

# An Integrated Framework of Market and Nonmarket Strategies for Demoralized Transition Economies\*

John H. Humphreys, Dragan Loncar, Guclu Atinc, Mario Hayek, Milorad M. Novicevic\*\*

## Abstract

In the extant literature, transition economies are sporadically addressed under the moniker of emerging economies and often only through calls for more contextualized research. Moreover, not all transition economies are emerging, as attempts at rapid transformation have resulted in economic deterioration as well. Yet, we lack models that approach the coordination of market and nonmarket strategies in contexts experiencing ongoing economic malaise. Accordingly, we examined the institutional and market strategies of Frikom, a regional ice cream producer profiting in the demoralized transition economy of Serbia, to identify antecedents to socio-cultural demoralization, elaborate a reconstructed view of nonmarket strategy in a demoralized transition economy, and conceptualize an integrated alignment model for firms competing in demoralized transitional economic environments.

**Keywords:** Transition economies, demoralization, institutional strategies, social embeddedness

**JEL Codes:** P20, L10, O50

## Introduction

*“... it is time to move beyond a simple dichotomy that divides the world into emerging and developed economies. There is a need to consider more fine-grained notions of institutional context with varying degrees of institutional development and infrastructure ...” (Hoskisson et al. 2013: 1316).*

The persistence of largely binary categorization of markets as developed or emerging has hindered the advancement of knowledge about other economic environments (Zheng et al. 2014). For example, our understanding of formerly centrally planned economic systems undergoing transition to market forces is

\* Received: 02.11.18, accepted: 20.07.19, 1 revision.

\*\* *Humphreys, John. H.*, DBA, (corresponding author), Professor of Management, Texas A&M University – Commerce. E-mail: john.humphreys@tamuc.edu; Research interest: leadership, management history, strategy.

*Loncar, Dragan*, PhD, Professor of Management, University of Belgrade, Faculty of Economics. E-mail: loncar@ekof.bg.ac.rs; Research interest: management, strategy, leadership, corporate finance.

*Atinc, Guclu*, DBA, Associate Professor of Management, Texas A&M University – Commerce. E-mail: guclu.atinc@tamuc.edu; Research interest: corporate governance, strategy, research methods.

*Hayek, Mario*, PhD, Associate Professor of Management, Texas A&M University – Commerce. E-Mail: mario.hayek@tamuc.edu; Research interest: entrepreneurship, management history, strategy.

*Novicevic, Milorad. M.*, PhD, Associate Professor of Management, University of Mississippi. E-mail: mnovicevic@bus.olemiss.edu; Research interest: leadership, management history and education, global contexts.

still underdeveloped because transitioning countries have been deemed a homogeneous subset of emerging economies (Peng 2003). As a result, transition economies are episodically addressed within the emerging economy category and frequently only through calls for more contextualized research (Marquis/Raynard 2015).

Moreover, the broad subsumption of transition economies under the classification of emerging markets is often inapplicable, as not all transition economies are emerging. Attempts at rapid transformation in many countries have resulted in stagnation as well (Chelariu et al. 2006). Nonetheless, many concepts developed for and/or from rapidly emerging economies have been theoretically “stretched” (Welch et al. 2016: 111) in the literature to encompass all transitioning markets; even those markets that have exhibited economic decline. Therefore, current emerging market concepts should be reinterpreted through critical reflection to determine relevance specific to contrasting transitional contexts (Akbar/Kisilowski 2015). Curiously, there are few models that confront the unique deficiencies and strategic opportunities facing firms in transitional environments experiencing ongoing economic malaise.

In addition, relatively little consideration has been given to studying the ways in which organizations strategically shape their institutional environment to enhance competitive advantage (Marquis/Raynard 2015). While market strategies involve traditional elements of a market such as suppliers, customers and competitors, nonmarket strategies include nonmarket elements such as social, political, legal and cultural arrangements (Doh et al. 2012). Theoretical developments related to nonmarket institutional strategies are “rudimentary at best” (Hitt 2016: 212), especially with respect to transition economies, where institutional voids (McCarthy/Puffer 2016), deinstitutionalization (Oliver 1992), and demoralization (Zheng et al. 2014) are commonplace. In particular, proper attention has not been given to the crucial role of managerial agency in the strategic integration of market and nonmarket means for achieving competitive benefit (Akbar/Kisilowski 2015). This conceptual lacuna is unfortunate, as institutional environments do influence organizational strategies *and* the competitive market decisions made by top management (Hitt 2016).

Yet, upon reviewing the extant literature, Marquis and Raynard (2015: 292) concluded that our comprehension of institutional strategies largely remains “balkanized.” Specifically noting the lack of conceptual models for aligning strategies for competitive advantage, these authors advocated for the use of ethnographical methods to capture the diversity of distinctive institutional landscapes in transition. Similarly, Cui et al. (2015) called for scholars to explore cases of firms seeking to balance economic and social needs in transition economies. We reason an inquiry of such an enterprise flourishing within a flagging transitional market in the Balkans region might afford a unique opportunity to advance theo-

ry in these intersecting domains. In addition, our study may serve as a conceptual foundation for future empirical work in this area.

Accordingly, we respond to these calls with an examination of Frikom; a regional ice cream maker that is successfully competing within the demoralized transition economy of the Republic of Serbia. Developing insights from our analysis, we contribute to the literature by: 1) identifying a dark triad of institutional erosion as antecedent to socio-cultural demoralization, 2) elaborating a reconstructed view of nonmarket architecture in a demoralized transition economy, and 3) abductively advancing an integrated alignment model for firms competing in demoralized transition economic contexts.

## Transition Economies

The verbiage ‘transition economy’ emerged roughly 25 years ago as the world was challenged by an “unprecedented natural experiment in institutional and market-based reforms” (Akbar/Kisilowski 2015: 367). The label broadly designates economic systems that are in the process of moving from a central planning approach to more market-based fundamentals. Transitional environments often exhibit a lack of sufficient institutional development, as compared to developed economies (Peng 2003).

Markets undergoing transition are defined in terms of the “*degree of uncertainty* of the future and the *slope* and *inflection of change*” in economic and societal terms (Lawton et al. 2014: 61). Effectively gauging these elements is essential for organizational decision-makers because reform processes have been pursued at differing speeds and with inconsistent outcomes across a myriad of unique markets (Akbar/Kisilowski 2015). An accurate assessment is specifically significant when considering the transition economies of Eastern and Central Europe (EECA), as these countries are very different from one another considering economic, social, and institutional transition (Chelariu et al. 2006). However, since the collapse of the centrally-planned economic systems of communist-controlled EECA, this region has attracted diminishing interest and scrutiny from scholars (Akbar/Kisilowski 2015).

Yet, even in recognizing the substantial differences between the various countries involved in economic transitions away from central planning, many of the seminal works in the field approached the totality of transition economies as a singular subset of emerging markets. Peng and Heath (1996: 494) suggested there were compelling reasons to do so, arguing that transition economies could be treated as one group because the “common experience under the Soviet-type central planning regime and communist ideology” had resulted in “similar changes in their institutional infrastructure,” which motivated strategic choices of “relying on network contacts and personal trust.” Serbia’s attempt at rapid economic transition, however, appears to challenge these assumptions to a de-

gree. Indeed, the history, experience, and trajectory of economic transition within the successor states of the former Yugoslavia have exhibited peculiarities that tend to separate them from other transitioning nations (Babic 2012).

## The Republic of Serbia

Although pivotal research on transition economies presumed similarity based upon Soviet-styled central planning (e.g., Peng/Heath 1996), unlike other communist countries in the EECA, Yugoslavia, was independent of the USSR, and was not a member of the Warsaw Pact or NATO (Babic 2012). Consequently, the economic system was relatively distinct from the Soviet model (Simon, Jr. 2015). Whereas, in the Soviet system firms were owned by the State, Yugoslavian firms were socially owned and self-managed by workers (Babic 2012).

Milovanovic (2007) indicates that, after the Second World War, Yugoslavia became one of the first communist countries to introduce elements of a more market-based approach to socialism. As a result, the assumption that the institutional frameworks in all transition economies are comparable and motivated by analogous strategic choices may be called into question. What can be stated with confidence is that; “In the period of post-socialist transition in former Yugoslav economies, the institutions haven’t faced a ‘creative destruction’ but an inconsistent, non-transparent, interest-oriented quasi-monistic improvisation, resulting in many confusions and negative consequences” (Draskovic/Stjepcevic 2012: 35).

## Rapid Transition and Effects in the Serbian Economy

In 1989, Serbia, while still a federal unit of the Socialist Federal Republic of Yugoslavia, launched an ambitious reform agenda aimed at fully transitioning the Serbian economy to a market-based system but the results have been discouraging (Draskovic/Stjepcevic 2012). Serbian gross domestic product (GDP) remains at below 75 % of its output pre-transition (Duricin/Vuksanovic 2016). Even compared with surrounding countries that once constituted the former Yugoslavia, Serbia has consistently been one of the worst performers.

Analysis of Serbia’s economic problems is multipronged (Babic 2012). Still, the factors that caused catastrophic economic depression can be deconstructed into several major groups:

1. Fundamental structural problems following 45 years of socialistic economic doctrine
2. Stopgap policies intended to preserve social cohesion while neglecting to address major systemic issues
3. International blockade and isolation in the 1990s
4. Effects of NATO bombing on Gross Fixed Capital Formation (GFCF)

## 5. Failed privatization and liberalization policies that caused further structural imbalances while failing to properly assess and resolve existing problems

Confluence of these factors caused enormous brain drain in the 1990 s, a declining fertility rate, equity erosion, deindustrialization, and uncertainty. The quick liberalization policies enacted by lawmakers (e.g., import taxes) meant that after a decade of stagnation and weak investment, legacy socialist companies that were bloated, undercapitalized, and technologically obsolete, were faced with external competition. The loss of market share resulted in a vicious cycle that meant bankruptcy for a large percentage of state-owned companies.

Political volatility in the post-2000 era caused a general institutional paralysis and inability to synchronize key measures and instruments to properly execute the transitional strategy. Inflation, despite falling from late 1990 s level, remained in double digits. The massive labor surplus caused immense social pain and fueled rise of a new wave of populist policies that focused on short-term gains while ignoring long-term goals (Miljkovic 2013).

Regression in industrial development and export was somewhat amortized by an unusually high rate of financialization (i.e., rise in financial services), due to foreign direct investment (FDI) in this industry. The combination of an accelerating credit cycle and consumer spending boosted by soaring wages that far outpaced productivity gains (Bosnjak 2011) led to a dangerously high balance of payment (BP) deficit, which was financed by privatization proceedings and FDI. The resulting compression of the BP deficit triggered a recession, weakening of the Serbian currency as a result of private sector deleveraging, and insufficient FDI, as well as an another wave of liquidations, this time in the real economy. Large current account deficits and strong Dinar pre-2008 encouraged external borrowing. The consequential exposure to foreign exchange risks was not properly regulated and contributed to the severity of the recession (Cojocaru et al. 2016). As a result, the Serbian economy has suffered from deindustrialization and deleterious socio-cultural degradation (Miljkovic 2013).

Even so, there are enterprises productively participating in the demoralized economic environment of Serbia (Humphreys et al. 2013). In order to compete successfully, firms must not only understand the transitional marketplace in which the firm will compete; but that they must also develop proactive institutional strategies to confront the deficient institutional context.

## Institutional Strategies

Formal and informal institutions have always been important for developing firm strategies but they have become even more so with the significant changes in the global economic, social, and competitive environments (Hitt 2016). Institutional strategies are the far-reaching set of plans and actions directed at influ-

encing social, political, and cultural institutions to achieve competitive advantage (Marquis/Raynard 2015). This definition highlights the role of managerial agents in interpreting institutional contexts to determine the nature of a firm's engagement with particular institutions (Feinberg et al. 2015).

However, scholars are only beginning to explore the relationship between market decisions and nonmarket institutional elements and how they might strategically integrate them to produce competitive advantage in transition economies (Akbar/Kisilowski 2015). In particular, research regarding the strategic role of organizational social institutional development activities (Doh et al. 2015) in transition economy contexts is at a nascent point (Cui et al. 2015).

Unpacking the contextual dynamics that influence the applicability of specific institutional strategies can provide significant insights into the interrelationship between organizational activities and local institutions (Marquis/Raynard 2015). Yet, we currently lack understanding as to which institutions would be most pertinent to specific contexts or specific managerial decisions (Xu/Meyer 2013). According to Marquis and Raynard (2015: 323), future studies capable of explicating such conceptual parameters "would likely require a 'boots on the ground' approach ... to gain a more fine-grained understanding of the complex decision-making processes that underpin them."

In this study, we utilize a field study and offer a theoretical model to explain the need for alignment between market and nonmarket institutional strategies in demoralized transition economies. As institutions form the basis of economic development, how strategic alignment can be used to succeed in these unique settings form the basis of our arguments. In the following sections, our methodological approach and theoretical arguments are further discussed.

## Methodological Approach

When theory is at an early juncture in a given domain, examinations of unique cases can often unravel the underlying dynamics of phenomena that play out over time to offer conceptual insights that are unlikely to be achieved through other approaches (Humphreys et al. 2015; Novicevic et al. 2019; Siggelkow, 2007). In particular, ethnographically-oriented case analyses, which highlight the experiences and interpretations of research participants within a discrete social context, are very well-suited for developing insights because they allow scholars to see the world as it is seen by its citizens and to observe how they interact in their distinct setting (Arino et al. 2016). Simic (2016) for example, conducted a field study by interviewing various Serbian informants in order to assess the moral erosion of the Serbian culture.

Consequently, for this study we utilized a form of the ethnographical extended case method championed by Wadham and Warren (2014). The extended case

method is a hybrid methodology that, at the epistemological level, derives from both constructivist and critical theories of knowledge. Offering researchers a bridge between these approaches, this process adheres to constructivist tenets by recognizing individuals as active agents within their environment, while also seeking critical analyses of the institutional forces that shape societies (Wadham/Warren 2014). To apply extended case procedures, researchers should: 1) identify appropriate theoretical concept(s) and a specific case that may confirm and challenge those concept(s), 2) examine the everyday lives of people in context and identify any conceptual incongruities, and 3) reinterpret the theory(s)/concept(s) to accommodate the atypical elements and/or processes revealed from the observations.

Although extended case methods share some overlap with the constructivist form of grounded theory, this methodology “is rendered distinctive by at least three interrelated characteristics: its ‘big picture’ ambitions, a particular interpretation of the nature and role of theory, and a dialogic approach to the research process” (Wadham/Warren 2014: 8–9). Thus, extended case methods intentionally bring existing theory to bear on a specific case to unpack complex processes through their everyday expressions within their unique social environment.

Based upon prior experience and research, we realized the devolution of Serbia’s economy made its consideration as an ‘emerging’ market suspect. Moreover, our review of the literature led us to conclude that many concepts evolving from studies of rapidly emerging economies have been theoretically stretched to increase their exposure without considering the implications (Welch et al. 2016) for more torpid transitional contexts.

To reconstruct/interpret theoretical concepts, Welch et al. (2016) advised researchers to engage in fieldwork with applicable cases. Our fieldwork entailed the use of participant observation and conversations with many contextual actors to gain insights, which is typical of ethnographical studies. We conducted semi-structured interviews with knowledgeable principals from multiple industries (e.g., agri-business/chemical, consulting, education, food, retail, telecom), including senior executives from our focal firm, Frikom. Our questions broadly centered round descriptions of Serbia’s attempt at rapid economic transition, the personal, cultural, social, institutional, and societal outcomes associated with abrupt economic change, and how firms (including Frikom) had strategically attempted/managed to compete within these challenges. Our goal was to access common themes from firsthand descriptions of participants’ understanding of the demoralized economic environment and the social culture of Serbia in order to locate everyday life in its “extralocal and historical context” (Wadham/Warren 2014: 8). Hence, combining the knowledge gathered through semi-structured interviews alongside assessment of the strategy of a successful company in con-



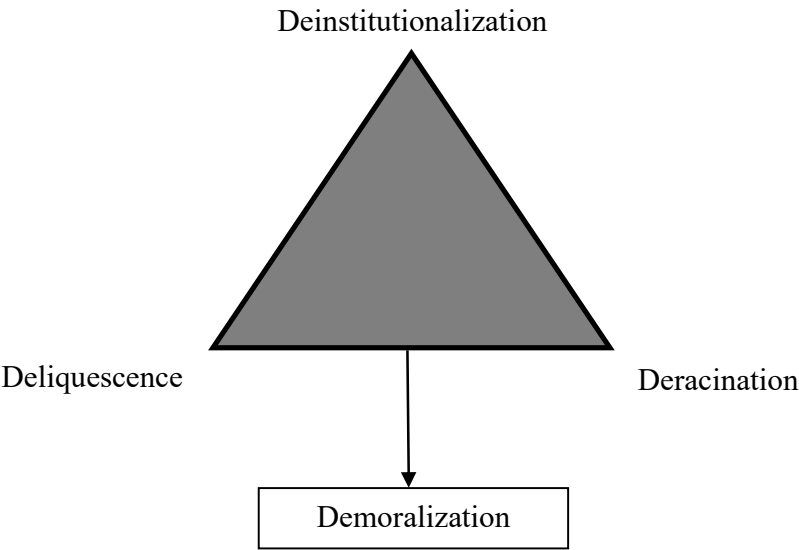
text allowed us to develop conceptual insights about the specifics of this unique transitional setting.

A Path to Socio-Cultural Demoralization

Although demoralization is rampant in many transitional countries, research on demoralized environments is rare (Zheng et al. 2014). Demoralization refers to a society’s weakening of the socio-cultural institutional infrastructure and collective psyche regarding social conduct. Institutional theorists have explained how institutional processes develop and emerge from the “collective social construction of reality” (Oliver 1992: 582).

According to Akbar and Kisilowski (2015), the residual effect of two generations of central planning has impacted the people of Serbia such that their cultural and psychological perspectives have not kept pace with the attempted rapid transformation of the economy and society. Our research provides emic support for their conclusion and suggests that this state may contribute to socio-cultural degradation, which further exacerbates deinstitutionalization, creating a vicious and insidious cycle of demoralization. Building upon consistent and repeated accounts of extralocal understanding of these phenomena described by participants, we characterize a dark triad of institutional erosion as precursor to demoralization (see Figure 1).

Figure 1: A Dark Triad of Institutional Erosion as Antecedent to Socio-Cultural Demoralization





Because the transitional changes in Serbia were not well designed, planned, and implemented (Miljkovic 2013), the resulting deinstitutionalization (Oliver 1992) created significant macro-level deficiencies within the Serbian economic context, especially in the informal soft infrastructure of society (Draskovic/Stjepcevic 2012). Herein, deinstitutionalization refers broadly to the erosion of norms of social conduct at the socio-cultural level and not only at the level of organizational practices (Oliver 1992).

According to our interviewees, once traditional social norms regarding customary behavior began to erode, many felt displaced from what they perceived as their indigenous environment. Because Serbia's attempt at economic transition was in the form of shock therapy (Uvalic 2012), multiple participants described feeling abruptly uprooted, which led to 'fear' and 'atrophy' because the rapid changes had begun to 'melt away' the 'connective tissue of society.' These direct reports taken together make up the literal definitions of deracination and deliquescence.

Deracination means to pull out by the roots or a process to uproot (Burlington/Grunt 1996). The term is used to describe the displacement from one's native or accustomed environment, which aptly describes the perceptions of our Serbian interviewees. Moreover, these feelings of displacement led several participants to speak about the melting away of societal connections. To melt away or to disappear as if by melting equates to deliquescence. Although the term is most often used in scientific fields, it captures the observations of our interviewees that deinstitutionalization engendered by rapid change led to their feeling psychologically and socially uprooted to such a degree that implied societal/cultural bounds were effectively dissolved; thereby leading to a general degradation in Serbian economic, social, and societal relationships. Building from these insights, we argue that deinstitutionalization, along with perceptions and impressions of deracination and deliquescence (the 3D's of demoralization); have fostered the demoralized environment observed in the Republic of Serbia. For instance, Dimic (2013) discussed the changes in standard of living in Serbia during the transition and mentioned the demoralization of the healthcare system.

Demoralization is thought to engender institutional anomie, which tends to create a society that is apathetic (Zheng et al. 2014). According to interviewees in Serbia, mounting demoralization resulted in tremendous apathy. In fact, when asked about the potential for social unrest emerging from the rapid transition, numerous participants found the possibility unimaginable because the population was so suspicious and apathetic.

Furthermore, the demoralized environment has led to changes in the social arena regarding business conduct in this unique transition economy, which further undercuts the justification for treating transition economies as a homogenous group. Recall Peng and Heath's (1996) assessment that similar institutional

changes in transitional contexts motivated strategic choices that are reliant upon close networks and personal trust. Other authors have also suggested that firms operating within transition economies rely on “personalized network-based exchanges” (Oliver 1991: 505). Personalized relational institutional strategies are prevalent within many developing transitional environments (Marquis/Raynard 2015).

In Serbia, however, socio-cultural demoralization has devastated the basic element of social trust. Niskanen (1991: 4) observed that “economic exchange cannot exist or last very long without a minimum of natural trust ...” amongst societal stakeholders in the socio-cultural, competitive, and governmental ambits. This lack of trust is evident when considering one aspect of the normative isomorphism predicted by institutional theorists (DiMaggio/Powell 1983).

Researchers have long been interested in the circumstances under which groups join together to advance shared interests (Lawton et al. 2014). In this vein, Hillman (2003) advanced the notion that firms in corporatist countries favor collective tactics whereas those from pluralist nations tend to migrate to more individualistic strategies. However, in Serbia, a loss of faith in the political/justice system has encouraged short-term, opportunistic thinking and a lack of cooperation. Companies do not band together because trust has been so damaged. Whereas many developed economies are individualistic, they nonetheless often work collectively. In contrast, although Serbia has a long collectivistic social history, participants note that they largely work independently due to the trust deficit associated with demoralization.

Still, within this distinctive demoralized economic environment, there are companies that are prospering. Lawton and Rajwani (2015) suggested that future research should be more contextualized in order to explore market and nonmarket initiatives at the firm level in unique environments. One such adaptive and dominant player in the Serbian market is Frikom.

## Frikom

Frikom, headquartered in Belgrade, Serbia, currently dominates the Serbian impulse ice cream market. In 2016, Frikom reached 90 % market share, whereas its global competitor Nestle fell to a historical low of 7 % (Nestle held 60 % market share in 1998). Nestle’s maintenance of sluggish, centralized decision-making without significant local input (i.e., the problem of institutional dualism) was punished by retailers whose livelihoods depend upon impulse purchases (Loncar et al. 2013). Nestle’s focus on large key accounts with limited products and standard quality, which worked for them in developed economies, was unsuccessful in a market where the food retail structure is atomized and fragmented. Serbia is a society where more intimate distribution (i.e., very close to customers) is perceived as social, cultural, *and* economic development activity. As a result,

Frikom's extraordinary customer-oriented distribution efforts have embedded the firm into the extralocal social lives of consumers on a daily basis.

Frikom's activities in the social/cultural domain focus squarely on the underdeveloped institutions of Serbian society, especially those that impact children, clinics, parks, sports, etc. However, their marketing efforts regarding their social endeavors are quite subtle, which appears consistent with societal expectations. Participants said that whereas some other firms did little in the social arena but trumpeted their minimal efforts loudly, Frikom did just the opposite; which in the mind of local interviewees gave them greater legitimacy. For instance, in 2015, Frikom won the silver award from European Sponsorship Association for its project Frikom Basket. Frikom reconstructed dozens of basketball courts throughout Serbia as part of its campaign. As a result, we contend that Frikom's socially-oriented philanthropy, culturally-oriented marketing, and provincial distribution approach, functions as an integrated socio-cultural bridging institutional strategy for the institutionally deficient market in Serbia. We expand upon this idea and argue that nonmarket institutional deficiencies in demoralized transitional environments can be an opportunity to be leveraged by the strategic decisions of organizational agents.

## **A Socio-Cultural View of Nonmarket Architecture in a Demoralized Transition Economy**

Doh et al. (2012) suggested that a firm's approach to nonmarket strategy should be determined by the institutional conditions and social culture of a country and the choices made by industry actors to fill institutional voids/deficiencies. From this perspective, Cui et al. (2015: 40) observed that even though weak institutions in transition economies may inhibit social activities overall; "some firms may still manage to do good and do well." Managerial agency comes into play because "firms strategically decide how they ought to behave in a demoralized environment" (Zheng et al. 2014: 415). Experience has shown that rapid transition from a centrally planned system to a free market economy has social costs and that these costs ought to be properly evaluated and respected by organizational decision-makers (Feinberg et al. 2015).

Draskovic and Stjepcevic (2012) indicate that within the former Yugoslav transition economies, the social institutional frameworks are still underdeveloped, which indicates that organizational managers should consider how their competitive and nonmarket strategies respond to the vital soft infrastructure associated with a market economy (Niskanen 1991). A review of the economic index of EECA countries places the Republic of Serbia in the medium-high modernization hard infrastructure category (<http://tr.ebrd.com/r13/en/>), suggesting that the deficiencies within the soft infrastructure may be the more pressing concern and, therefore, the greater opportunity. There is some evidence that development of

soft infrastructure may be more valuable than hard infrastructure for transition economies (Fung et al. 2005).

Also, a focus on socio-cultural activism is often very important for firms that compete on a differentiated basis, especially in societies where customers are highly influenced by brand image, as is the case in Serbia (Babic 2012). Because so many aspects of life seem unstable in the demoralized environment, consumers reward social efforts by exhibiting greater brand loyalty as a control mechanism (Babic 2012). Thus, when considering nonmarket architecture for achieving competitive advantage within demoralized environments, we argue that firms should place emphasis on the informal soft infrastructure related to socio-cultural needs.

Lawton et al. (2014) argue that a firm's nonmarket approach to the external environment will be more effective if both political and social arenas are included and aligned. "Since political institutions are among the most difficult environmental dependencies to control, firms may seek to co-opt political stakeholders by developing personal and organizational linkages so that potentially hostile elements of environmental uncertainties can be neutralized" (Sun et al. 2012: 70–71). Firms with high political orientation are frequently found in transition economies (Lawton et al. 2014). In a truly demoralized context, however, we argue that the risks associated with pursuing politically-oriented nonmarket strategies may overshadow the prospective benefits imagined by organizational decision-makers.

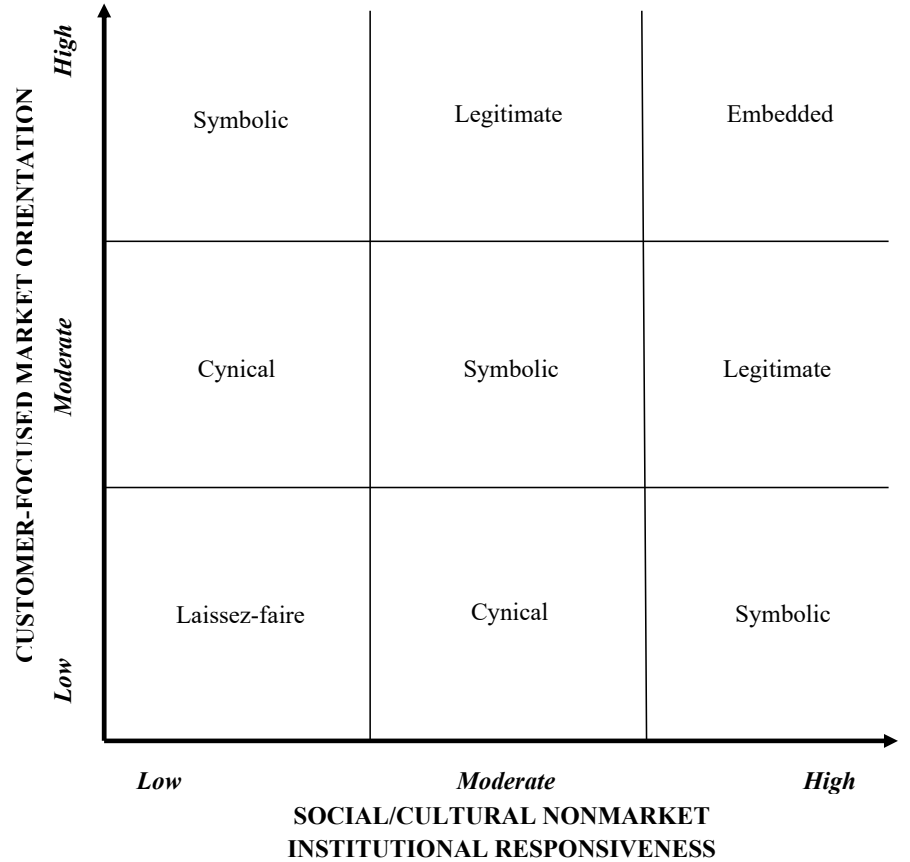
In view of these risks, socio-cultural initiatives can be considered "an important business response to pressure emanating from citizens and activists, as an alternative to government action to address pressing social issues, and as a form of non-market strategy" (Doh/Littell 2015: 99). Socially-oriented institutional activities are increasingly considered a meaningful component in nonmarket strategy, especially in demoralized environments (Zheng et al. 2014). Thus, we argue that connections to socio-cultural endeavors should become the principal orientation in demoralized transition economies, as these activities serve as hedging behavior that promotes perceptions of legitimacy and embeddedness amid political volatility. In addition, we contend that, for demoralized contexts, rather than aligning only potential nonmarket strategies (Lawton et al., 201), market performance *and* reputational branding can be achieved through the strategic choices of management via an aligned focus on market and nonmarket strategies.

## **Towards an Integrated Alignment Model for Demoralized Economies**

"According to Doh et al. (2012), market strategy consists of the 'suppliers, customers, and competitors,' while nonmarket strategy consists of 'social, political, legal, and cultural arrangements that constrain or facilitate firm activity' (p. 23)" (Doh et al. 2015: 257). In a demoralized environment, we argue that effective

strategic alignment should focus on the integration of customer-oriented market strategy and socio-cultural institutional nonmarket activities in order to secure competitive advantage. Figure 2 illustrates the alignment of customer-focused market orientation and social and cultural nonmarket institutional responsiveness strategies. Laissez-faire is used to explain the situation where the firm is low on both market and nonmarket strategies. Embedded is the situation where the firm is high on both at the same time. Legitimate is when the market orientation is high and the corresponding nonmarket strategy is moderate and vice versa. Cynical, on the other hand, is when the market orientation is moderate and nonmarket strategy responsiveness is low and vice versa. Finally, symbolic refers to situations where market and nonmarket strategies alignment is opposite of each other (high to low or low to high) or moderate at the same time. The details of these nine cells are explained below.

**Figure 2: An Integrated Organizational Alignment Model for Demoralized Transition Economies**



Consistent with the perspective of Lawton, Doh, and Rajwani (2014), we diverge with those who assume that an institutional context creates such substantial inertia that conformity is a given. While this may occur, especially in more developed and rapidly emerging economies, managerial agents can resist conformity to some degree and they can do so strategically (Akbar/Kisilowski 2015). Furthermore, we argue that in a demoralized transition environment, the institutional pressures for rigid conformity are actually diminished. For example, in Serbia, the pressures to mimic EU standards were described as marginal and marketing efforts regarding compliance were predominantly considered as “disguised nonconformity” (Oliver 1991: 151).

Considering the analytic typology advanced by DiMaggio and Powell (1983), the institutional erosion associated with socio-cultural demoralization appears to limit the inducement of coercive isomorphism from the political domain, the mimetic isomorphism that encourages imitation, and the normative isomorphism that relates to the elaboration of professional networks. From an institutional theory perspective, successful firms are more likely to seek to conform to socio-cultural characteristics associated with the demoralized context. This conclusion suggests that organizations attempting to compete in demoralized environments should not only align market and nonmarket strategies, but that the goal of alignment should be driven by the deliberate management of stakeholder expectations towards creating and maintaining socio-cultural legitimacy and embeddedness.

The strategies adopted by managerial agents are a “function of the degree of institutional impact on the firm and the firm’s strategic predisposition toward the nonmarket environment ...” (Doh et al. 2012: 25). Within demoralized economic environments, the economic crisis ultimately manifests as a crisis of the social logic (Miljkovic 2013). As a result, Zheng et al. (2014) suggest that nonmarket social strategies may be particularly effective when demoralization levels are perceived as high. Thus, we show social/cultural nonmarket institutional responsiveness along the  $x$  axis of our model and in juxtaposition with the  $y$  axis of a customer-focused market orientation to illustrate the socio-cultural perceptions and attributions of social actors in the demoralized environment.

In our model, we borrow the term *laissez-faire* from Bass (1990) and colleagues to label those firms that seem to abdicate any managerial responsibility towards meeting local social deficiencies or purposefully crafting specific and distinctive market strategies. Such companies are likely overrepresented in transition economies (Xu/Meyer 2013); even more so in demoralized transition economies.

Lawton et al.’s (2014) external affairs typology for nonmarket strategy identifies firms that are low on social responsiveness as skeptics (i.e., companies that do not believe that the pursuit of social responsiveness is worthwhile or that the cost/benefit trade-off is negative). Considering the interplay of social respon-

siveness and market strategy, from a consumer standpoint, this attribution is more aptly characterized as cynical. Even in an environment with an already strong trust deficit, these firms are perceived as less trustworthy and are thought to be actively and nefariously seeking to deceive all environmental actors (i.e., consumers, regulators, business partners, etc.). Such companies are unfortunately common in environments in transition (Zheng et al. 2014).

As firms move further along the socio-cultural responsiveness nonmarket spectrum and the customer-oriented market strategy scale, social actors in the demoralized context appear to relax suspicion with regard to deceit. They do not, however, grant legitimacy to these companies. Instead, they consider their socio-cultural-enhancing activities, and the subsequent championing of their efforts, as largely symbolic. Prior research has indicated that firms do engage in “manipulating practice and symbols” to affect perceptions of legitimacy (Feinberg et al. 2015: 32). Based upon our interviews, the tactics of firms that appeared to only seek economic rewards from the marketing concept, *and* those that were seen as excessively/hypocritically (Scheidler et al. in press) interested in championing social causes, were deemed more calculating than legitimate. This assessment left consumers lukewarm towards these companies and their products and services, as the positive effects of legitimacy were withheld.

“Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions ...” (Fisher et al. 2016: 393). Institutional theory assumes that organizations seek legitimacy through the intentional choices of management (DiMaggio/Powell 1983). While some presume that supportive institutional infrastructures are required conditions for socially-oriented nonmarket strategies, Amaeshi et al. (2016) recently provided evidence that demonstrations of social responsibility, as informed by social standards, are perceived as validation of social legitimacy even in the weak institutional contexts of transition economies. The key is that these demonstrations be specific to local norms. Therefore, to be considered as legitimate, organizational strategies should be perceived as aligning with the prevailing institutional and market environment. Without such alignment, managerial actions risk perceptions and attributions of symbolism or manipulation (Zimmerman/Zeitz 2002).

However, with proper alignment, the firm’s strategy serves as an identity claim that signals core attributes valued by socio-cultural stakeholders and allows them to socially construct institutional processes (Oliver 1992) and relationships with the organization in terms of relational recognition and collective endorsement at a macro level. Aligning with important stakeholders portends social inclusiveness, which supports cultural embeddedness (Oliver 1991). Institutional theorists have proposed the crucial role of embeddedness in MNE competitiveness (Peng/Heath 1996), particularly as it relates to social/cultural awareness



and responsiveness (Husted/Allen 2011). The concept of social embeddedness allows researchers to approach the interface of sociological and economic accounts of business behavior (Uzzi 1996). This makes embeddedness the interstitial goal of integrating socially-oriented institutional and customer-based competitive strategies. We argue that the consumer attribution of social embeddedness emerging from properly aligned market and nonmarket institutional strategies is central to competing successfully in demoralized transition economies.

## Contributions, Limitations, and Future Research

Husted and Allen (2011) suggest that in the search for competitive advantage, firms should advance an integrated approach to market and nonmarket strategies. Alignment is crucial because firms are embedded within the social/cultural and economic contexts in which they compete. Thus, the relationship between market approaches and nonmarket institutional strategies should be purposely constructed by organizational managers. Yet, the literature lacks conceptual models approaching purposeful alignment in demoralized transition economies. We argue that our analysis of the institutional and market strategies of Frikom within the demoralized transition economy of Serbia allows us to advance theory towards this aim.

Accordingly, we contribute to the literature by reinterpreting existing conceptualizations and advancing an alignment model specific to demoralized transition economies. We also identify the antecedents of socio-cultural demoralization related to rapid transition in the Republic of Serbia and challenge the assumption that transition economies can plausibly be considered a homogenous subgroup of emerging markets. In doing so, we also contest the common presumption that relational strategies pertaining to political orientation underpins the institutional framework in all countries in transition. In addition, we highlight the importance of managerial agency in delineating and coordinating the integration of market orientation and nonmarket institutional strategies to enhance competitive advantage.

We also contribute to the growing body of case research that “applies reflexive science to ethnography in order to extract the general from the unique” (Burawoy 1998: 5) through interpretive and critical approaches. The provision of rich data is an advantage of interpretivism and also of critical realism (Leppaaho et al. 2016), thereby making variations of the extended case method especially effective in the development of conceptual insights.

From a managerial implications perspective, our study sheds some light on many of the unknowns of the transitional economies. First of all, not all transitional economies are the same. For example, there is a dramatic difference between former Soviet Republics and former Yugoslavia states. Also, after forming the societal connections, it is possible for a small regional firm with limited

resources to compete with multinational corporations. Hence, MNCs should look into the uniqueness of transitional markets and tailor their strategies accordingly. Or else, they may choose to stay away until the transition is completed.

Of course, our study does have limitations. In general, whereas positive science is primarily limited by “context” effects, reflexive scholarship, such as the extended case method, is limited by the “power effects” that exist in the everyday lives of social participants in a given extralocal and historical context (Burawoy 1998: 4). As this is the case, it is possible that our conceptualization, based upon the unique environment of Serbia, may not be completely generalizable to other demoralized transition countries, although determining generalizability provides a path for future research. Also, our study’s contribution is largely theory-based. One of our ultimate goals with this study is to stimulate intellectual curiosity about transitional economies. In this study, we attempted to accomplish that by adopting a theoretical approach derived from an extended case methodology. Future researchers may choose to adopt more empirical approaches in order to understand the different dynamics of this unique context.

Because we still know so little about the integration of market and nonmarket strategies in demoralized transitional economies, the avenues for future research are still quite broad. One valuable opportunity would be the development of an operative scale by which researchers might differentiate transitional environments. Such gradation would allow for greater clarity with respect to empirical findings and assist in alleviating issues of conceptual stretching that are commonplace in this subfield.

## Conclusion

Hoskisson et al. (2013) suggested it was time to move past the dichotomy that separates the planet into developed and emerging countries and consider other economic contexts with varying levels of institutional development and infrastructure. We have responded to their call by explicating the competitive and institutional landscape in the unique and demoralized transition economy of the Republic of Serbia. Our examination questions the notion that transition economies exhibit parallels such that they should be considered a homogenous subset of emerging markets. Using an extended case method, we analyzed the market and nonmarket strategies utilized by decision-makers of the ice cream maker, Frikom. Their success in confronting institutional deficiencies *and* exploiting economic opportunities provided insights that challenge existing conceptualizations and provide an integrated framework for competing in a demoralized transition economy. We hope that our analysis will encourage scholars to approach other distinctive environments in order to address issues of theoretical stretching that currently impede the advancement of knowledge in this domain.

## Acknowledgement

Travel support for this research was provided by the Global Fellows program of the Office of Institutional Effectiveness and Research: Global Learning and Quality Enhancement Plan (QEP) at Texas A&M University – Commerce.

## References

- Agencija za privredne register (2013): Saopštenje o poslovanju privrede u Republici Srbiji u 2013, in: Godini, 31–32.
- Akbar, Y.H./Kisilowski, M. (2015): Nonmarket strategy in Eastern Europe and Central Asia, in: T.C. Lawton/T.S. Rajwani (Eds.), *The Routledge companion to nonmarket strategy*: 366–389. New York: Routledge Taylor & Francis Group.
- Amaeshi, K./Adegbite, E./Rajwani, T. (2016): Corporate social responsibility in challenging and non-enabling institutional contexts: Do institutional voids matter?, in: *Journal of Business Ethics*, 34, 135–153.
- Arino, A./LeBaron, C./Milliken, F.J. (2016): Publishing qualitative research in *Academy of Management Discoveries*, in: *Academy of Management Discoveries*, 2, 2, 109–113.
- Babic, P. (2012): Old vs. new brands in transitional economies: A study of consumers in Serbia, in: *Megatrend Review*, 9, 1, 223–242.
- Bass, B.M. (1990): From transactional to transformational leadership: Learning to share the vision, in: *Organizational Dynamics*, 18, 3, 19–31.
- Bosnjak, M. (2011): Results and challenges of economic reforms in Serbia in the transitional period (2001–2008), in: Ministry of Finance of Republic of Serbia.
- Burawoy, M. (1998): The extended case method, in: *Sociological Theory*, 16, 4–33.
- Burletson, L./Grint, K. (1996): The deracination of politics-outdoor management development, in: *Management Learning*, 27, 2, 187–202.
- Chelariu, C./Bello, D.C./Gilliland, D.I. (2006): Institutional antecedents and performance consequences of influence strategies in export channels to Eastern European transitional economies, in: *Journal of Business Research*, 59, 525–534.
- Cojocaru, L./Falaris, E.M./Hoffman, S.D./Miller, J.B. (2016): Financial system development and economic growth in transition economies: New empirical evidence from the CEE and CIS countries, in: *Emerging Markets Finance & Trade*, 52, 223–236.
- Cui, Z./Liang, X./Lu, X. (2015): Prize or price? Corporate social responsibility commitment and sales performance in the Chinese private sector, in: *Management and Organization Review*, 11, 1, 25–44.
- DiMaggio, P.J./Powell, W.W. (1983): The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields, in: *American Sociological Review*, 48, 147–160.
- Dimic, M. (2013): The standard of living in Serbia during the transition, in: *Journal for Labour and Social Affairs in Eastern Europe*, 16, 2, 205–214.
- Doh, J.P./Lawton, T.C./Rajwani, T. (2012): Advancing nonmarket strategy research: Institutional perspectives in a changing world, in: *Academy of Management Perspectives*, 26, 3, 22–39.

- Doh, J.P./Littell, B. (2015): Corporate social responsibility, in: T.C. Lawton/T.S. Rajwani (Eds.), *The Routledge companion to non-market strategy*: 99–114. New York: Routledge Taylor & Francis Group.
- Doh, J.P./McGuire, S./Ozaki, T. (2015): Global governance and international nonmarket strategies: Introduction to the special issue, in: *Journal of World Business*, 50, 256–261.
- Draskovic, M./Stjepcevic, J. (2012): Institutional framework of corporate governance with reference to the former Yugoslav transition economies, in: *Montenegrin Journal of Economics*, 8, 4, 27–41.
- Duricin, D./Vuksanovic, I. (2016): The future of Serbia and how to survive it: Catching up and convergence with the EU, in: *Ekonomika Preduzeca*, 65, 1–2, 15–35.
- Feinberg, S./Hill, T.L./Darendeli, I.S. (2015): An institutional perspective on nonmarket strategies for a world in flux, In: T.C. Lawton/T.S. Rajwani (Eds.), *The Routledge companion to nonmarket strategy*: 29–46. New York: Routledge Taylor & Francis Group.
- Fisher, G./Kotha, S./Lahiri, A. (2016): Changing with the times: An integrated view of identity, legitimacy, and new venture life cycles, in: *Academy of Management Review*, 41, 3, 383–409.
- Fung, K.C./Garcia-Herrero, A./Iizaka, H./Siu, A. (2005): Hard or soft? Institutional reforms and infrastructure spending as determinants of foreign direct investment in China, in: *The Japanese Economic Review*, 56, 4, 408–416.
- Hillman, A.J. (2003): Determinants of political strategies in U.S. multinationals, in: *Business & Society*, 42, 4, 455–484.
- Hitt, M.A. (2016): International strategy and institutional environments, in: *Cross-cultural & Strategic Management*, 23, 2, 206–215.
- Hoskisson, R.E./Wright, M./Fitatotchov, I./Peng, M.W. (2013): Emerging multinationals from Mid-range economies: The influence of institutions and factor markets, in: *Journal of Management Studies*, 50, 7, 1295–1321.
- Humphreys, J.H./Loncar, D./Novicevic, M.M./Roberts, F. (2013): Differentiating foothold attacks from strategic feints, in: *Management Decision*, 51, 9, 1821–1838.
- Humphreys, J.H./Novicevic, M.M./Smothers, J./Pane Haden S./Hayek, M./Williams, A./Oyler, J./Clayton, R. (2015): The collective endorsement of James Meredith: Initiating a leader identity construction process, in: *Human Relations*, 68, 9, 1389–1413.
- Husted, B.W./Allen, D.B. (2011): *Corporate social strategy: Stakeholder engagement and competitive advantage*, Cambridge, UK: Cambridge University Press.
- Lawton, T.C./Doh, J.P./Rajwani, T. (2014): *Aligning for advantage: Competitive strategies for the political and social arenas*, Oxford, UK: Oxford University Press.
- Lawton, T.C./Rajwani, T.S. (Eds.) (2015): *The Routledge companion to non-market strategy*, New York: Routledge Taylor & Francis Group.
- Leppaaho, T./Plakoyiannaki, E./Dimitratos, P. (2016): The case study in family business: An analysis of current research practices and recommendations, in: *Family Business Review*, 29, 2, 159–173.
- Loncar, D./Milosevic, S./Rajic, V. (2013): Concentration analysis on the Serbian ice cream market, in: *Ekonomika Preduzeca*, 497, 11, 471–482.
- Marquis, C./Raynard, M. (2015): Institutional strategies in emerging markets, in: *The Academy of Management Annals*, 9, 1, 291–335.

- McCarthy, D.J./Puffer, S.M. (2016) "Institutional voids in an emerging economy: From problem to opportunity, in: *Journal of Leadership & Organizational Studies*, 23, 2, 208–219.
- Miljkovic, I.B. (2013): Serbian economy in transitional, European and world economic crisis, in: *European Scientific Journal*, 9, 7, 38–55.
- Milovanovic, M. (2007): Property rights, liberty, and corruption in Serbia, in: *The Independent Review*, 12, 2, 213–234.
- Ninamedia Research (2015): Istraživanje o položaju mladih u Srbiji: 33–57.
- Niskanen, W. (1991): The soft infrastructure of a market economy, in: *Cato Journal*, 11, 2, 1–5.
- Novicevic, M.M./Marshall, D.R./Humphreys, J.H./Seifried, C. (2019): Both loved and despised: Uncovering a process of collective contestation in leadership identification, in: *Organization*, 26, 2, 236–254.
- Oliver, C. (1991): Strategic responses to institutional processes, in: *Academy of Management Review*, 16, 1, 145–179.
- Oliver, C. (1992): The antecedents of deinstitutionalization, in: *Organization Studies*, 13, 4, 563–588.
- Peng, M.W. (2003): Institutional transitions and strategic choices, in: *Academy of Management Review*, 28, 2, 275–296.
- Peng, M.W./Heath, P.S. (1996): The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice, in: *Academy of Management Review*, 21, 2, 492–528.
- Scheidler, S./Edinger-Schons, L.M./Spanjol, J./Wieseke, J. (in press): Scrooge posing as Mother Teresa: How hypocritical social responsibility strategies hurt employees and firms, in: *Journal of Business Ethics*.
- Siggelkow, N. (2007): Persuasion with case studies, in: *Academy of Management Journal*, 50, 1, 20–24.
- Simic, M.N. (2016): Moral (Dis)order and Social Anomie: Concepts of Community and Society in Post-Socialist Serbia, in: *Етнографски институт САНУ (The Gazette of the Ethnographic Institute of the Serbian Academy of Science and Art)*, 1, 93–104.
- Simon, Jr., G. (2015): Development and transition in Serbia: Economic aspects, in J. Rustam/Y. Akbar (Eds.), *Neo-Transitional Economics (International Finance Review*, 16): 53–96. London: Emerald Group Publishing.
- Sun, P./Mellahi, K./Wright, M. (2012): The contingent value of corporate political ties, in: *Academy of Management Perspectives*, 26, 3, 68–82.
- Uvalic, M. (2012): Serbia's transition to market economy: Why has the model not delivered?, in: *Montenegrin Journal of Economics*, 8, 2, 87–98.
- Uzzi, B. (1996): The sources and consequences of embeddedness for the economic performance of organizations: The network effect, in: *American Sociological Review*, 61, 674–698.
- Wadham, H./Warren, R.C. (2014): Telling organizational tales: The extended case method in practice, in: *Organizational Research Methods*, 17, 1, 5–22.
- Welch, C./Rumyantseva, M./Hewerdine, L.J. (2016): Using case research to reconstruct concepts: A methodology and illustration, in: *Organizational Research Methods*, 19, 111–130.

- Xu, D./Meyer, K.E. (2013): Linking theory and context: 'Strategy research in emerging economies after Wright et al. (2005), in: *Journal of Management Studies*, 50, 7, 1322–1346.
- Zheng, Q./Luo, Y./Wang, S.L. (2014): Moral degradation, business ethics, and corporate social responsibility in a transitional economy, in: *Journal of Business Ethics*, 120, 405–421.
- Zimmerman, M.A./Zeitz, G.J. (2002): Beyond survival: Achieving new venture growth by building legitimacy, in: *Academy of Management Review*, 27, 414–431.