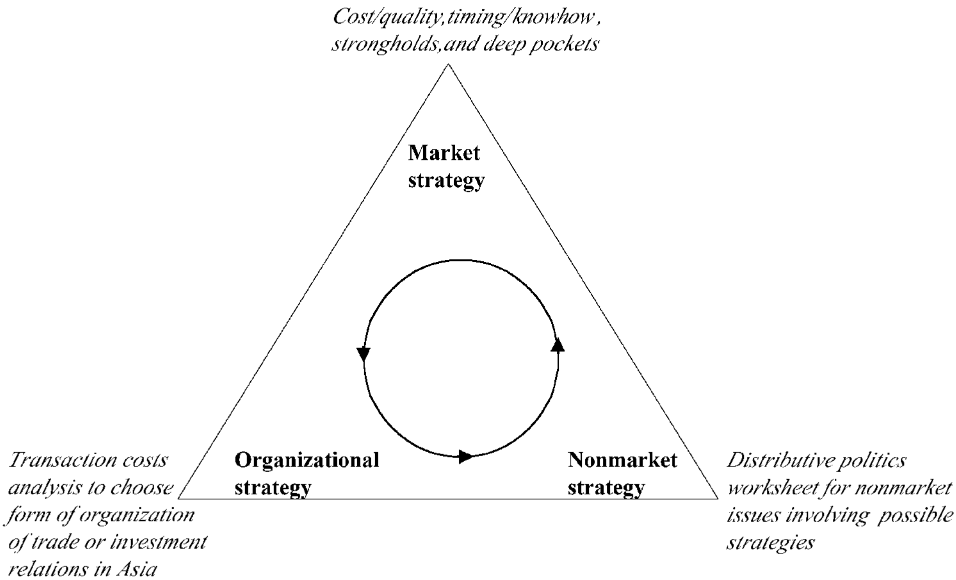

FIGURE 4. Strategic analysis.

suggests that firms position themselves in one of these arenas—in cost and quality, for instance—and attempt to secure for themselves a high-cost/high-quality position. As D'Aveni argues, however, these static positioning efforts are ultimately futile—and with improved technology and global competition, this futility is reached with increasing speed. Thus, as markets evolve, firms not only must reposition themselves continually *within* arenas, but also must be prepared to move vigorously into *different* arenas as opportunities (or threats) present themselves.

In the first arena of competition, firms compete on the basis of cost and quality. In an ideal-typical characterization, firms initially begin with a homogeneous product and compete primarily on the basis of price. As price wars escalate, however, firms begin seeking other means of competition. Eventually, each differentiates itself from its competitors using new dimensions of quality and service. Although some firms try to cover the entire market by offering high-priced and high-quality products as well as low-priced and low-quality products, new competitors still have room to enter at either end by using niche or outflanking strategies.

In order to escape the unending cycle of price–quality competition present in the first arena of competition, firms focus on a second arena of competition, timing, and know-how. First movers who undertake a large investment may seize control of the market. Often, however, their products are easily imitable. To prevent imitation and maintain control of the market, the first mover often creates barriers to market entry and develops its product in such a way as to make imitation difficult. Eventually, however, competitors do succeed in entering the market and learn to imitate the first mover's product. In response, the first mover may use a strategy of leapfrogging innovations in which new products are developed from large technological advances, entirely new resources, and know-how. While this again impedes the efforts of imitators, eventually they will again catch up to the leader. Again, the first mover will likely attempt a new leapfrog move, and the cycle begins anew. According to D'Aveni, it continues until the "next generation leapfrog strategy" is too costly and the cycle becomes unsustainable.[21]

In the third arena of competition, firms seek an advantage on a playing field already leveled by price–quality competition and innovation. They do this by creating strongholds to exclude competitors from their regional, industrial, or product market segments. As discussed by industrial organization theorists generally and Michael Porter in his analysis of five forces, entry barriers that they create serve to insulate them from the price–quality and innovation–imitation cycles. Yet in contrast to this somewhat static view of barriers, in hypercompetition, such barriers provide only short-term relief, and are rarely sustainable in the long run. Competitors are likely to build war chests in their own strongholds and then fund their entry into the strongholds of others. Usually, the attacked firm will respond by defending itself and then counterattacking in the initiating firms' stronghold. In the long run, these attacks and counterattacks weaken the strongholds of both firms until no stronghold remains.

In the fourth arena of competition, large firms use "deep pockets" to their advantage. Essentially, firms with the greatest financial resources try to gain an advantage by bullying smaller competitors. Such bullying often includes wearing down and undercutting smaller firms, which have fewer financial resources and therefore cannot endure in the market as long as the deep-pocketed firm. In response, smaller competitors may develop formal or informal alliances, turn to the government for help, or seek to avoid competition with their powerful competitor. Eventually, after a series of moves and countermoves, the deep-pocketed firm exhausts its resources and its advantage is either substantially diminished or neutralized.

Organizational strategy

The well-developed literature on transaction costs helps to illuminate the organization by firms of their investment or trading activities.[22] In examining contracts and organizational forms, Oliver Williamson emphasizes the importance of bounded rationality, opportunistic behavior by actors, and highly specific assets to construct predictions about governance structures. According to Williamson, the fundamental problem of contracts is that, given the nature of bounded rationality and opportunism, one cannot be sure that one's counterpart will perform as promised. In such cases, a firm that undertakes investments in highly specific assets is vulnerable to exploitation because these assets cannot be transferred to other economic activities without substantial loss.

Witold Henisz has recently applied concepts of both economic and political transaction cost dilemmas to examine how firms might organize their foreign

21. D'Aveni (1994), p. 22.
22. See Coase (1960) and Williamson (1985, 1996), among others.

ASSET SPECIFICITY (BASED ON INDUSTRY CHARACTERISTICS)			
← Low ---------------------------------- Medium -------------------------------------- High →			
TRADE ORGANIZATIONAL FORMS			
Arms length	Sales organization	Trading Company	Intrafirm trade
INVESTMENT ORGANIZATIONAL FORMS			
Minority owned	50/50 venture	Majority owned	Wholly owned

FIGURE 5. Choosing organizational forms based on transaction cost analysis.

investment activities.[23] Henisz explores how the interaction of contractual and political hazards affects firms' choices. Specifically, he argues that where contractual hazards exist, firms are likely to choose majority-controlled plants. These contractual hazards include a strong need to invest in specific assets, potentially inappropriate use of technology by a joint venture partner, and free-riding on brand name or reputation.[24] By contrast, in the face of political hazards—which include, for instance, a fear of expropriation by a host government—firms are likely to prefer minority investment stakes where they might be able to use the skills and political standing of their venture partners to mitigate such hazards. The interaction effect of contractual and political hazards turns out to be empirically interesting. Henisz argues convincingly that when both contractual and political hazards are high, firms prefer majority-owned subsidiaries because their joint venture partners might well use the power of the state against them. Henisz's work combines market, firm, and nonmarket analysis in an interesting way.

For our purposes, focusing on contractual hazards provides insight on how firms might organize both their trade and investment activities. Figure 5 presents an array of possible organizational forms that vary according to asset specificity concerns and nonmarket factors and hazards. Regarding trade, organizational forms will vary according to the level of perceived contractual hazards. Where hazards are perceived to be few, parties are likely to transact at arm's length. Where concern about such hazards is high, firms may choose to organize different operations internally, to ensure compliance. Similarly, for investment, contractual hazards could be mitigated by higher levels of ownership, albeit with the negative costs involved with maintaining a bureaucratically organized firm.

23. See the excellent work by Henisz (2000), who draws upon Oliver Williamson's work on economic transaction costs and work by Douglass North (1981, 1999) on political transaction costs to examine organizational form choices for direct foreign investment in the context of possible expropriation.

24. Klein and Leffler (1981) and Henisz (2000).

Supporting interests	Demand Side			Supply Side				Prediction
	Benefits from Supporting			Ability to Generate Political Action				Amount of effective political action
Interests	Substi-tutes	Magni-tude	Per capita	Numbers	Coverage	Resources	Cost of organizing	
Opposing interests	**Demand Side**			**Supply Side**				**Prediction**
	Benefits from Supporting			Ability to Generate Political Action				Amount of effective political action
Interests	Substit-utes	Magni-tude	Per capita	Numbers	Coverage	Resources	Cost of Organizing	

Source: Adapted from Baron (2000).

FIGURE 6. A distributive politics broadsheet.

Although our primary focus in this issue is not on firm organization and structuring, this model provides some insights into firms' organizational responses to market and nonmarket factors.

Nonmarket strategy

When firms pursue a market strategy, they often must deal with nonmarket actors such as labor or environmental groups, or governmental regulatory agencies. The "distributive politics spreadsheet" presented in Figure 6 provides a schematic breakdown of the supporting and opposing interests involved in a particular nonmarket issue. The figure describes the costs and benefits that accrue to each party from supporting or opposing a particular course of action on an issue that may have consequences for a firm.[25] This figure, based on the well-known literature on interest group politics, provides a means of assessing the likely effectiveness of political actions of groups on each side of an issue. Turning first to the demand side, we can observe the incentives of varying interest groups based on three factors: substitutes, which refers to alternatives available to a particular interest group to engaging in action on the issue at hand; the overall magnitude of benefits, which refers to the total benefits that would result from success on an issue; and the per capita benefits, which represent the motivation of a particular interest group based on the direct benefits that its members will receive.

The supply side column presents the power capabilities of the actors in

25. See the discussion in Baron (2000).

question, focusing on their numbers (i.e., how many groups or individuals can be involved), the coverage in terms of relevant political jurisdictions, and the resources that can be brought to bear on the issues. The last element, the cost of organizing, reflects the problems of overcoming collective action problems in view of the possibility of free riding and information dissemination.

This analysis can be conducted for both the supporting and opposing side on any issue. The definition of the issue-area(s) involved, and of which groups or individuals should be considered to be relevant political actors, depend on the problem being addressed and the geographical arena in which the interaction occurs. Once defined, this analysis of distributive politics offers a window on a firm's calculations regarding which markets to enter and which integrated market and nonmarket strategies to apply.

Integrated strategic choice

Firms make strategic decisions that determine their position among the cells of the arenas matrix, as well as within a particular cell. For example, a firm must decide whether to concern itself with cost/quality at the national or regional level. From a market perspective, the success of its strategy will depend largely on whether or not there are other entrants, perhaps at the global level. This factor could be controlled through market actions and organizational strategies, thus moving the firm to cost/quality competitiveness in preparation for any competition, even from potential global competitors. Alternatively, firms may try to insulate the national or regional arena through nonmarket protectionist actions. The choice between investing in market competitiveness versus political activity is one that firms must make on an ongoing basis. To take a concrete example, firms in the telecommunications industry, faced with deregulation and new competition, have tried to position themselves globally both with respect to setting standards (through the Comité Consultatif International Téléphonique et Télégraphique in the International Telecommunication Union) and to engaging in buyouts, alliances, and the like. This strategic choice has involved positioning themselves for timing (standard setting) as well as in the cost/quality and strongholds arenas.

4. Tactical analysis: implementing strategy based on market, organizational, and nonmarket tactics

In order to implement a dynamic strategy successfully, firms must focus on three different tasks. The first is to implement their market strategies through the development and use of their capabilities. The second involves executing nonmarket strategies, both as an adjunct to their market strategies and to create competitive space for a longer-term market strategy. Finally, firms must utilize and restructure their organizations to fit their dynamic market and nonmarket strategies and to position themselves for new opportunities. These tasks are depicted in Figure 7.

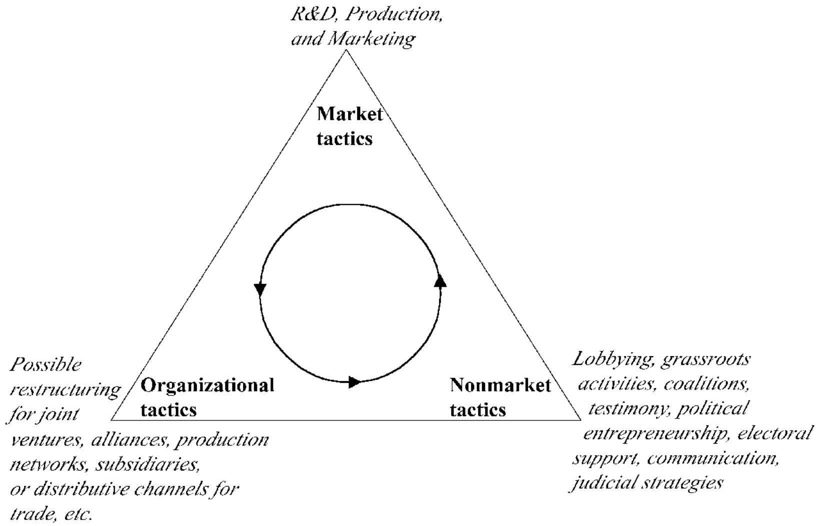

FIGURE 7. Tactical analysis.

Market tactics

There are three basic firm tasks in implementing market strategies: research and development (R&D), production, and marketing. When positioning themselves in various arenas (e.g., in cost/quality and timing and know-how), firms must decide how best to compete. Thus, if the strategy chosen is to compete with other multinationals using know-how, it is self-evident that emphasis is placed on R&D, and therefore a critical question is where such activities might best be pursued. Japanese firms, for instance, have located their design centers for automobiles in the Los Angeles area to take advantage of that region's superior resources and to produce autos for the U.S. market more effectively. Alternatively, in choosing to use production networks across a number of Asian countries, European firms must decide where to conduct R&D, and must choose an appropriate market for production to lower their costs without excessively sacrificing quality.

Organizational tactics

Having chosen an appropriate form of trade or investment in light of transaction costs considerations, firms must structure their organization and management to succeed in their chosen market arena. Wholly-owned subsidiaries require knowledge of sourcing partners and personnel who understand local markets and who can deal with host governments. In the case of a firm that enters with a local partner in a joint venture, some of these tasks could be shifted to the local level to take advantage of the partner's local network and expertise. In such cases, however, skill in organizing and managing joint ventures with respect to contracting, financing, and control are essential.

Similarly, with respect to trade strategies, firms must organize themselves to maximize their competitiveness. Sears' failed effort to compete with Japanese trading companies illustrates the challenges of operating in highly competitive markets and the need for organizational skill and learning.

With respect to nonmarket strategies and tactics, firms must develop their abilities to interact with governments, nongovernmental organizations, and other interest groups. Firms that concentrate only on market issues and attempt to outsource nonmarket tasks often suffer as a result of their neglect of this aspect of an integrated strategy.

Nonmarket tactics

Nonmarket problems require a carefully formulated, strategic response. Elements of such a strategy can include lobbying, grassroots activity, coalition building, testimony, political entrepreneurship, electoral support, communication and public advocacy, and judicial strategies.[26] For the most part these are self-explanatory. Grassroots activities refer to efforts to generate broad public support to influence office holders. Political entrepreneurship means an active effort to shape a political agenda to benefit the interests of the firm. Examples of this tactic include negotiating for more open market policies in Japan, putting intellectual property issues on the GATT agenda in the Uruguay Round, and promoting of liberalized trade arrangements such as NAFTA. In most cases, entrepreneurship of this type will involve the building of coalitions with like-minded firms as well as various other tactical efforts to affect the agenda-setting process.

5. Conclusion

Asia has long enticed foreign firms. This region includes many of the world's fastest growing markets, and promises to be a dynamic and fiercely competitive arena for decades to come. The regional currency crises of 1997–1998 complicated but failed to diminish the region's appeal for multinational firms. Both before and after the crises, firms have attempted to devise trade and investment strategies that would give them a competitive advantage over their rivals. The objective of this article has been to present a novel integrated framework to understand market and nonmarket strategies, with an eye to providing a systematic basis for analyzing foreign firms' experiences in specific sectors in Asia.

The first part of this framework is a positional analysis, which examines the contours of the market in which firms operate, their specific core competencies, and the nonmarket factors that affect their business. With respect to each of these three elements, firms must take into account the nature of their activities at the national, regional, or global levels. On this latter score, it is suggested that firms must make decisions about locating their trade or investment operations at the national, regional, and/or global level and must also decide on the target market for sales. Porter's "five forces model" illuminates the opportunities and threats

26. See Baron (1999, 2000) for a discussion of these nonmarket tactics.

firms face at these three geographical levels and provides insight into the barriers to entry presented by firm rivalry, the potential of new competitors entering the market, threats presented by possible market substitutes, and the bargaining power of suppliers and buyers.

In addition to market factors, the positional analysis also examines a firm's core competencies, which includes both tangible and nontangible capabilities, and nonmarket analysis, which involves the possible threats and opportunities arising from the nonmarket environment. Specifically, firms must understand the issues raised, the interests of major groups, the institutional setting for policy resolution, and the information available to actors to cope with nonmarket challenges. Because these three sets of factors interact, firms operating in Asian markets must systematically analyze their market, core competencies, and nonmarket environment in formulating and implementing strategy.

The ensuing strategic and tactical analysis provides a framework for understanding firm's activities in light of relevant market, monmarket, and organizational factors. Efforts to develop market strategies have been analyzed from many perspectives. Particularly helpful is work on hypercompetition, which focuses on how firms compete in four different arenas: cost and quality, timing and know-how, strongholds, and deep pockets. Organizational strategy considers how firms restructure to compete in light of their overall environment and choice of market and nonmarket strategies, and particularly how firms organize to compete in trade and investment based on transaction cost considerations. At the level of nonmarket strategy, firms must engage in calculations about possible supporters and opponents on critical issues on both the demand side (what benefits will different actors receive from success on an issue) and on the supply side (who will be able to generate political action). These considerations will often influence a firm's decision on market strategy.

Finally, turning to tactics, firms must assess their abilities to execute market and nonmarket strategies and build competencies in this area as needed. Market tactics refer to firms' decisions regarding R&D, production, and marketing as they strive to compete in various market arenas. Organizational tactics involve the internal restructuring of their management and organizational structure. Nonmarket tactics concern policies that might be pursued to advance both market and nonmarket strategies. These include lobbying, grassroots activity, coalition building, testimony, political entrepreneurship, electoral support, communication and public advocacy, and judicial strategies.

Where might further investigation allow us to better understand the development of firm strategies for Asian markets? While an analytical framework can provide guidelines for understanding firm strategies, the interaction of theoretical analysis and case study materials provides the richest insights.[27] The case studies that follow in this special issue, together with the forthcoming volumes from

27. It is worth noting that firm strategies obviously change over time in response to both changing market environments as a result of the Asian crises and to evolving bilateral, regional, and international arrangements. Will progressive liberalization in Asia as a response to the recent crises and as a result of pressures from international financial institutions create a significantly different regional environment? These questions are addressed in the case studies because, from an analytical standpoint, we are fortunate to have been able to examine firm strategies both before and after the Asian crises.

which the empirical studies are drawn,[28] can help us more fully understand the effectiveness of different approaches to competing in Asia.

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28. *Winning in Asia, European Style: Market and Nonmarket Strategies for Success,* and *Winning in Asia, American Style: Market and Nonmarket Strategies for Success*, both edited by Vinod K. Aggarwal; and *Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success*, edited by Vinod K. Aggarwal and Shujiro Urata. All three books are being published by Palgrave (New York). The case studies include an examination of software, financial services, aircraft, autos, chemicals, telecommunications, and electronics.

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