

The role of nonmarket strategies in shaping firms' exploration and exploitation of market activities: A joint study of pharmaceutical firms in Switzerland and India

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Background

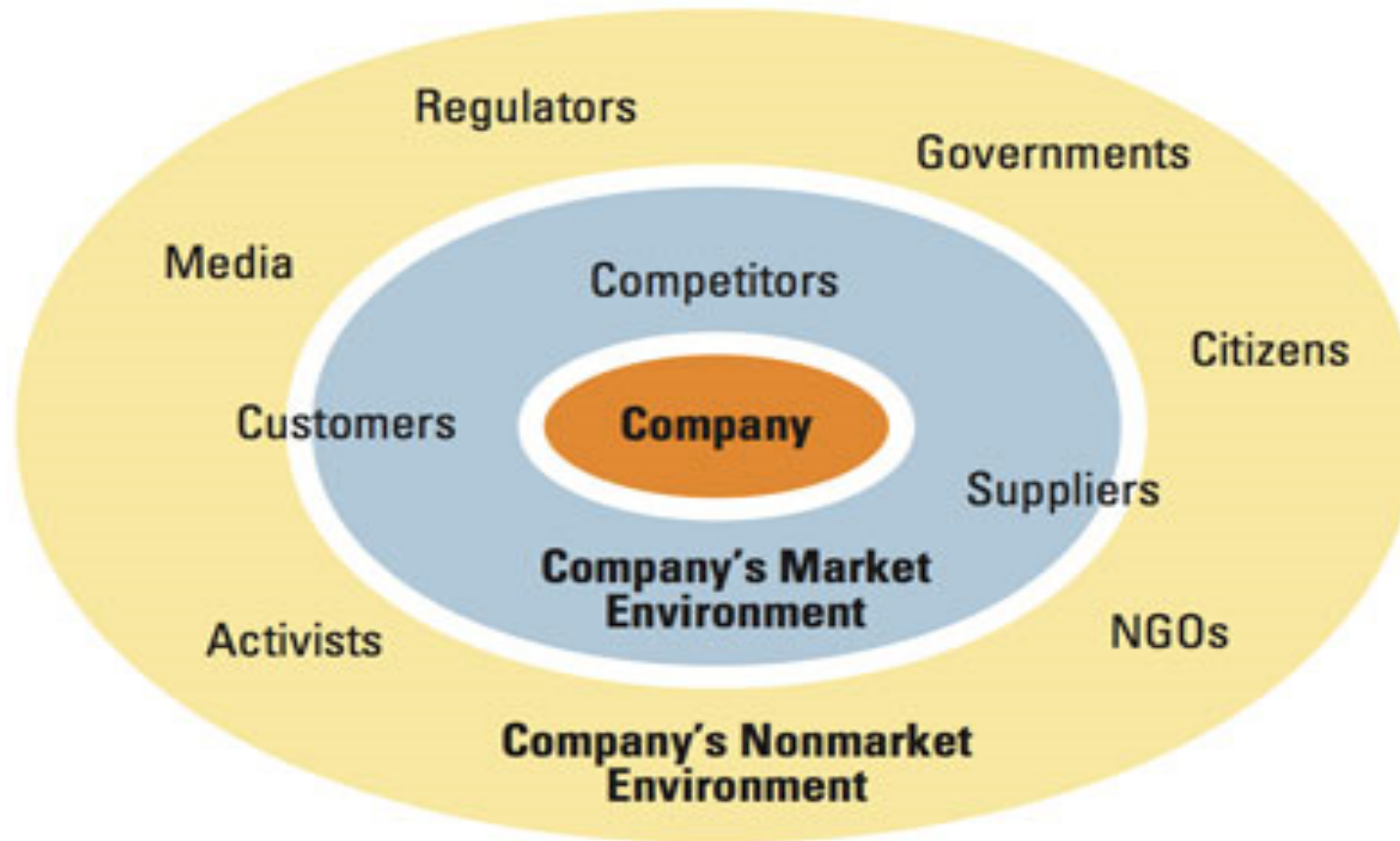
- ▶ Based on my own research on the integration of market and nonmarket activities within firms (Bonardi, 2004; Bonardi et al., 2006; Bonardi, 2008)
 - ▶ Nonmarket: lobbying, political connections
 - ▶ Market: will focus on exploitation and exploration activities
- ▶ Objective from a managerial standpoint: understand how firms combine these activities, and what might be the problem when they do so → might not always be optimal to do so, especially in the context of innovation
- ▶ Also: provide a better understanding of the impact of institutional differences on this integration of market and nonmarket activities
- ▶ Objective from a public policy standpoint: contribute to the debate about whether there are issues with the impact that 'big business' might have on policy-making

Structure of the presentation

- Introduction
- Theoretical background
- Methods
- Implications

Introduction

Firms' market and nonmarket environments

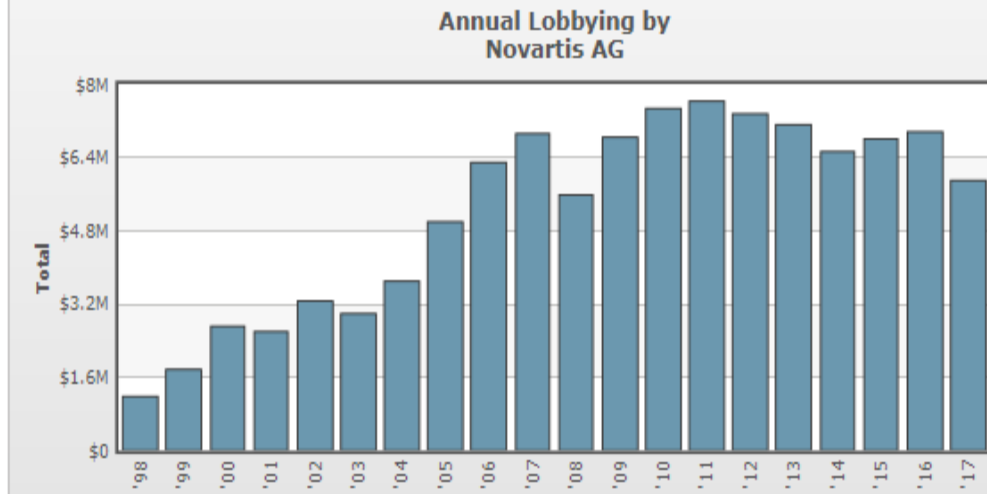


Source: Bach and Allen (2010)

Lobbying spendings – Example Swiss firms

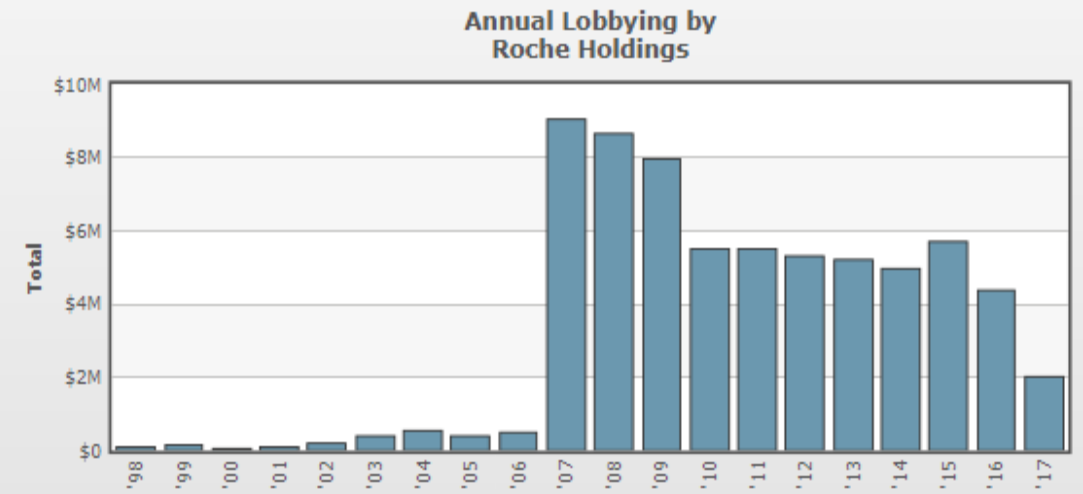
Novartis AG

Summary Lobbyists Issues Agencies Bills Report Images



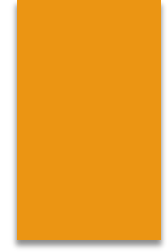
Roche Holdings

Summary Lobbyists Issues Agencies Bills Report Images



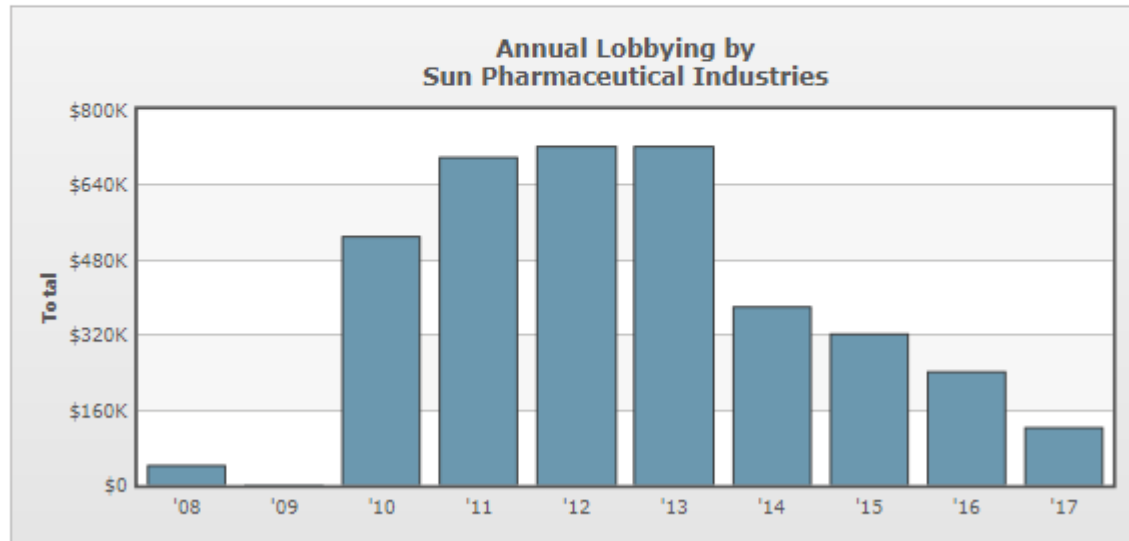
Source: <https://www.opensecrets.org/lobby/>

Lobbying spendings – Example Indian firms



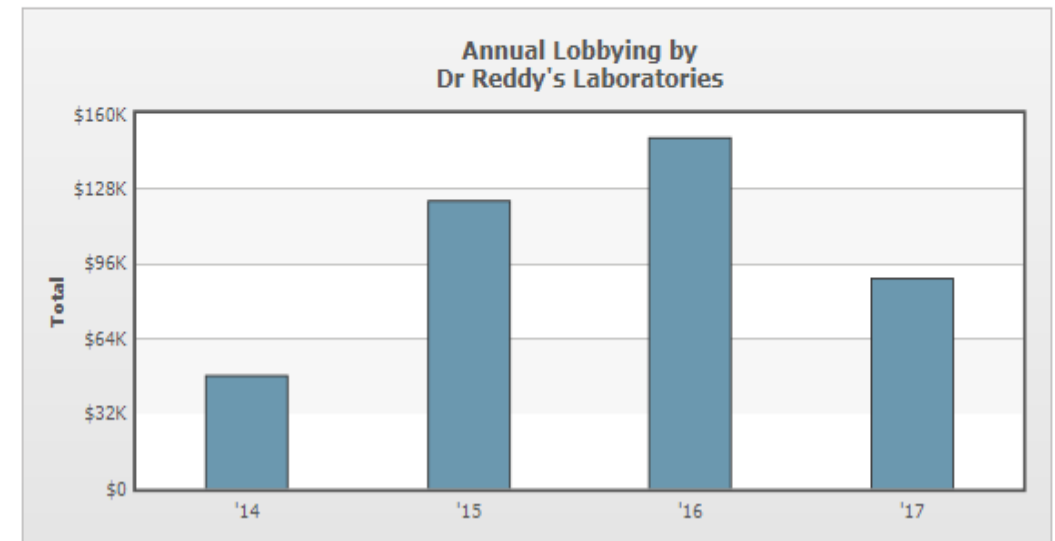
Sun Pharmaceutical Industries

Summary Lobbyists Issues Agencies Bills Report Images



Dr Reddy's Laboratories

Summary Lobbyists Issues Agencies Bills Report Images



Source: <https://www.opensecrets.org/lobby/>

Introduction

Motivation

Torrent Group & Cadila Healthcare among top political donors from Gujarat during 2013-14

According to a report, corporates and individuals from Gujarat were the third largest contributors during the last fiscal.

Source: Indian Express

90% donations to political parties from corporates



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NEW DELHI., DECEMBER 25, 2014 01:43 IST
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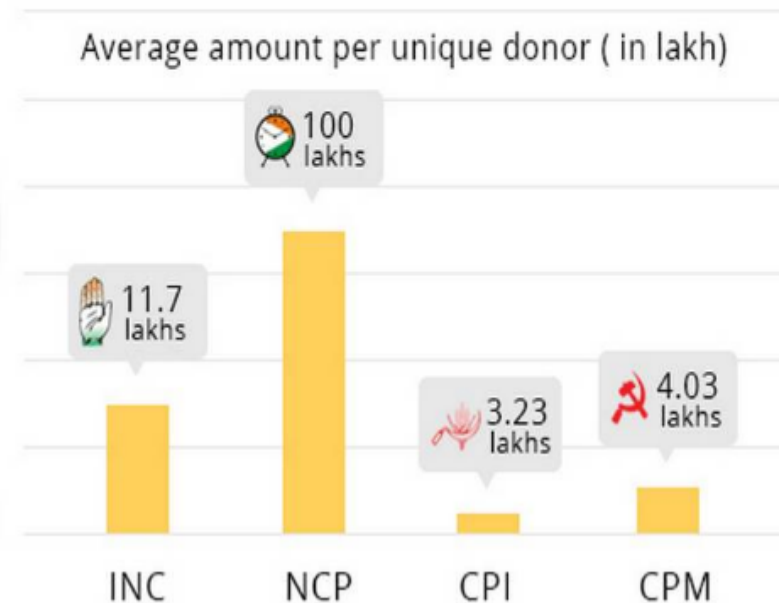
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Introduction

Motivation

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Indian pharma companies lobby to win Donald Trump over on generic imports

Indian Pharmaceutical Alliance, which includes Sun Pharma and Dr Reddy's, says early signals from the Trump administration do not augur well

✉ Ari Altstedter

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Donald Trump's varied pronouncements on the US health-care system represent both a threat and an opportunity for India's \$12.5 billion in annual drug exports. Photo: AFP

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Source: *Livemint*



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Public Policy & Advocacy

Responsible lobbying

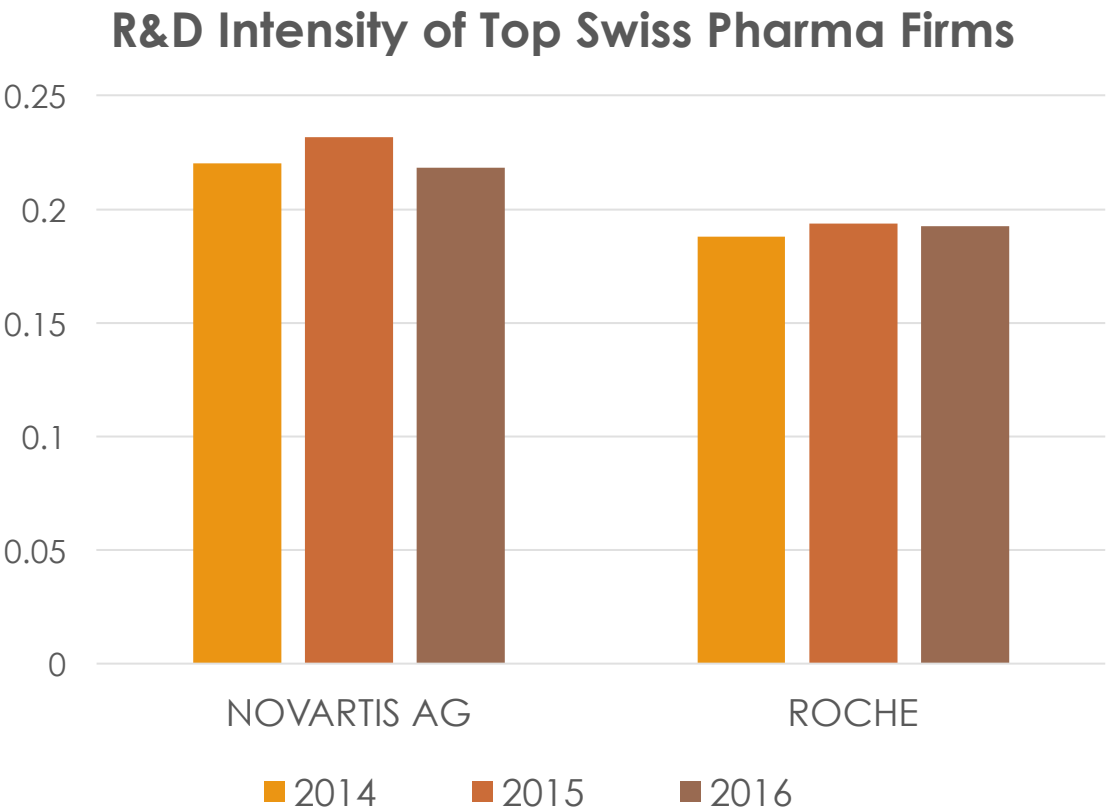
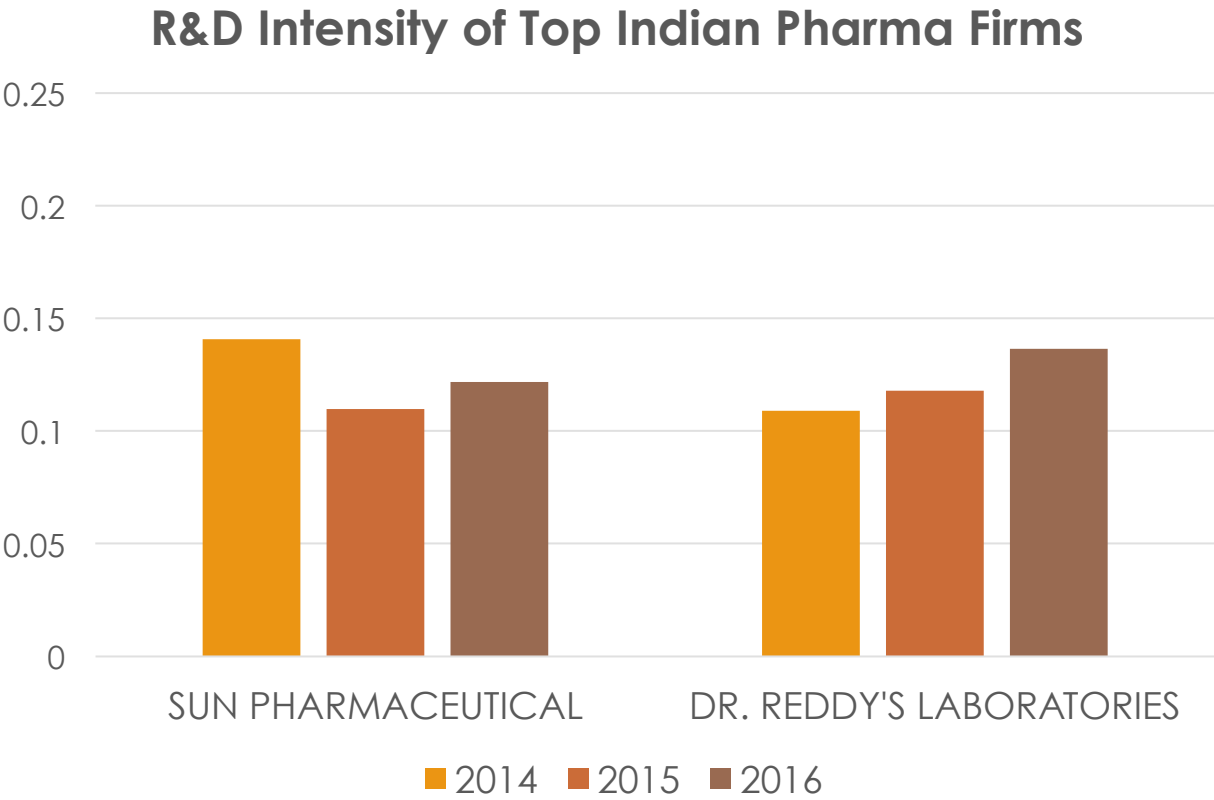
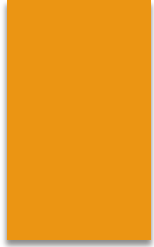
We strive to engage in constructive dialogue with policymakers and other external stakeholders with the intent to represent the perspective of Novartis in the policy making process, and to provide policymakers with data and insights to enable widely informed decision-making conducive to improving patient outcomes and sustainable business.

Political contributions

Novartis makes financial contributions to support political dialogue on issues of relevance to the company, or to government projects, e.g. for capacity-building. Such contributions need to be fully compliant with applicable regulations. Novartis only makes financial political contributions in countries where such contributions by corporations are legal and generally considered appropriate (the amount of these contributions is published in the [Novartis Annual Report in the Corporate Governance section, page 106](#)).

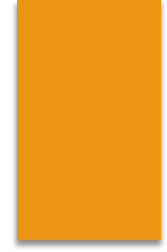
Source: <https://www.novartis.com/about-us/corporate-responsibility/doing-business-responsibly/public-policy-advocacy>

Firms' exploration activities



Source: Annual reports

Firms' market activities can be put in two categories



Exploration

- Creation or acquisition of new knowledge and capabilities is known as *exploration*, whereas its utilization or leveraging is known as *exploitation* (March, 1991)
- Exploration activities require flexibility in order to introduce change and innovate

Exploitation

- Firms' ability to explore and exploit improve their innovativeness and performance (Gupta, Smith, & Shalley, 2006; Shukla, Mital, Qureshi, & Wang, 2016)
- Exploitation activities require commitment in order to develop superior routines and internal processes

Two main research questions will drive our research

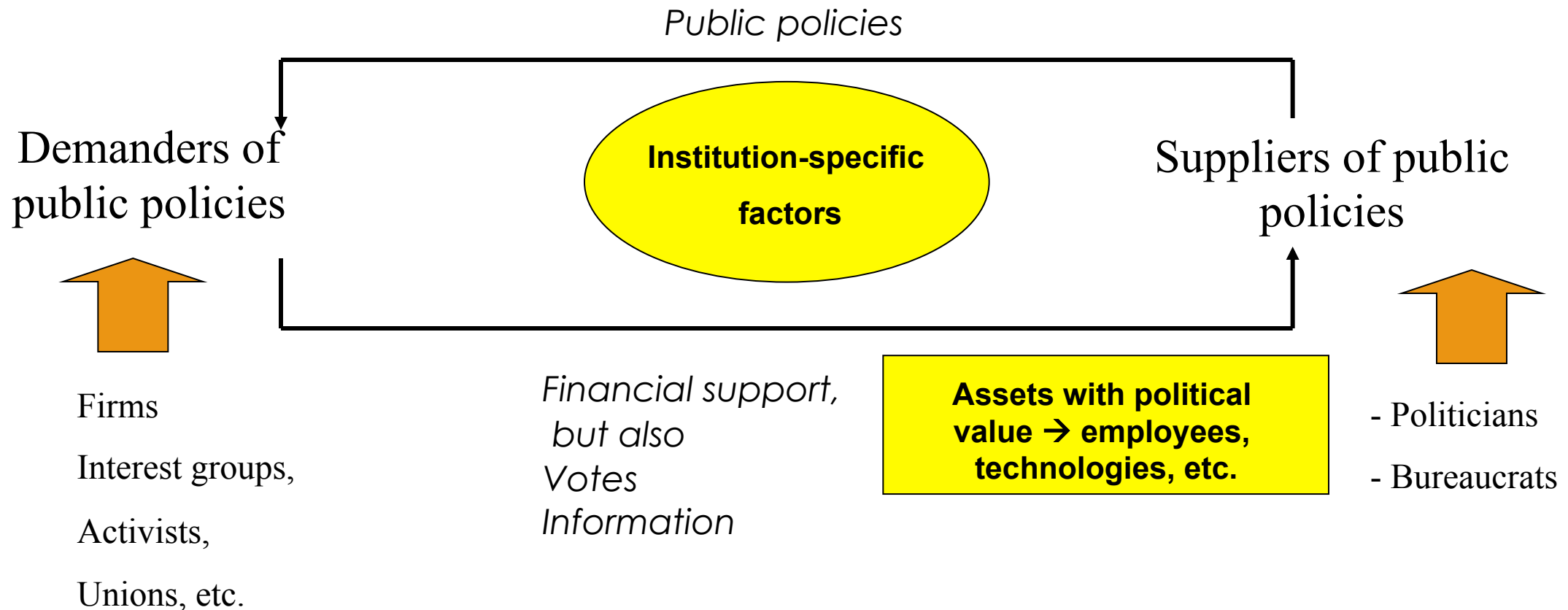
1. How do a firm's nonmarket activities affect its exploration and exploitation in the market domain?
2. How does the above relationship vary for Indian and Swiss firms?

Theoretical background

Nonmarket strategies and exploration-exploitation

- Nonmarket strategies may help firms exploit its extant technological and market knowledge by shaping policies in the regulated markets (Bonardi, 2008; Ozer & Marko'czy, 2010) → ex: for how to regulate drugs's distribution or pricing in pharma
- Moreover, in technology-intensive but regulated industries, nonmarket strategies may enable firms to push forward the exploration of new technologies and get rewarded (Taylor, 1997) → ex: to favor the development and get regulatory approval of new drugs in pharma
- However, with regard to exploration and exploitation, there might also be limits to the benefits that can accrue a firm's nonmarket activities (Bonardi, 2008; Bonardi et al., 2006).

Theoretical framework: Firms in political markets



Implications



- To develop effective nonmarket activities, firms need to commit some of their 'assets'
- This reduces the flexibility with which firms can make change or reallocate these assets
- This might have a negative impact on firms' ability to be effective in innovation and exploration-based activities → For exploration activities, there might be limits to firms' ability to efficiently integrate market and nonmarket activities
- This should be less of an issue for exploitation activities, which require a fair amount of commitment and less flexibility

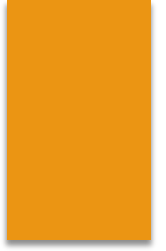
Nonmarket strategies and exploration-exploitation: The contingent role of the institutional context

- The characteristics of the institutional environment of different countries has implications for firms' nonmarket strategies (Hillman, 2003; Hillman & Wan, 2005; Shirodkar & Mohr, 2015).
- Emerging economies such as India are characterized by the presence of “institutional voids”
 - which are associated with a general inefficiency of legal enforcement, lack of government support to some industries, and a high level of regulatory complexity (Khanna & Palepu, 2000; Mondejar & Zhao, 2013; Sheng et al. 2011)
- These institutional voids might make the internal issues in integrating exploration and nonmarket activities less prevalent than in Switzerland → firms might still need nonmarket activities a lot in emerging markets, even for exploration activities

Key theoretical predictions that will guide our empirical analysis



- H1: Nonmarket activities can efficiently complement exploitation activities
- H2: This will not be the case for exploration activities
- H3: There will be institutional differences between India and Switzerland for H1 and H2



Empirical context

- Pharmaceutical industry
 - Significant contribution to the economy of both India and Switzerland
 - Dynamic environment necessitates both exploration and exploitation
 - Government and regulatory policies play an important role
- Target Sample: Publicly-listed pharmaceutical firms from India and Switzerland (For which archival information is available)

Mixed-method approach

- Qualitative study
 - Interviews of managers and regulators → on their firms' nonmarket activities and how they are integrated with their exploitation and exploration market activities
- Quantitative study
 - Survey instruments (e.g. Shirodkar & Mohr, 2015)
 - Archival information
 - Data sources:
 - Political contribution data: Disclosures in corporate annual reports; Association for Democratic Reforms (ADR) for India
 - Board political connection Data (India) – Prowess and ADR
 - Political connection research in Switzerland

Implications

Theoretical - Managerial

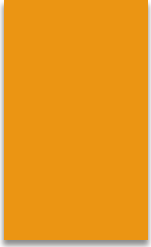
- Intends to enhance the understanding of how firms combine market and nonmarket activities, and the limits to this integration
- Better understand the role of institutional differences

Public policy

- Should point out some limitations of firms' nonmarket activities, and will thus allow to better evaluate the risks related to these nonmarket activities for democratic processes



Thank You



Motivation

Global Innovation Index (GII) Ranking (Year-wise)		
GII	India	Switzerland
2017	60	1
2016	66	1
2015	81	1

Source: "GII 2017 Report | Global Innovation Index".

Indicator-wise Ranking for 2017		
Indicators	India	Switzerland
Institutions	92	8
Human capital and research	64	7
Infrastructure	73	6
Market Sophistication	39	7
Business Sophistication	55	3
Knowledge and Technology Outputs	38	1
Creative Outputs	85	3

India to be amongst top five global pharma innovation hubs by 2020: Assocham

The Indian Government has been very active in boosting growth and investment in Indian pharmaceutical industry

ANI | New Delhi
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