Management Research

FRONTIERS

One SOM professor factors societal norms into business strategy. Another studies customer information security in depth.

Distinguished Professors Vijay Mookerjee and Mike W. Peng and their colleagues preview recent work in this regular feature that showcases scholarly efforts by School of Management faculty members to advance the state of the art of management. The abstracts they have written focus not only on their research but also on its practical significance and potential use in daily business. Dr. Peng has been factoring societal norms and consumer behavior into business strategy for and in emerging economies. Dr. Mookerjee is looking at whether companies can and should cooperate in their efforts to protect customer information.

Benefits and Traps of Data Exchange

SHOULD FIRMS SHARE SECURITY KNOWLEDGE TO BETTER SAFEGUARD SENSITIVE CUSTOMER INFORMATION?

By Dr. Vijay Mookerjee, Dr. Dengpan Liu and Dr. Yonghua Ji

Dr. Mookerjee, the Charles and Nancy Davidson Distinguished Professor of Information Systems and Operations Management, and co-authors Dr. Dengpan Liu of the University of Alabama and Dr. Yonghua Ji of the University of Alberta pose the question: Is it better for firms to cooperate with one another in a bid to secure sensitive customer information? The answer: It depends. Theirs is a working paper under review. For a copy, e-mail Dr. Mookerjee at *vijaym@utdallas.edu*.

To explore the question, the relationship between the data stored at the two firms needs to be examined. When the data at two firms is *complementary*, a hacker needs to steal data from both firms so that it can be combined and sold on the black market. On the other hand, when the data is *substitutable*, stealing information from any one firm is sufficient.

In the complementary case, the firms have a natural incentive to share. However, in this case, the firms also *underinvest* in security technologies. Because each party benefits from the other's investment, the situation leads to the socalled "tragedy of commons."


Vijay Mookerjee

In the substitutable case, the firms fall into a "prisoners' dilemma trap," in which they do not share despite the fact that it is beneficial for them to do so. Here, the beneficial role of a policymaker to encourage the firms to share is indicated. However, even when the firms share in accordance with the recommendations of a policymaker, they sometimes enter into an "arms race" by over-investing in security technologies. This is similar to two neighboring gas stations: if one makes its security tighter, the other automatically becomes an easier target for break-ins.

The research has useful implications for information security vendors to build products that can facilitate security knowledge sharing among firms. Policymakers also need to intervene with regulatory changes (for example, by providing tax incentives for sharing) so that firms make socially optimal investments (that is, neither under- nor over-investing) in security technologies.

Sustaining the Strategy Tripod

AN INSTITUTION-BASED VIEW OF INTERNATIONAL BUSINESS STRATEGY: A FOCUS ON EMERGING ECONOMIES

By Dr. Mike W. Peng, Professor Denis Y. L. Wang and Dr. Yi Jiang

Dr. Mike W. Peng, the UT Dallas Provost's Distinguished Professor of Global Strategy, has teamed with Professor Denis Y. L. Wang of the Chinese University of Hong Kong and Assistant Professor Yi Jiang of California State University, East Bay, to analyze an institution-based view of international business strategy. That view of the impact of societal factors and institutions on firm strategies is positioned as one leg that helps sustain the "strategy tripod," with the other two legs consisting of industry- and resource-based views. Their work appeared in the July-August *Journal of International Business*, Vol. 39, No. 5, pages 920 to 936.

This paper leverages recent practitioner and academic interest in emerging economies and argues that an institution-based view of international business strategy has emerged. Institutions are the rules of the game — both formal and informal. Once companies go out of their home country (especially when they go to emerging economies such as Brazil, Russia, India and China), the familiar rules of the game are often not available. To capture the hearts, minds and wallets of customers in emerging economies, companies need to pay attention to the rules of the game there, especially unwritten informal ones. For example, Coca-Cola and PepsiCo, whose products have been perfectly legal, have been singled out by activists in India for selling allegedly contaminated products. Failure to understand, anticipate and then work with informal (but powerful) consumer sentiments can get multinationals into big trouble.

Likewise, companies venturing abroad from emerging economies also need to know more about the rules of the game abroad. Another example lies in the area of antidumping. Many Chinese firms are surprised that their low-cost strategies, following translated Western textbooks (such as Michael Porter's), are labeled "illegal" and "unfair" dumping in the very countries whose scholars have preached about the virtues of "free market" competition. In reality, even in developed economies, "free markets" are a myth — markets are not necessarily "free." Companies from emerging economies that venture abroad will ignore the institutional intricacies governing competition in developed economies at their own peril.


Mike W. Peng

The conclusion from this research is that institutions matter. The new institution-based view of international business strategy helps promote and advocate such awareness, and urges companies to thoroughly do their "homework" — not only in terms of traditional due diligence in product markets and consumer demand, but also in terms of the deep underlying formal and informal rules of the game.