

Nonmarket strategies and determinants of foreign owned firms in a small open economy

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Abstract

This paper explores the types of nonmarket strategies and characteristics of foreign owned firms in a small, open and regionally integrated host economy. As most comprehensive and inclusive nonmarket strategies we propose two particular types, namely foreseeing strategy vs. subsequent strategy. Based on international business and corporate political strategy literature, we identified the most important firm characteristics which are most likely to affect the predilection for implementing a specific type of nonmarket strategy. Evidence is provided by a survey sample of 160 foreign owned firms operating in the Netherlands. The results show that large foreign owned firms and firms with a market focus on the host economy are more inclined to implement a foreseeing strategy, while firms with a regional headquarters function and low host country experience prefer to implement a subsequent nonmarket strategy in the host environment. Empirical outcome also indicates that firms with other firms with the same parent in the host setting prefer to implement a foreseeing nonmarket strategy.

Keywords: foreseeing and subsequent nonmarket strategies, firm characteristics, corporate level.

1. Introduction

Multinational enterprises (MNEs) operate across multiple market and nonmarket settings (Miller, 1991) augmenting their exposure and vulnerability to nonmarket uncertainties and pressures. Regardless of the sources of these qualms and pressures, albeit host government interventions, policy makers, interest groups, or the media, they amplify the competitive disadvantages (or liability of foreignness) faced by foreign owned firms vis-à-vis indigenous firms (Hymer, 1976; Zaheer, 2002; Miller & Richards, 2002). These disadvantages can even cause foreign owned firms to under-perform domestic firms (Miller & Richards, 2002) due to wide range of unfamiliarity costs vis-à-vis economic, social, legal, and cultural host related issues (Hennart, 1982; Buckley & Casson, 1976). Nonmarket strategies complement the market strategies of foreign owned firms and increase their awareness and control over the set of threats and opportunities related to the host environment. Such strategies manage politically related forces, encounter policy and policy changes in host markets, establish interactions with host institutions and actors, obtain subsidies, secure a competitive advantage or influence environmental norms (Dean & Brown, 1995). As they are complementary to market strategies firms need to dedicate extra effort in understanding and understanding nonmarket strategies (Baron, 1995; Mahon, Heugens, & Lamertz, 2004; Kanter, 1999). Implementing the right nonmarket strategy for a specific host country requires a mindset adjustment to the 'rules of the game' of the host state (Hillman & Hitt, 1999, Hillman et al. 2004). The right type of nonmarket strategy should consider the specific host political, social and non-market forces which, on the one hand cause liability of foreignness and, on the other hand

continuously interfere with firms' business activities while they operate host settings (Boddewyn & Brewer, 1994; Baron, 1995b; Yoffie & Bergenstein, 1985).

These host settings in which foreign firms operate have experienced a move towards regional economic integration (most successful in Europe, i.e. European Union). We turn to markets which belong to larger economic and political entities where integration adds extra challenges for the foreign owned companies operating in such host settings. Within economies members of a supranational entity, a new breed of business circumstances and complementarities evolves. Market and nonmarket contexts coalesce, in tandem with dimming national and supranational institutional settings. For foreign firms the membership of a host economy to a supranational entity has increased location attractiveness. They become possible gateways to a larger market. This multifaceted business perspective enhances intricacy of nonmarket action and justifies the relevance of nonmarket strategic implementation. Firms not only have to manage a national driven liability of foreignness, additionally they have to consider a supranational burden and set of institutions, issues and actors possibly affecting their operations (Miller & Richards, 2002). Foreign owned firms acknowledge the increased intricacy of their business environment, and accordingly, develop specific action plans to cope with this new convoluted.

To date the few studies on nonmarket strategies merely enumerate an inventory of different actions to be used in diverse situations. Scholars emphasize the need to understand the dynamics and determinants behind nonmarket strategic implementation (Bonardi & Keim, 2005; Boddewyn & Brewer, 1994; Getz, 1997; Hillman & Hitt, 1999; Hillman, 2003 etc.). Diverse determinants of such strategies are proposed in a number of

studies, nonetheless barely any have been empirically tested (e.g. Hillman & Hitt, 1999; Baron, 1995a; Boddewyn & Brewer, 1994). The field has focused on large countries, such as United States; where different nonmarket strategies are expected to be used and are considered ethically appropriate than in small open economies members of supranational entities (Getz, 1997). Therefore, this study will focus on the nonmarket behavior of foreign owned firms in a small open economy. We investigate the particular nonmarket strategies implemented by foreign owned firms in the small open economy of the Netherlands and the determinants of these particular types. The Netherlands represents the fifth largest recipient of foreign investment in the world and, due to its favorable location and active role within the European Union many MNEs have chosen the Netherlands as strategic orientation, thus making this host setting a suitable and worthy example of a host economy belonging to a larger supranational entity in which to investigate the nonmarket activities of foreign companies. Data on the foreign owned firms were obtained through a questionnaire survey. They prefer different nonmarket strategies to deal with the host environment.

The structure of this study is as follows. Section 2 provides an extensive literature review highlighting the complex nature of two main types of nonmarket strategies. Section 3 elaborates the determinants of nonmarket strategy types and states our hypotheses. Section 4 presents the sample, data sources and operationalization of the researched variables. Empirical results are presented next, followed by the final section which discusses the contribution of our work and implications for practice.

2. Nonmarket strategies

In the current global business environment MNEs should go beyond formulating market strategies and thoroughly consider a complementary sort of stratagems to encounter complex influences outside the market space (Baron, 1995a; Bonardi et al., 2006; Hillman & Hitt, 1999; Prakash, 2002). Nonmarket strategies entail actions carried out in public arenas (Baron, 1995; Schaffer & Hillman, 2000) to encounter influences from various institutions, national or supranational such as interest groups, political institutions, the media, regulatory institutions, standards agencies, which all constitute the nonmarket business environment (Voinea & van Kranenburg, 2009). Companies can deal with all these influences outside and complementary to the market space by developing various actions and stratagems either short or long term targeted, depending on firms' characteristics, their internal resources and previous international experience, by creating in-depth relation networks within the host institutional setting or just sporadic and ad-hoc collaborations with various host partners. Nonmarket strategies and actions are highly complex due to these continuous complementarities on the one hand to market strategies, on the other hand to the nonmarket influences or institutions and various firm characteristics. We organize the multitude of possibilities foreign owned companies might dispose of to manage the complexity of nonmarket influences into two main strategic manners: foreseeing and subsequent.

Foreseeing strategy

One manner through which foreign owned firms can deal with the nonmarket complexity of a host environment entails interacting with host institutions and actors, building long term relationship networks, shaping the nonmarket host environment, playing an active

role in policy, regulation formation and implementation. We label these actions as 'foreseeing' because they preview certain influences before taking place and diminish their impact on the company's business activities; they are long term oriented and create a certain in-depth base within the host setting meant to avoid or decrease nonmarket influences on their activities. Firms employing foreseeing strategies have clearly defined and specific nonmarket objectives (Hillman & Hitt, 1999) translated into minimizing uncertainty risks and exercising control over host regulatory, politically and socially related (nonmarket) processes (Mahon et al., 2004). Foreign owned companies become actively involved in nonmarket processes and place policy issues on political agendas by affecting their saliency. Companies using foreseeing strategy seek to acquire knowledge or hire experts for specific cultural manners of collaborating with host institutions, with interest groups with strong influence power in the host country, and media institutions. They investigate which are the most potential business group associations for suitable future cooperations. Through such type of actions they become embedded into the host environment and decrease their burden or liability of foreignness (Voinea & van Kranenburg, 2009). Surprises coming from the institutional and overall nonmarket environment are minimized by using early warning systems preventing potential harmful events from becoming widely salient (Holburn & Van den Bergh, 2004).

Foreseeing strategy type 'resembles a function principally process-focused and operates on continuous basis' (Mahon et al., 2004, p. 171-172). It is implemented with long term perspective and aims at building relations between actors, issues, contacts and stakeholders in the host environment. The 'appease of critical actors' and 'stimulating cooperative insure long term cooperation and building (anticipating on) future

relationships with various nonmarket actors of a host setting in order to reach shared objectives (Mahon et al., 2004). The resources needed to influence a newly arisen nonmarket issue affecting the firms' operations are already in place (Hillman & Hitt, 1999; Uzzi, 1997). Foreseeing strategies lead to the development of social capital; social capital is considered to be the sum of the actual and potential resources embedded within and available through the network of relationships of firms with various institutions, contacts or groups (Nahapiet & Ghoshal, 1998). This social capital is considered to be a valuable and scarce resource which brings advantages over other institutional arrangements, such as markets (Nahapiet & Ghoshal, 1998). Social capital is a tacit resource and it cannot easily be traded, therefore, it cannot be offered by hierarchical mechanisms or markets (Luo, 2001; Uzzi, 1997). It is a scarce resource which is not readily available to every foreign owned firm but it is an embedded outcome of relationship networks developed as part of foreseeing strategies. Foreign firms undertake a relational approach to the nonmarket environment and maximize associations with other host actors; they insure trust, information transfer and joint problem-solving arrangements (Hillman & Hitt, 1999; Keim & Baysinger, 1988; Keim & Zeithaml, 1986). While host governments try to maximize the rents captured from MNEs' subsidiaries or foreign owned firms, bargaining (conflictual and partnership) allow these firms to mitigate host governmental benefits (Baysinger, 1984). Through bargaining the interactions between host governments and firms shift from merely transactions towards continuous relations and cooperation, interdependence and trust (Boddewyn & Brewer, 1994; He, 2006; Hillman & Hitt, 1999; Hillman et al., 2004).

Through self-regulation and monitoring functions firms change their practices and monitor specific business functions (socially responsible actions) to create a certain reputation which would avoid becoming targeted by nonmarket actors (Baron & Diermeier, 2007). The purpose of these actions is to prevent unethical business practices (Hemphill, 2006).

Subsequent strategy

Another way to cope with the complexity of nonmarket influences is through subsequent strategies which entail that companies act in an ad-hoc manner and remain passive until a nonmarket issue becomes salient. They do not directly participate in the public policy or regulation processes and 'make no attempt to play a role in policy formation or implementation' (Hillman & Hitt, 1999, p.827). This type of strategy implies that foreign firms show nonmarket behavior after the new legislation or nonmarket change has occurred in the host market.

They wait for nonmarket issues in the host environment to arise before acknowledging it and designing specific actions to encounter these issues (Hillman & Hitt, 1999). Issue- or event- specificity and ad-hoc actions are the most relevant features of subsequent strategies (Kobrin, 1982). They initiate relatively short-term interactions and relations on an issue-by-issue basis (Kaufmann, 1998). The substance of the interactions, more specifically the nonmarket issue is of key importance and relevance for subsequent behavior. The relationships and interactions developed by foreign owned firms through subsequent strategy are of non-repeated nature and reciprocity between exchange partners is not possible (leading to self-interest motivated actions (Uzzi, 1997). They are sporadic, temporary, and subject- specific. Once the nonmarket issue is solved or its importance

has decreased for the firm, the relationships no longer exist (Keim, 1991; Kiewert & McCubbins, 1991).

Companies applying subsequent strategies comply or it is satisfied with the requirements or incentives offered by the host government; they exhibit a sort of buffering behavior to minimize the impact on their operations (Boddewyn & Brewer, 1994). Firms act in accordance with the requirements or changes imposed by the nonmarket host environment and they will also adapt their expectations (Meznar & Nigh, 1995; Coen & Doyle, 2002). These companies pursue a transactional approach to the host nonmarket environment and they await the development of a significant public policy issue before building a strategy to cope with this issue (Hillman and Hitt, 1999, p. 828). Furthermore, firms could also pursue a temporary grassroots mobilization of employees, suppliers, customers, advocacy advertising, public relations, press conferences and political educational programs; resources and actors immobilized provisionally to deal with a certain event or target (Hillman & Hitt, 1999). Consequently, firms will identify, educate and motivate action groups or stakeholders that may be affected by same policies that also affect the firm (Hillman & Hitt, 1999; Keim & Zeithaml, 1986). Moreover, peripheral costs in the forms of campaign contributions, various donations or other honoraria have final expectations for policy choices that are advantageous for the firm itself (Hillman & Hitt, 1999). Other peripheral costs are caused by hiring individuals with host government experience, company members with a political position in host governmental bodies or other sorts of contributions outside the market spam (Benton & Daly, 1991). Nonetheless, such actions are regarded as ethically inappropriate in most (West-European) nonmarket environments.

4. Determinants of nonmarket strategies

Whether firms implement foreseeing or subsequent strategies to cope with the nonmarket context may depend on the resources they dispose of to invest in developing various nonmarket actions, and on the experience and knowledge they have in the host setting. Their market span also influences the specific nonmarket strategy implemented as into being focused on that specific host country or on larger market areas. Value added scope dictates the complexity of functions executed by the firms and the amount of nonmarket aspects and actors that the firm has to acknowledge each related to its value added functions. Home country background entails a certain experience and formed habits dictated by firms' origins which will become noticeable in the strategic manners and actions they take within the host country. The autonomy they have to decide the manners of coping with the nonmarket host environment may also impact whether foreseeing or subsequent strategies are implemented (Bhuyan, 2000; Blumentritt & Nigh, 2002; Hillman et al., 2004; Hillman & Wan, 2006; Kostova & Roth, 2002). The following sections individually elaborate on the possible influences and relations of these firm characteristics and the type of nonmarket strategy implemented.

Size

Hillman et al. (2004) indicate that firms' size plays an important role in the strategic nonmarket behavior or tactics. Foreign owned firms with a large resource and employment base have more assets at risk, reason for which they are more affected by nonmarket issues and changes. Accordingly, they can benefit or lose to a greater extent

from changes related to legislation, regulations and standards (Masters and Keim, 1985). Consistently, Bhuyan (2000) designates that large firms would gain more from beneficial regulation than small and medium sized firms, which often chose to free ride on the expense of large corporations. Meznar and Nigh (1995) acknowledge that large firms are interdependent on many stakeholders and nonmarket institutions. They are motivated to develop and maintain long term relations and networks with these stakeholders to solidify trust and reputation; relations build as part of foreseeing strategies. Furthermore, large firms enjoy a higher visibility in the host setting and due to this exposure they are more vulnerable to the power of the government, media and other nonmarket related actors (Getz, 1997, p. 60). 'The larger a firm becomes, the more likely it is to catch the public's eye' (Meznar & Nigh, 1995; p. 980). Through self-regulation, monitoring functions, and developing an internal prevention system large firms preserve their reputation and legitimacy towards these nonmarket related actors.

Even though size seems to impact nonmarket actions taken, no endeavor indicates whether large foreign owned firms prefer foreseeing or subsequent nonmarket strategies. A possible relation can be found in the rationale of the organizational resources firms have at their disposal: large-sized firms have more resources than medium sized firms (Hillman et al., 2004). Companies with more resources to spend, more employees to assign have more possibilities for continuous and long term involvement in the nonmarket arena (Bhuyan, 2000). They also have to consider nonmarket issues related to host governments or interest groups (such as labor unions) regarding the provisions for their employees. It becomes relevant for them to develop relationships with stakeholders,

since the employment base presents a larger and more crucial part of a firm's daily activity; consequently they are more likely to pursue foreseeing strategies. Thus:

Hypothesis 1: The larger the size of the foreign owned firm, the higher the likelihood that it will follow foreseeing strategies rather than subsequent ones.

Host country experience

The experience of a foreign owned firm in the host country may also determine its strategy and practices within nonmarket contexts through liability of foreignness (Hillman & Hitt, 1999; Getz, 1997; Boddewyn & Brewer, 1994; Murtha & Lenway, 1994; Baron, 1995). More than often, the experience of a foreign owned firm in the host country is as a proxy for the knowledge accumulated, and the reputation and credibility it has build in the host setting (social capital) (Hillman et al, 2004; Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Hillman, 2003). Liability of foreignness (competitive disadvantage) can arise from the firm lack of experience and unfamiliarity with the local environment; the lack of roots, legitimacy and reputation in this setting. The implications caused by liability of foreignness of foreign owned companies for the nonmarket context and the strategic choices to deal with it, vary by firm, industry, host country and home country (Zaheer, 1995).

Additionally, credible reputations are intrinsic to social capital, the tacit resource attained through network building. A limited experience within host country creates prospects and incentives to acquire knowledge and social capital (Hillman, 2003; Luo, 2001). Hogenbirk and van Kranenburg (2006) confirm that less experienced firms have stronger

incentives to build solid reputations, credibility and establish themselves in the host country. Newly established firms with very limited host experience have to become among others locally responsive. Local responsiveness entails having knowledge about the host political, social, cultural sets; thus, the nonmarket host setting (Uzzi, 1997). Therefore, they channelize their capabilities on creating in-depth relations with policy decision makers and other nonmarket related actors, getting involved in nonmarket processes and relationship networks which embed social capital (Luo, 2001). Consequently, we expect that the foreign owned firms with low experience in the host country implement foreseeing strategies. Hence:

Hypothesis 2: The lower the experience of the foreign owned firm with the host country, the higher the likelihood that it will implement foreseeing strategies rather than subsequent ones.

Market scope

Market scope is another firm characteristic which has essential influence on the approach to nonmarket strategy (Hillman & Hitt, 1999; Marx, 1990). The market scope dictates whether the firm is focused on a single country or area or on multiple markets which entails the specificity and spam of the nonmarket strategy implemented. A broad market scope allows firms to exploit opportunities on multiple markets; however, they have to manage a complex range of nonmarket issues and actors dispersed in these multiple markets or countries (Jones & Hill, 1988). Navigating these myriad contexts as well as attempting to shape their public policy outcomes leads to a complex and diverse nonmarket portfolio which poses additional challenges for the foreign owned firms (Wan

& Hillman, 2006). Such amplified burden raises the awareness for a clearly established plan of action which would minimize potential risks and threats coming from these settings (Schaffer & Hillman, 2000). This action plan may involve self-regulation or an internal system of prevention to insure sound business practices. By preventing unethical business practices firms avoid becoming a target for media, interest groups or other nonmarket actors (Hemphill, 2006). Moreover, firms can develop and refine a strong bargaining technique, hire external experts, or employees with political expertise who would craft and use this bargaining technique to negotiate with host governments or other nonmarket institutions (Boddewyn & Brewer, 1994; He, 2006). Such foreseeing deeds enable foreign companies to decrease their liability and to maximize protection against the multitude of nonmarket actors and issues which may arise across the broad market scope.

Conversely, foreign owned firms with narrower market scopes have to acquire knowledge about and deal with a single nonmarket host setting. They have to focus on a relatively smaller set of nonmarket issues and actors. These nonmarket issues, actors and institutions are less diverse; therefore companies will not have the incentives or see the necessity to mobilize resources and stratagems to tackle them (Baron, 1995). A single institutional system or low spectrum of nonmarket actors specific to narrow market scopes does not raise awareness for foreseeing self-regulation or prevention. Firms will deal with this small assortment of actors and issues as they develop through time and when the necessity arises (Marx, 1990). They use constituency building and momentarily mobilize employees, suppliers; temporary become allies of groups and stakeholders with shared policy interests (Hillman & Hitt, 1999); or use press conferences when a

nonmarket issue becomes important; overall, they provisionally manage the nonmarket issue (Keim & Zeithaml, 1986). These potential (subsequent) actions will be taken when and if a certain nonmarket issue becomes relevant for the firm (Kobrin, 1982). Thus, for the companies with narrow market scope, the set of nonmarket issues, actors, the potential risks and threats coming from the low nonmarket spectrum are also reduced. Therefore, the policy of event-specificity and temporary actions (only when needed) seems more likely to be adopted (Wan & Hillman, 2006). Otherwise, firms with a broad market scope have to manage the increased range of issues and threats which may arise from the broad spectrum of nonmarket settings; consequently they are more likely to opt for a foreseeing stance of maximizing prevention and minimizing potential nonmarket risks. Therefore we formulate the following hypothesis:

Hypothesis 3: The broader the market scope of the foreign own firm, the higher the likelihood that it will follow foreseeing strategies rather than subsequent ones.

Regional headquarters function

The value added scope of a foreign owned firm establishes the variety and complexity of nonmarket actors and issues that its strategy has to target or deal with. For many headquarters activities of a firm there corresponds a different set of nonmarket actors, institutions and issues which set standards and regulate the specific segment of that activity. Bhuyan (2000) sustains that foreign owned firms with a regional headquarters function in the host country have diverse market and nonmarket domains of interest, policy implications and issues that they have to manage. They need to interact with nonmarket actors on various production rules and regulations, marketing violations and

labor arrangements (nonmarket issues) since they presumably perform multiple activities (Birkinshaw & Hood, 1998). It becomes difficult to thoroughly consider and assign actions meant to manage all the nonmarket domains. For this reason, they are likely to merely respond to these issues each time it is needed by momentarily mobilizing resources and actions. This subsequent way is mostly suited for managing the complexity and diversity of the various nonmarket segments.

Conversely, foreign owned firms with no regional headquarters function interact with nonmarket actors related to only a few interest domains. They are able to develop in-depth relations with this limited number of decision makers specific to those domains involved with their scope (Birkinshaw & Morrison, 1995). The foreign owned companies with a regional headquarters function must focus on numerous nonmarket areas and issues. It is intricate to maintain continuous relations with such multitude of nonmarket related actors. Consequently, their way to manage the multifaceted interest domain is ad hoc and sporadic, assigning to subsequent behavior. Therefore, we advance amid the following hypothesis:

Hypothesis 4 Foreign owned firms with a regional headquarters function in a host environment are more inclined to implement subsequent strategies rather than foreseeing ones.

Autonomy degree

Many studies refer to the autonomy of the foreign owned firms from the headquarters and its relationship to local responsiveness (Birkinshaw & Morrison, 1995; Benito et al.,

2003; Taggart, 1997). Specific to the nonmarket field is investigating how much autonomy do foreign owned firms have to develop nonmarket strategies and whether this autonomy would lead to preferences for a particular type of strategy. Foreign owned firms granted high autonomy from the headquarters become more responsive to the local host environment among which we distinguish its nonmarket aspects. They are better coping with unexpected difficulties and seize increased benefits from opportunities (Taggart, 1997; Bartlett & Ghoshal, 1986). The headquarters sets the corporate objectives on which foreign firms with high autonomy have freedom to establish their specific course of action to achieve these objectives in the host context (Taggart, 1997). Schaffer and Hillman (2000) indicate that the corporate network consists of different independent firms or business units all having their own nonmarket contexts to deal with; thus, different or even conflicting nonmarket goals may arise.

Shaffer and Hillman (2000) found evidence that only related foreign owned firms pursue a centralized public policy strategy, whereas unrelated firms often pursue decentralized manners of encountering nonmarket issues. Firms with decentralized relationships with the headquarters are granted the autonomy to respond to nonmarket issues in their own best way. The headquarters cannot oversee nor have a 'ready-to-use' design choice (recipe) for the strategy needed to deal with the different unrelated nonmarket spectrum or contexts (where each of its firms operates). Firms with restricted autonomy develop only limited local responsiveness within host nonmarket environments (Benito et al., 2003). Therefore, we expect foreign owned firms granted high autonomy degree from decentralized headquarters to pursue foreseeing nonmarket strategies compared to the

firms which are centrally controlled. Though tentative, the following hypothesis can be formulated:

Hypothesis 5: The higher the autonomy degree of the firm, the higher the likelihood that it will implement foreseeing strategies rather than subsequent ones in the host environment.

Country difference

The home country background of foreign owned firm impacts the way it interacts and responds to the host setting due to the psychic distance there is between the country of origin and the host country. This psychic distance is given by the institutional, political, economical and cultural differences between the two countries (Miller & Richards, 2002). The institutional distance between the home and the host country adversely affects the ability of the foreign firms to understand and interpret local context standards (Kostova & Zaheer, 1999). For the characterization of institutional systems in different countries, Murtha and Lenway (1994) present the pluralism/corporatism continuum. This continuum is based on country level characteristics such as governance type (transactional governance or planning governance), institutional relations and the overall stability of the country. Along this continuum there are two types of countries, i.e. pluralist and corporatist countries or systems (Murtha & Lenway, 1994). Foreign owned firms with corporatist background often try to 'build social capital and create positive-sum outcomes' (Hillman & Hitt, 1999, p. 830). They focus on consensus and cooperation as dictated/institutionalized in their home country experience (Bonardi, 2008). Foreign owned firms from pluralist home countries are more selective in their involvement with

different nonmarket issues. Since political and overall nonmarket issues are diverse and constantly changing in pluralist countries, these firms are inclined to only participate on the public arena involving no more than issues affecting them (Hillman & Hitt, 1999). Fenton-O'Creevy et al. (2008) indicate that when host and home country systems significantly diverge, foreign owned firms will 'actively resist host country institutional pressures' (p. 152) and they will not design a specific strategy targeted and customized to deal with the host nonmarket context. They will maintain their home grounded action plan. This expectancy is based on the rationale that MNEs seek internal consistency with regard to norms and values; pursuing to fulfill shareholder value or a wider set of stakeholder interests (Fenton-O'Creevy, 2008). In this view of internal consistency, corporate norms and values would also be enforced on the foreign owned firms in host countries, even though different norms and values might prevail locally. When host and home country systems barely differ (referring to corporatist/pluralist attributes) subsequently the host system does not harm their legitimacy. Thus, foreign owned firms see low risks and benefits in complying with host country pressures (Hillman, 2003). They will abide by their own uniform and will not clairvoyantly design new strategies specific for dealing with the host country setting (Prakash, 2002). Thus, we formulate the following hypothesis:

Hypothesis 6: The lower the difference between host and home country background, the higher the likelihood that the foreign owned firm will implement subsequent strategies rather than foreseeing ones.

5. Methods

Sample

This study uses data from foreign owned firms located in the Netherlands. It is generally assumed that the Netherlands is among those small economies that attract FDI due to their favorable geographic location. The data we use for this study were gathered using a postal questionnaire survey conducted among managing directors of foreign owned establishments in the Netherlands in the summer of 2009. The data collection process consisted of an initial mailing, a reminder and a telephone call (where necessary). We used the Dutch Invest database 2007 to select the foreign owned establishments in the Netherlands. This database contains information on the physical and postal address, contact information, names of executives, number of employees, country of origin, SIC codes and sector. Our initial sample of 900 firms was selected on criteria of industry representativeness and firm size. Van Kranenburg and Burger (2009) showed that only medium and large foreign owned firms in the Netherlands implement political strategies; as political strategies is one of the integral aspects of nonmarket area we focused our investigation on medium and large firms.

The number of returned response was in total 180 out of 900 representing foreign owned firms coming from 21 countries including Austria, Belgium, Bermuda, Canada, Denmark, England, Finland, France, Germany, India, Ireland, Italy, Japan, Luxemburg, Norway, Portugal, South-Africa, Spain, Sweden, Switzerland, and USA. Missing survey data reduced the number of usable responses to 160 representing around 18 percent of the sampled group.

Variables

Dependent variable

The Dependent variable *form of nonmarket strategy* is constructed from the questionnaire survey. Four survey questions measured whether each foreign owned firm uses a subsequent or foreseeing nonmarket strategy. Based on a 5-point scale ranging from 'never used' to "continuously used" actions, the average scores were calculated for two groups of questions, one indicating various possible actions specific to subsequent behavior and another specific to foreseeing. For each firm the average score on subsequent was compared to the score on foreseeing; the firms which had the score for subsequent higher than 0.5 were coded as (0) = implementing subsequent (nonmarket) strategy; the firms with a score for foreseeing higher than 0.5 were coded as (1) = implementing foreseeing (nonmarket) strategy. Interestingly, all respondent foreign owned firms showed the tendency to fall neatly into one or the other category, thus either subsequent or foreseeing. In our sample there was no foreign owned firm for which it proved difficult to establish whether it pursuits one or the other type of nonmarket strategy. Consequently, Hillman and Hitt's (1999) supposition that firms could conceptually use both approaches does not appear to hold for our sample.

Independent variables

The variable *Size* is measured as the number of employees at the foreign owned firm in the Netherland (Hypothesis 1). According to Keim and Baysinger (1988) the number of employees relates directly to the ability of the firm to generate constituency support and leverage with the nonmarket actors.

The host country experience of the foreign owned subsidiary is indicated by the variable *host country experience* (hypothesis 2). It is measured by the number of years that have passed since the firm was established in the Netherlands.

To test hypothesis 3 we created the variable market scope. This measure is based on the destination of the foreign firm's sales from the Netherlands. We asked the managing director to indicate which percentage share of the total sales of the foreign owned firm is going to the host market. These shares were used to create the *market scope* variable ranging between 0 and 1; whereas the closer to 0 indicates broad market scope and the closer to 1 narrow market scope.

The variable *Regional Headquarters function* indicates whether the foreign owned firm operates as a regional headquarters (hypothesis 4). It is a dummy with the value of 1 if the firm in the host country has a regional headquarters function and with a value of 0 if it has no headquarters function.

Autonomy degree indicates the level of autonomy of the foreign owned firm to make strategic decisions for the market and nonmarket environment in the host country (Hypothesis 5). An autonomy index was created ranging between 0 and 1. The closer the value of the index is to 0, the more decisions are made at headquarters level, and thus the lower the autonomy of the foreign owned firm in host country. The closer this index is to 1, the more decisions are made at firm level, thus the higher the autonomy of the foreign owned firm in the host context. Decisions regarding the following elements were used to create this index: business strategy, marketing and sales activities, manufacturing activities, logistic activities, research and development activities, industrial relations,

relations with government, with interest groups, with the media, press releases, political arena involvement, business associations participation, coalition forming, constituency building, financial contributions of various types, charity donations and relations with nongovernmental organizations.

Country Difference captures the difference in political systems concerning the political ideology between the home country of the foreign firm and the host country (hypothesis 6). This variable is based on the difference in Beck's political ideology scale between the countries (Beck et al., 2001). Dow and Karunaratna (2006) showed that Beck's political ideology scale provides a good indication of the more general psychic distance measure.

Control variables

The decision to use a foreseeing or a subsequent nonmarket strategy by the firm can also be affected by the number of other subsidiaries of the parent company in the same host environment. The more subsidiaries the MNE has in the host environment, the more likely that the MNE enjoy a higher visibility in the host setting and due to this explore it is more vulnerable to the power of the nonmarket related actors (Getz, 1997). Therefore, the firm with more subsidiaries with the same parent within the same host environment will generally prefer the foreseeing strategy over the subsequent nonmarket strategy. This variable *number of other subsidiaries* is measured by the total number of other foreign owned firms with the same parent company in the host country.

The preference of the kind of nonmarket strategies to use by a foreign firm in a host environment can differ between industries. Therefore, we control for possible industry effects with the variable *industry dummies* for the three most favourable industries for

foreign firms in the Netherlands. The three industries are: *manufacturing, finance and insurance, and services.*

6. Analysis and results

Table 1 presents the descriptive statistics and the correlation matrix for the variables in this study. Correlation is very low for most variables, indicating that multicollinearity is not a problem.

– insert table 1 about here –

In addition, variance inflated factors (VIF) were calculated by running “artificial” OLS regressions between each independent variable as the “dependent” variable and the remaining independent variables as suggested by Maddala (2000). As all VIF values are smaller than 1.5, this indicates that there is no multicollinearity between the variables.

– insert table 2 about here –

It is worth mentioning that 56.25 % of the foreign owned firms use foreseeing strategies to manage the host nonmarket context while 43.75 % of our sample follows subsequent strategies. We used a logit model to test our hypothesis. Given the rather unambiguous nature of the results, we will only discuss the results of the full model . Compared to the other models, the full model has the expected lowest log-likelihood value. In terms of the overall fit of the model, the logit model correctly predicts 71.25% of the formulated and

implemented of nonmarket strategies of firms in the host environment. Table 2 presents the results of the binomial logit model by NLOGIT 4.0.

– insert table 2 about here –

Turning to hypotheses testing, we find clear results for the independent variables as well as for the control variables. Consistent with hypothesis 1, the larger the sizes of the foreign owned firm, the more they use their resources for designing and implementing foreseeing actions in order to manage the host nonmarket context. Also, as suggested by Hypothesis 2, the lower the experience that they have within the host country, the more foreign owned companies will use foreseeing strategies to develop relationship networks with nonmarket actors and acquire valuable information about nonmarket specific issues of the host setting. As advocated by Hypothesis 3, the broader the market scope, when the operations of the foreign owned companies target multiple market and nonmarket host environments, the more they prefer to develop foreseeing strategies to insure credible reputations and prevent possible risks or threats coming from nonmarket arena. We also predicted that the foreign firms with a regional headquarters function in a host environment would prefer subsequent nonmarket strategies over foreseeing nonmarket strategies (Hypothesis 4). Our results do indicate that firms with regional headquarters function will choose for subsequent nonmarket strategies.

As for the effect of the degree of autonomy of the firm to decide on its own market and nonmarket strategies (Hypothesis 5), it turns out that the degree of autonomy has no significant impact on the choice for the different forms of nonmarket strategies.

Furthermore, results indicate that difference on political system between the host and home country of the foreign owned firm have no effect on the preference for particular forms of nonmarket strategies applied by the foreign owned firms. Consequently, Hypotheses 6 is rejected.

Interestingly, the result of the control variable number of other subsidiaries in the host country indicate that the number of other foreign firms owned with the same parent in the host market has a significant impact on the preference for a particular nonmarket strategy. Foreign firms in the host market with a large number of other firms with the same parent prefer to implement foreseeing strategies. Foreign owned firms whose parent is not diversified (as to number of interactions and firms controlled in the host country) opt for subsequent strategies. With respect to the industry control variables, the industry dummies have no effect on the preference for a particular form of nonmarket strategy.

– insert table 3 about here –

It is also useful to examine marginal effects that show the change in predicted probability associated with changes in the independent and control variables. Table 3 presents the marginal effects of the explanatory variables. An examination of the marginal effects indicates the direction of the impact of the independent and control variables on the preference of the form of nonmarket strategy to implement by foreign firms in a host environment, as well as their level of significance. The results show that a one point increase in the number of employees increases the probability that a foreign firm in a host environment will formulate and implement a foreseeing nonmarket strategy with 0.0007. Furthermore, an increase in host country experience of the foreign firm decreases the

probability that foreign firms prefer a foreseeing nonmarket strategy with 0.01. The result for market scope of the foreign firm is also interesting. An increase in market scope has a negative effect of 0.25 on the probability of the preference of the firm to implement a subsequent nonmarket strategy. The evidence also shows that firms with a regional headquarters function have a higher probability of 0.22 to implement a subsequent nonmarket strategy than a foreseeing nonmarket strategy. The results of the industry dummies show that foreign firms in the manufacturing, service, and finance and insurance industries do not prefer one nonmarket strategy over the other. Finally, an interesting result is shown by the number of other subsidiaries of the same parent in the host environment. An increase in the number of another establishment in the same host environment will increase the probability that the other firms with the same partner will implement a foreseeing nonmarket strategy.

Hence, the evidence of the marginal effects also indicates that the preference for the form of nonmarket strategy is not only affected by foreign firm size, experience and market scope, but also influenced by its function and other firms of the same parent in the same host environment.

7. Discussion and conclusions

Our research goal was to explore the nonmarket strategies implemented by foreign owned firms in a host small open economy and to identify their determinants. As most comprehensive and inclusive nonmarket strategies we proposed foreseeing vs. subsequent nonmarket strategy. Based on international business and corporate political strategy literature, we identified six factors: size, host country experience, market scope, regional

headquarters function, country difference and autonomy degree likely to affect the predilection for implementing a specific type of nonmarket strategy. As control factors we considered the number of other firms from the same parent in the host country and the industry in which the foreign firm operates.

Results confirm that large foreign owned firms implement foreseeing strategies while medium sized ones follow subsequent strategies. This result is consistent with Bhuyan's ideas (2000), and partially consistent with Wan and Hillman (2006) who also found a positive relationship between firm size and political strategy. Our nonmarket approach is overarching political aspects of the business environment, reason for which we affirm the partiality in results with the above mentioned scholars. Large foreign owned firms with substantial employment base in the host country need to consider certain nonmarket issues regarding the provisions for their employees. Due to their significance in the host economy, large foreign owned firms have the capacity to develop and maintain long term cooperations with diverse nonmarket related actors. They have more assets at risk which increases their incentives to foresee and engage within the nonmarket actors (Masters and Keim, 1985).

Regarding host country experience our empirical findings show that foreign owned firms with more experience in the host country are inclined to implement subsequent strategies while the less experienced foreign owned firms use foreseeing strategies. These findings are consistent with the perspectives of Hillman and Hitt (1999) and (Nahapiet & Ghoshal, 1998). Albeit the experience of a foreign owned firm in the host country indicates commitment and repeated dealings with nonmarket related actors throughout the years, in time the firm develops tacit knowledge and abilities to deal with the nonmarket host

environment and actors. Likewise, young established foreign owned firms are motivated to implement foreseeing strategies meant to develop social capital derived from the network of relationships (Nahapiet & Ghoshal, 1998). These firms with limited experience, local reputation and credibility, are motivated to make use of foreseeing strategies to establish themselves among the host nonmarket actors (Luo, 1999). Liability of foreignness in a host environment affects young foreign owned firms more than older, more experienced ones (Zaheer, 1995).

Foreign owned firms with a broad market scope implement subsequent strategies, effect consistent with Bhuyan (2000), Hillman and Hitt (1999), Marx (1990), Schaffer and Hillman (2000) who refer to foreign owned firms operating only on local markets and their ability to acquire more knowledge and develop intensified interactions with nonmarket linked actors. Alternatively, foreign owned firms with a broad market scope are less likely to uphold continuous in-depth collaborations due to the multiple markets focus. Further elaborating the determinants of nonmarket strategies, results also show that function as regional Headquarters as significantly determining the preference for a particular type of nonmarket strategic behavior. Foreign owned firms with a regional headquarters function subsequently deal with the host nonmarket context, while the ones with no headquarters function pursue foreseeing strategies in the same nonmarket context. Firms with no regional headquarters function have the possibility to focus only on host nonmarket issues and areas, while firms with a regional Headquarters function not only should focus on the host country but probably also at other host countries. Countries that are member of a larger trading block will show an increasing host environment complexity. When the function of the firm in a host country is not only to

monitor and coordinate the activities of the firm in this market but also its other activities outside the market or the activities of the other firms within the parent company it will be more incline to implement a subsequent nonmarket strategies. In general, it is more difficult for these firms to generate knowledge to thoroughly build up expertise and collaborations with a few nonmarket actors relevant to their scopes. Our empirical investigation of the regional headquarters function vis-à-vis nonmarket strategy constitutes a first initiative in the field.

Even though Hillman & Hitt (1999) found a relationship between difference in political systems and the choice for political strategies, we did not find evidence for the same predictions in the case of nonmarket strategies. Nonmarket strategies target a higher spectrum of institutions or linked actors than political strategies do. Moreover, the elements used to categorize a country mainly based on political systems characteristics are probably too narrow compared to the nonmarket spectrum.

Related to the foreign owned firms' autonomy degree it becomes obvious that no matter if the foreign owned firm enjoys a high or low autonomy from the corporate parent, this autonomy cannot predict any indication with respect to the specific nonmarket strategy they will chose to implement. Provided that a foreign owned firm would have high autonomy degree this only shows that it has the freedom to establish/decide on its own a certain type of nonmarket strategy. But whether this strategic behavior would be foreseeing or subsequent, it cannot be further predicted by its autonomy degree. The same rationale stands for foreign owned firms with low autonomy.

The number of other firms of the same parent in the host country proved to have a significant impact on the type of nonmarket strategy. This finding adds to the perspective

of Marx (1990), Schaffer and Hillman (2000). This experience within the host country is given by the (numerous interactions) with the host context, by the knowledge (host country related) the parent company accumulated, by the strength of involvement and collaborations it establishes with specific actors of this host setting (Marx, 1990). Numerous interactions with nonmarket related actors and long term relations increase the knowledge of the parent about the host context. Consistently, numerous firms of the same MNE implies repeated contacts with host actors and more possibilities of developing in depth relationships with these actors among which nonmarket linked ones. They can deal with interest groups or gain media coverage; thus, develop a continuous loop of various forms of interactions with a wide range of nonmarket actors (Bonardi & Keim, 2005). A high number of firms having the same parent implied numerous interactions and increased possibilities for collaborations with actors related to this environment. Foreseeing behavior is a way to benefit from social capital development brought by networking and frequent exchanges. Numerous opportunities to interact with the host political, regulatory, and standards institutions, deal with interest groups or gain media exposure, thus a continuous loop of various forms of exchanges and contacts.

The primary contribution of this exploratory study is the empirical evidence for nonmarket strategies and activities in a regionally integrated economy. Furthermore, scholars generally agree that institutional, industry and firm level variables are important determinants of political and nonmarket strategies. By inferring into these general premises, we further investigate and provide important empirical evidence which reveal specific predictors or determinants of nonmarket strategic behavior. We advance the field beyond simple presumptions of sporadic nonmarket actions. This research shows the

wide spectrum of nonmarket proceedings which firms have at their disposal in formulating their strategies and explain the dynamics and factors leading up to these strategies. We elucidate managers toward both context and internal resources considered when making strategic choices and the prudent approach in dealing with nonmarket related actors in their particular situation (Shaver, 1998); especially if they aim to develop particular social capital, networks, and responsiveness to the host country; or become embedded in the host country business setting. The benefits of nonmarket strategies should outweigh the costs of developing it (Getz, 1997). Firms should thereby also consider the effectiveness of alternative actions (Baum et al, 2000). Additionally, firms should include nonmarket strategies as a solution to issues arising from the institutional environment because it is already an embedded, integrated part (tool) of their overall strategy, which they can further start regarding and assessing as separated strategy, and further expand and refine it (Cyert, 1963). Firms have already started to institutionalize nonmarket actions by having created a public affairs department or government relations department taking continuously care of nonmarket threats and opportunities (Getz, 1997). In these cases, nonmarket strategies will obviously often be used as a potential answer to problems arising in the institutional environment (Bonardi & Keim, 2005).

Conceptualizing nonmarket strategies on the basis of foreign owned firms begins to tackle in this complex but imperative topic. International business literature has accumulated a vast amount of knowledge on FDI over the years. Nonetheless, the nonmarket strategy topic has received much less attention so far. Given the political, regulatory and further nonmarket related aspects involved with foreign owned firms' activities, a more inclusive approach focusing on both market and nonmarket aspects

shed important light in the understanding of FDI. Our study represents an empirical advance in its field however a number of further lines of research deserve attention in future work. Although industry was not significant in determining the type of nonmarket strategy, further research may uncover other collective level variables that may affect such choices (Hillman, 2003). Future research could also consider the host country influence on the nonmarket strategy applied. Nonmarket queries are also ‘inherently tied to the rationales of corporate action’ (Getz, 1997, p.58) reason for which we suggest for future research to include corporate relevant factors into the analysis.

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TABLE 1**Table 1 Descriptive statistics (means and standard deviations (s.d.)) and bivariate correlations for all variables, N=160**

<i>Variables</i>	<i>Mean</i>	<i>s.d.</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
1. Form of nonmarket strategy	0.56	0.50										
2. Size	470.17	968.05	0.17									
3. Host country experience	23.76	26.18	-0.22	0.06								
4. Market Scope	0.40	0.37	0.09	-0.01	-0.04							
5. Regional Headquarters function	0.24	0.43	-0.14	0.01	0.20	0.14						
6. Autonomy degree	0.55	0.25	0.08	0.04	-0.05	0.11	0.01					
7. Country differences	0.359	0.23	-0.09	0.04	-0.00	0.07	0.01	-0.04				
8. Number of other subsidiaries	3.266	4.54	0.18	-0.03	0.05	-0.01	-0.01	-0.03	-0.13			
9. Manufacturing industry	0.44	0.50	-0.19	-0.12	0.28	0.29	0.20	-0.01	-0.03	-0.02		
10. Service industry	0.14	0.35	0.13	0.11	-0.10	0.09	-0.18	-0.08	0.04	0.01	-0.35	
11. Finance industry	0.16	0.37	0.00	0.07	-0.11	-0.20	-0.09	0.08	-0.04	0.01	-0.39	-0.18

TABLE 2**Estimation results of binomial logit nonmarket strategy model**

Variables	Control Model	Full Model
Constant	0.25 (0.35)	-0.65 (0.76)
Size		0.01*** (0.00)
Host country experience		-0.03*** (0.01)
Market Scope		1.11* (0.59)
Regional Headquarters function		-0.96** (0.48)
Autonomy degree		0.18 (0.77)
Country differences		-0.49 (0.82)
Number of other subsidiaries	0.13** (0.06)	0.21*** (0.07)
Manufacturing industry	-0.81** (0.41)	-0.44 (0.51)
Service industry	0.38 (0.59)	0.27 (0.69)
Finance industry	-0.34 (0.52)	-0.20 (0.58)
N	160	160
- Log likelihood	102.85	85.40

Note: Standard Errors in parentheses, *p < 0.10, **p < 0.05, and ***p < 0.01

TABLE 3**Estimation results of the marginal effects of the nonmarket strategy model**

Variables	Marginal Effects Control Model	Marginal Effects Full Model
Constant	0.06 (0.09)	-0.14 (0.17)
Size		0.00*** (0.00)
Host country experience		-0.01*** (0.00)
Market Scope		0.25* (0.13)
Regional Headquarters function		-0.22** (0.11)
Autonomy degree		0.04 (0.17)
Country differences		-0.11 (0.19)
Number of other subsidiaries	0.03** (0.14)	0.05*** (0.01)
Manufacturing industry	-0.20** (0.10)	-0.01 (0.11)
Service industry	0.09 (0.13)	0.05 (0.14)
Finance industry	-0.34 (0.13)	-0.04 (0.13)
N	160	160

Note: Standard Errors in parentheses, *p < 0.10, **p < 0.05, and ***p < 0.01