



Nonmarket strategies predictors for foreign firms

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ABSTRACT

This paper explores the preference of firms to use a particular type of proactive nonmarket strategy in a host environment and to identify which firm's resources and role are underlying the preference. Based on international business, resource based view, and corporate political strategy literature, we identified specific firm's resources and roles which are most likely to affect the predilection for implementing a relational or a transactional nonmarket strategy by firms in a host environment. Evidence is provided by a survey sample of foreign firms operating in the Netherlands. It shows that firms do not prefer to use these proactive nonmarket strategies simultaneously. The results also show that firms enjoying high visibility and with a host country's market focus are more inclined to implement a relational nonmarket strategy, while firms with a regional headquarters role and high host country experience prefer more to use a transactional nonmarket strategy instead of a relational one.

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1. Introduction

Multinational companies (MNCs) operating in different host contexts can face competing and conflicting nonmarket influences and challenges from a plethora of nonmarket institutions such as governments, regulatory agencies, interest groups and media (Ioannou & Serafeim, 2012). These nonmarket influences and challenges affect the performance and competitive position of these firms. For instance, McGuire, Lindeque, and Suder (2012) found that firms engaging in a different nonmarket environment experienced liability of foreignness. To overcome this liability, these firms should adapt to the host environment and should manage the host nonmarket influences to create legitimacy and therefore can achieve a competitive advantage. Aquilera-Caracuel, Aragón-Correa, Hurtado-Torres, and Rugman (2012) also showed that foreign firms need to manage social pressures and priorities to gain legitimacy abroad. Therefore, these firms should go beyond formulating host market strategies and thoroughly consider complementary strategies to encounter complex influences outside the market, to reduce the liability of foreignness and to increase their competitive position in the host environment (Baron, 1995; Bonardi, Hillman, & Keim, 2005; Bonardi, Holburn, & Van den Bergh, 2006; Prakash, 2002).

While it is widely understood that in the current international business environment firms should go beyond formulating market strategies and thoroughly consider a complementary sort of stratagems to encounter complex institutional influences outside the market space, however, to date the studies on nonmarket strategies merely enumerate the preference of firms for a particular type of nonmarket strategy. Many studies about MNCs explored the challenges they face in establishing legitimacy in various nonmarket contexts (Boddewyn, 2016; Kostova & Zaheer, 1999; Rajwani & Liedong, 2015), but the strategies that firms choose in order to participate in the nonmarket process in a host environment have received relatively little attention (Lawton, McGuire, & Rajwani, 2013; Lux, Crook, & Woehr, 2011). Therefore, it is important to increase our insight about the preference of firms to use particular types of strategies to deal with the nonmarket process in a host environment.

Different strands of strategy research have examined the actions of firms to manage the nonmarket environment. An influential strand is corporate political strategies (Hillman, Schuler, & Keim, 2004; Mellahi, Frynas, Sun, & Siegel, 2016; Bonardi & Keim, 2005). Although corporate political behavior may be proactive or reactive in general, efforts to participate proactively in nonmarket processes have become essential for most firms in the current competitive international landscape. The corporate political literature emphasizes that firms can proactively participate in the nonmarket environment to achieve their objectives and potential benefits from nonmarket behavior, while reactive actions

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imply no direct participation in the nonmarket process (Hillman & Hitt, 1999; Weidenbaum, 1980). Reactive actions refer more to factoring nonmarket policies and influences into the planning process of the firm. The proactive approach to nonmarket strategy may entail relational and transactional strategies (Hillman & Hitt, 1999). Relational strategies can be defined as long term and issue spanning relationship, while transactional strategies are more ad-hoc and issue specific. Hence, foreign firms can develop relational nonmarket strategies that 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. However, firms can also develop and implement a transactional nonmarket strategy to deal with nonmarket actors and issues in the host country. This type of strategy is based on mainly event-specificity and temporary actions. Hence, firms await the development of an issue or event before building a strategy to affect this issue or event. Various studies showed that the choice of tactics and approaches depend on the resources of firms (see Mellahi et al. (2016) for an overview of the literature). Although the corporate political strategy literature also focuses on MNCs, only a small group of studies investigated the preference of a firm to use a particular type of proactive nonmarket strategy in a host environment depending on the available resources and role of the firm. For instance, Hillman (2003) examined which nonmarket strategy US firms used in host economies. Hansen and Mitchell (2001) showed that firms from different home countries preferred different nonmarket strategies. Hence, foreign firms can formulate and implement proactive nonmarket strategies that capitalize on unique resources of the firm to create legitimacy and therefore to achieve a competitive advantage in the host environment (Hillman, 2003; Wan & Hillman, 2005). These firms can differ in their resources in terms of assessing the risk and impact and managing nonmarket processes (Holburn & Zelner, 2010). The opportunity of the firm to deal with the nonmarket processes depends not only on the resources but also on the role of the firm in the host environment (Ciabuschi, Dellestrand, & Holm, 2012; Meyer, Mudambi, & Narula, 2011). Hence, the aim of this study is to investigate the relationship between resources and role of firms and their preference for a relational or transactional nonmarket strategy to deal with the influences in a host environment. Doh, Lawton, and Rajwani (2012) argue that traditional strategy predictors should also be used for studying non-market strategies especially since nonmarket strategies are complementary to market strategies (Baron, 1995). Therefore, using international business, corporate political strategy, and resource based view literature, we investigate the relationship between the type of proactive nonmarket strategy used by foreign firms in a host environment and the resources and role of these firms.

Evidence is coming from the Netherlands. It is a small, industrialised country with an open, integrated economy and it embraces the *Polder Model*, which seeks consensus policies in economics, consensus decision making, pragmatic recognition of pluriformity and cooperation despite differences. In particular, the *Polder Model* focuses on tripartite cooperation amongst employers' organisations, labour unions and the government, leading to abundant negotiations, as well as substantial rules and regulations that oversee an extensive welfare state. The close cooperation between employers, labour unions, and the government has led to both a stable economic and political environment and to joint initiatives for economic integration in Europe that have made the Netherlands an interesting host location for foreign firms. The Netherlands represents one of the largest recipient of foreign investments in the world and, due to its favorable location and active role within the European Union many MNCs have chosen the Netherlands as strategic orientation. Data on foreign firms were obtained through a questionnaire survey and existing data sets.

The evidence shows that the type of nonmarket strategy used by foreign firm depends on the resources and the role of these firms in 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 proactive nonmarket strategies. Section 3 elaborates on the relationships between the available resources and role of firms and the preferred type of nonmarket strategy and states the hypotheses. Section 4 presents the sample, data sources and operationalization of the variables to test the hypotheses. Empirical results are presented next, followed by the final section which discusses the contribution of our work and implications for practice.

2. Nonmarket strategies

Nonmarket exchange mechanisms are necessary for improving the efficiency of market exchange mechanisms. Market exchange mechanisms are plagued by information asymmetry, property rights, bargaining and other problems, all conflicting the basic assumptions of neoclassical economics (Boddewyn, 2003). A plethora of nonmarket institutions – such as regulatory institutions, media and interest groups – seek to influence firms – formally, through laws and regulations, and informally, through social pressure, activism and efforts to shape the public perception of business. These nonmarket institutions comprise of social, political, and legal arrangements which structure firms interactions outside of, and, in conjunction with, markets (Baron, 1995; Baron & Deirmeier, 2007) are able to reduce. For many firms, these institutions and their power, obligations and influences have a major impact on their sustainable competitive position. Therefore, these firms become engaged with their social, legal and political environment, helping shape the rules of the game and reducing the risk of being hemmed in by these institutions. This engagement of firms can be seen as all the actions and activities developed and implemented by firms to influence these institutions and their decisions and impact. Firms having a nonmarket strategy are generally prepared for changes in the political, social and legal environment and reduce the uncertainty that (changing) institutional policies bring (Zaheer, 1995).

The existing literature on nonmarket strategies is mainly based on the corporate political strategy, corporate social responsibility (Mellahi et al., 2016) and organizational response literature (Oliver, 1991). Firms can decide not to participate in the nonmarket process and accept legislation, regulations and impact of issues and events or they can participate actively in the nonmarket process so that it will benefit the firm. Meznar and Nigh (1995) and Blumentritt and Nigh (2002) define these decisions of firms into two broad fundamental strategy approaches: buffering and bridging. They define the bridging approach as reactive form of behavior and buffering as proactive form of behavior. Bridging activities consist of tracking the development of legislation and regulation and to have compliance in place when passed and exceeding compliance levels for regulation. They define the buffering strategy approach as a form of informing government decision makers about the impact of possible legislation, trying to actively reduce government regulation for the firm, and working alone or together with trade and business associations to make campaign contributions and to lobby to influence legislative and regulatory processes. They define buffering as a form of defense that, when successful, protect the firm against outside pressures and secure its legitimacy. While both strategies may be simultaneously employed, firms will generally pursue a buffering strategy in circumstances where they have market power and control of vital resources. This classification of corporate political strategy approaches closely resembles Boddewyn and Brewer's (1994) bargaining and non-bargaining strategies. The non-bargaining

behavior of firms is similar to bridging behavior of firms. They also emphasized that firms can decide not to directly participate in the public policy process. In other words, firms will not attempt to play a role in policy formation or implementation. The non-bargaining strategy approach include compliance, avoidance and circumvention. On the other hand, the bargaining behavior is similar to the buffering behavior as defined by [Mezner and Nigh \(1995\)](#) and [Blumentritt and Nigh \(2002\)](#). They stress that the bargaining strategy approach can be distinguished between two main strategies: conflict and partnership bargaining strategies. The conflictual bargaining strategy can be seen as a zero-sum game where firms try to mitigate governmental gains at their expense, while governments try to capture as much rents as possible from the operations of firms. The partnership bargaining strategy is a positive sum game whereby interactions between government and firms shift from transactions towards relations and cooperation, interdependence and trust. The bargaining strategy approach focuses on shaping public policy making. Firms will play an active role in the policy formation and implementation.

[Hillman and Hitt \(1999\)](#) further refine the proactive approach. They distinguish the proactive approach into the relational and transactional approach. According to [Hillman and Hitt \(1999\)](#) one manner through which 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, and playing an active role in policy and regulation formation and implementation. These so called relational actions of firms enable these firms to preview certain influences before taking place and diminish their impact on the firm'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 relational actions have clearly defined specific non-market objectives ([Hillman & Hitt, 1999](#)) translated into minimizing uncertainty risks and exercising control over host regulatory, politically and socially related (nonmarket) processes ([Mahon, Heugens, & Lamertz, 2004](#)). These objectives along with the fact that firms become actively involved in regulatory processes of the host environment and place policy issues on political agendas by affecting their saliency, after saliency. Through such types of principally process-focused and continuous actions firms become embedded into the host environment and decrease their burden or liability of foreignness. 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](#)). These strategies are mutually macro oriented generally targeting the host environment, regulation policy outcomes or reputation building amongst the host institutions. However, relational tactics are also micro sloping aimed at building relationship networks and social capital. Thus, relational strategies also lead to the development of social capital; it 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 & Peng, 1999](#); [Uzzi, 1997](#)). It is a scarce resource which is not available to every foreign firm but it is an embedded outcome of relationship networks developed as part of relational strategies. When foreign firms undertake a relational approach to the host nonmarket actors; they insure trust, information transfer and joint problem-solving arrangements ([Hardy, Nelson, & Lawrence, 2003](#); [Keim &](#)

[Baysinger, 1988](#); [Keim & Zeithaml, 1986](#)). Through implementing relational strategies with long term perspective and aimed at building relations between actors, issues, contacts and stakeholders in the host environment, foreign firms are able to create a certain reputation which would avoid becoming targeted by nonmarket actors ([Baron & Diermeier, 2007](#)). Reputable reputation is built through repeated relations with professional nonmarket actors (especially public decision makers and the media) who will eventually conclude that the firm is (or is not) politically credible, dangerous, legitimate, trustworthy, etc. ([Giroud & Scott-Kennel, 2009](#); [Jacomet, 2000](#)).

Another way for foreign firms to cope proactively with the complexity of nonmarket influences in the host environment is through transactional strategies. They entail that firms act in an ad hoc manner and remain passive until a nonmarket issue becomes salient. Foreign firms which prefer to use a transactional strategy do not undertake any action or plan until a nonmarket issue in the host environment arises and its impact become noticeable. At this point firms will acknowledge the issue and will design specific actions to encounter the issue ([Hillman & Hitt, 1999](#)). Issue- or event- specificity and ad hoc actions are the most relevant features of transactional strategies ([Kobrin, 1982](#)). They initiate relatively short-term interactions and relations on an issue-by-issue basis ([Kaufmann, 1998](#)). The relationships and interactions developed by firms through transactional strategy are of non-repeated nature: reciprocity between exchange partners is not possible which leads to self-interest motivated actions ([Uzzi, 1997](#)). Hence, these actions are sporadic, temporary, and subject- specific. Once the nonmarket issue is solved or its importance has decreased for the firm, the firm will stop with its activities ([Keim, 1991](#); [Kiewert & McCubbins, 1991](#)). In general, foreign firms applying transactional strategies comply or are satisfied with the requirements or incentives offered by the host setting, they only act when nonmarket issues arise.

Although the types of proactive nonmarket strategies are classified into two broad categories, the use of one type of nonmarket strategy does not preclude the use of another. Firms can use both types of strategies simultaneously. After the decision to select relational or transactional strategies, firms also have to decide whether to pursue participation individually or collectively. They have also to decide which tactics they should employ. Firms can use several tactics to influence the nonmarket processes. [Hillman and Hitt \(1999\)](#) categorized these tactics into three specific strategies: information (e.g. lobbying, testifying as expert witnesses, supplying position papers), financial incentive (e.g. contribution to politicians or party, paid travel, hiring people with specific experience), and constituency-building (e.g. advocacy advertising, public relations, press conferences, training programs) strategies. Firms can use the information strategy and its related tactics to influence nonmarket processes by providing information to decision makers. The purpose of using the financial incentive strategy by firms is to directly align the incentives of the decision makers with the interest of the firm through financial inducements. Whereas the tactics as provided under the information and financial incentives strategies are directly targeting nonmarket decision makers, the constituency-building strategy targets indirectly the nonmarket decision makers by using constituent support. Hence, firms can use these three specific strategies and the related tactics or a configuration of information, financial incentive, and constituency-building strategies and tactics for both the transaction and relational approach. Whether these tactics belong to the relational or transactional approach depend on the frequency, form and intensity of use of these tactics ([Hillman & Hitt, 1999](#); [Holburn & Van den Bergh, 2002, 2004](#); [Keim & Zeithaml, 1986](#); [Schuler, 1996](#); [Schuler, Rebhein, & Cramer, 2002](#)). [Table 1](#) presents an overview of the specific strategies and their related

Table 1

Overview of specific strategies, their related tactics and the relation with the relational and transactional approaches (adapted from Hillman and Hitt, 1999).

Specific strategies	Examples of related tactics	Targeting decision maker	Frequency and Intensity of use of related tactics	
			Relational approach	Transactional approach
Information	Lobbying; testifying as expert witnesses; supplying positioning papers.	Direct	Medium–high	Low–medium
Financial incentive	Contributions to political and social institutions;	Direct	Medium–high	Low–medium
Constituency–building	Public relations; press conferences; training programs; partnerships	indirect	Medium–high	Low–medium

tactics and when these tactics belong to the relational or transactional approach.

3. Firm resources, role, and nonmarket strategies

This section explores the relationships between the preference of firm to use a transactional or relational nonmarket strategy and their available resources and role of the firm in the host environment. The literature identified the following main resources and roles: firm size, experience, market scope, regional headquarters role, level of autonomy, and common practices.

3.1. Size

A strong held perspective in the literature indicates that size plays an important role in the strategic nonmarket behavior of firms (Hillman et al., 2004; Lux et al., 2011). Foreign firms with a large resource and employment base have more assets at risk, reason for which they are more likely affected by nonmarket issues and changes in the host environment. Accordingly, these firms can benefit or lose to a greater extent from changes related to legislation, regulations and standards (Masters & 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 firms. Moreover, large firms are more interdependent on many stakeholders and nonmarket institutions (Mahon et al., 2004; Meznar & Nigh, 1995). They are motivated to develop and maintain long term relations and networks with these stakeholders to solidify trust and reputation. Furthermore, large firms enjoy a higher visibility in the host setting. Due to the higher visibility, these firms are more vulnerable to the power of the government, media and other political and social nonmarket related actors (Getz, 1997). ‘The larger a firm becomes, the more likely it is to catch the public’s eye’ (Meznar & Nigh, 1995; 980). Even though size seems to impact nonmarket actions taken, it is not clear whether large foreign firms prefer relational or transactional nonmarket strategies. A possible relation can be found in the rationale of the organizational resources firms have at their disposal: large-sized firms have general more resources than small and medium sized firms to build long term relationships (Hillman et al., 2004). In particular, firms with more resources to spent, more employees to assign, have more possibilities for continuous and long term involvement in the nonmarket arena (Bhuyan, 2000). It becomes relevant for them to develop relationships with stakeholders, consequently they are more likely to pursue relational nonmarket strategies. Therefore, we formulate the following hypothesis:

Hypothesis 1. The larger the size of the foreign firm, the higher the likelihood that it uses a relational nonmarket strategy rather than a transactional one.

3.2. Host country experience

The experience of a foreign firm in the host country may also determine its strategy and tactics within nonmarket contexts (Baron, 1995; Boddewyn & Brewer, 1994; Getz, 1997; Murtha & Lenway, 1994). More than often, the experience of a foreign firm in the host country is a proxy for the knowledge accumulated in the host setting (social capital) (Boddewyn & Brewer, 1994; Hillman et al., 2004; 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, and legitimacy in this setting. The implications caused by liability of foreignness of foreign firms for the nonmarket context and the strategic choices to deal with, vary by firm, industry, host country and home country (Zaheer, 1995). Experience is also related to reputation and credibility. Studies on corporate political strategies showed that credibility is positively related to experience (Mellahi et al., 2016). Building credible relationships and reputation need time and efforts from firms. Relationships are formed over time between firms and actors in the nonmarket environment. Additionally, credible reputations are intrinsic to social capital. Hence, the experience of a foreign firm in the host country indicates commitment and repeated dealings with host nonmarket related actors throughout the years, over time the firm develops tacit knowledge and abilities to deal with the nonmarket host environment and actors. Firms with more experience can use their relational strategies to influence the nonmarket process. Newly established firms are not yet in the position to have credible relationships with the actors and are therefore more inclined to use transactional strategies. Hence, we expect that the foreign firms with low experience in the host country are more inclined to implement transactional nonmarket strategies. Therefore, we formulate the following hypothesis:

Hypothesis 2. The higher the experience of the foreign firm with the host country, the higher the likelihood that it uses a relational nonmarket strategy rather than a transactional one.

3.3. Market scope

Market scope is another firm characteristic which can have essential influence on the preference for a particular type of nonmarket strategy (Hillman & Hitt, 1999; Marx, 1990). The market scope dictates whether the firm is focused on a single host country’s market or on multiple host countries which entails the specificity and span of the nonmarket strategy implemented. The role of the foreign firms in host markets has frequently shifted from import-substitution towards an export-oriented strategic position in the MNC’s global network (Birkinshaw & Hood, 1998). Some of these firms even develop into centres of excellence, controlling vital resources that other parts of the MNC depend upon. Consequently, activities of the MNC are located in one particular

host country to serve a more countries (Hogenbirk & Kranenburg, 2006). A broad market scope allows firms to exploit opportunities in multiple host countries; however, they have to manage a complex range of nonmarket issues and actors dispersed in these multiple host markets/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 firms (Wan & Hillman, 2005). Due to the fact that these firms have to deal with different nonmarket host environments and many actors, it is a challenge and costly to build long term relations with all actors. The policy of event-specificity and temporary actions (only when needed) seems more likely to be adopted by these firms (Wan & Hillman, 2005). These transactional actions will be taken when and if a certain nonmarket issue becomes relevant for the firm (Kobrin, 1982). However, foreign firms with narrower market scopes can predominantly focus on the acquisition of knowledge about and how to deal with a single nonmarket host setting. They can focus on a relatively smaller set of nonmarket issues and actors. This set of nonmarket issues, actors and institutions is less diverse; therefore, it is easier for these firms to mobilize resources and stratagems to tackle them (Baron, 1995). Furthermore, the activities of these firms are strongly depending on one institutional system or low spectrum of nonmarket actors. Consequently, this raises the awareness of firms for a clearly established plan of action which would minimize potential risks and threats coming from the host country setting (Schaffer & Hillman, 2000). This action plan may involve self-regulation or an internal system of prevention to insure sound business practices. Moreover, these 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 governments or other nonmarket institutions in the host country (Boddewyn & Brewer, 1994). Such relational deeds enable foreign firms to decrease their liability and to maximize protection against the multitude of nonmarket actors and issues which may arise across the narrow market scope. Thus, for the foreign firms with a scope on the host country's market, the set of nonmarket issues, actors, the potential risks and threats coming from the low nonmarket spectrum can easily be reduced by adopting a relational nonmarket strategy in the host country. However, 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 event-specificity and temporary nonmarket strategy to deal with the complexity of actors and nonmarket issues in the multiple host settings. Therefore, we formulate the following hypothesis:

Hypothesis 3. The broader the market scope of the foreign firm, the higher the likelihood that it follows a transactional nonmarket strategy rather than a relational one.

3.4. Regional headquarters role

In order to coordinate the activities and resources, to manage business development, and to strategize, MNCs have established corporate headquarters. These headquarters have responsibilities that supposedly strengthen the competitive advantage of the MNC. Because, MNCs operate in a multitude of environments, it is a challenge for corporate headquarters to perform all functions and tasks. For instance, if the function and task of a corporate headquarters is to control and coordinate the activities of its subsidiaries, it must have knowledge about not only the activities of the subsidiaries but also about the important actors participating in and affecting the host market and nonmarket environment of the subsidiaries. For instance, Forsgren, Holm, and Johanson

(2005) showed that corporate headquarters of MNCs have generally little knowledge of the host environment of its subsidiaries. The larger the geographic and psychic distance between the MNC corporate headquarters and their subsidiaries, the more challenging the process of obtaining information about the host environment is, the harder it is for headquarters to manage their relations with the subsidiaries and their complex environments. Therefore, corporate headquarters delegates responsibilities to an intermediary unit. The corporate headquarters has the holistic responsibility of the MNC, while the lower intermediary unit is partly a receiver of this control but also owner of responsibilities in relation to subsidiaries (Ciabuschi et al., 2012). The lower intermediary unit is a regional headquarters or a subsidiary with a regional management mandate. The corporate headquarters can decide to give a mandate to a profit-oriented subsidiary in a host environment that is mandated to dedicate some of its time and resources to performing regional headquarters role (Alfoldi, Glegg, & McGaughey, 2012). To date, little is known about the extent and type of activities these firms with a regional headquarters role undertake in the host nonmarket environments (Ciabuschi et al., 2012). These firms are knowledgeable about their market and nonmarket environment, process information from the environments, and can create additional value for the MNC. They have the responsibility to evaluate the environment and handle in order to sustain competitive advantage and add value to the MNC. The available resources, knowledge about the market and nonmarket host environment, and network of firms are necessary for the development of competencies, legitimacy, and competitive advantage of the MNC (Meyer et al., 2011). Therefore, it is important to maintain good relations with the variety of actors in the market and nonmarket host environments. These firms with a regional headquarters role may have the mandate to engage in the nonmarket processes in the host environments to reduce the risk and uncertainty and increase the legitimacy of the MNC. They are allowed to develop continuous and in-depth relations to achieve their goals and fulfill their tasks. Consequently, their way to manage the nonmarket actors and issues in the host environments is a function principally process-focused and operates on continuous basis, assigning to relational behavior. For this reason, these firms prefer to use more relational strategies instead of transactional ones. Firms with no regional headquarters role are controlled and coordinated by the corporate headquarters or a regional one. They focuses more on the internal relations within the MNCs and have less authority to deal with the nonmarket processes in the host environment. Therefore, they are likely to merely respond to nonmarket issues each time it is needed by momentarily mobilizing resources and tactics. Therefore, transactional way is mostly suited for managing the nonmarket issues. Therefore, we advance amid the following hypothesis:

Hypothesis 4. A foreign firm with a regional headquarters role is more inclined to use a relational nonmarket strategy rather than a transactional one.

3.5. Autonomy degree

The level of autonomy is related to the independency of firms to make strategic decisions without permission from the corporate headquarters and to anticipate on the developments in the market. Firms granted high autonomy from the headquarters are more responsive to the local host environment (Birkinshaw & Morrison, 1995; Ferner et al., 2004; Taggart, 1997). They are better coping with unexpected difficulties and seize increased benefits from opportunities (Taggart, 1997; Bartlett & Ghoshal, 1986). In general, the corporate 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). However, Schaffer and Hillman (2000) found evidence that only related foreign firms pursue a centralized public policy strategy, whereas unrelated firms often pursue decentralized manners of encountering nonmarket issues (Vachani, 1999). Firms with decentralized relationships with the headquarters are granted the autonomy to respond to nonmarket issues and actors in their own best way (Edwards, Ahmad, & Moss, 2002). 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 (where each of its firms operates). Firms with restricted autonomy develop only limited local responsiveness within host nonmarket environments (Ferner et al., 2004). Therefore, we expect foreign firms granted high autonomy degree from decentralized headquarters are more inclined to pursue relational nonmarket strategies instead of transactional 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 foreign firm, the higher the likelihood that it uses a relational nonmarket strategy rather than a transactional one.

3.6. Country difference

The home country background of a firm impacts the way it interacts and responds to the host setting due to the psychic distance between the country of origin and the host country. This psychic distance is given by the institutional, political, economic and cultural differences between the countries (Dow & Karunaratna, 2006; 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 & Roth, 2002; Kostova & Zaheer, 1999). For the characterization of institutional systems in different countries, Murtha and Lenway (1994) present the pluralism and 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 firms with corporatist background often try to 'build social capital and create positive-sum outcomes' (Hillman & Hitt, 1999: 830). They focus on consensus and cooperation as institutionalized in their home country experience (Bonardi, 2008). In general, these firms prefer to use relational nonmarket practices. Firms from pluralist home countries are more selective in their involvement with different nonmarket issues because in general, political and overall nonmarket issues are diverse and constantly changing in pluralist countries. Therefore, these firms are more inclined to participate only in the public arena when they cannot avoid the issue that is affecting them (Hillman & Hitt, 1999). In general, firms from a pluralist home country are more inclined to use transactional strategies. Fenton-O'Creedy, Gooderham, and Nordhaug (2008) indicate that when host and home country systems significantly diverge, MNCs will 'actively resist host country institutional pressures' (p. 152). They are more inclined to use their established nonmarket strategies from their home country and they will prefer to implement the strategies that the firm is using in the home country. They will maintain their home grounded action plan. MNCs seek internal consistency with regard to norms and values; pursuing to gain internal legitimacy and to fulfill shareholder value or a wider set of stakeholder interests (Fenton-O'Creedy et al., 2008). However, another group of studies emphasized that firms

need to gain external legitimacy in a host environment. They need to manage the nonmarket processes in the host environment rather than transplant their home practices within their organization (Aquilera-Caracuel et al., 2012). Although the literature is inconclusive about the preference of the type of proactive nonmarket strategy used by a foreign firm in a host environment, we follow the line of argumentation that firms prefer to use their established nonmarket practices and tactics from their home country in a host environment. In general, these practices and tactics are also the common practices employed within the MNC. Hence, firms with a corporatist background are more inclined to use relational nonmarket strategies and firms with a pluralist background prefer to implement transactional nonmarket strategies even when they operate in a corporatist host environment. Therefore, we formulate the following hypothesis:

Hypothesis 6. The lower the difference between host and home country background, the higher the likelihood that the firm uses a relational nonmarket strategy rather than a transactional one in a corporatist host environment

4. Methodology

4.1. Sample

Evidence comes from foreign firms operating in the corporatist country, the Netherlands. The Netherlands is characterized by a relatively stable political environment. Most politicians have a technocratic background and are highly skilled (Hogenbirk, Hagedoorn, & van Kranenburg, 2009). The government plays a significant role in the Netherlands through permit requirements and regulations pertaining to almost every aspect of economic activity. It combines a rigorous and stable macroeconomic policy with wide-ranging structural and regulatory reforms.

During the last decades, policy formulation and implementation in the Netherlands were conducted in close cooperation with a number of large Dutch multinational companies and trade unions. The pragmatic manner in which these groups cooperated has been dubbed *corporatism* or *Polder model* (consensus-model). Initially, in the 1980s, the employers, trade unions, and the government began negotiating policies that could facilitate an economic recovery. The three parties agreed to strive for wage moderation in exchange for shorter working hours (the *Wassenaar-agreement*), an overhaul of the social security system, and policies to strengthen the public finances; the constructive dialogue between the three parties also led to strengthening of the competitive position of the Netherlands (Hogenbirk et al., 2009). The Dutch economy has characteristics of both a regulated market economy with a large social security system and a shareholder capitalism economy aimed at maximizing profits, although the Rhineland model still dominates.

Because the Netherlands was among the countries that initiated the European Customs Union in 1957, the economy has also benefited from the early establishment of substantial economic integration. Its membership in the EU helps counteract the adverse effects of its small size, by extending its domestic market. Due to the benefits that firms in the Netherlands can derive from its membership and its active role within the EU, many foreign firms have chosen the Netherlands as a base for their activities for the entire European continent. Due to regional integration, multinational companies can rationalize their European activities to exploit economies of scale and scope (Benito, Grøgaard, & Narula, 2003). The choice for the Netherlands as an attractive location for firms can be further explained by its favorable location which provides access to wider markets for foreign firms. The Netherlands has significantly benefited from its favorable coastal location on the North Sea at the estuaries of great rivers, such as the

Rhine and the Meuse. For many years, the Dutch government has also been invested in infrastructure (Amsterdam Schiphol Airport, Rotterdam Harbor, fast railway connections, extensive highways) to build on this natural asset to make it more sustainable and useful for business purposes.

Furthermore, the Dutch labor force is characterized by high labor productivity and high education level. Most workers are multilingual, facilitating the international ambitions and activities of both national and foreign firms.

As a consequence of these developments, the Netherlands has become one of the largest recipients of foreign direct investments in the world (UNCTAD, 2012). The foreign firms provide employment for at least 600,000 people; almost 10% of the total market opportunities (Agency for International Business and Cooperation, 2016). They represent 30% of the total volume of businesses from foreign firms, and account for 21% of overall investments and for 22% of the investments in research and development. In total, \$451 billion inward direct investments are made by foreign firms (Netherlands Foreign Investment Agency, 2012).

The Netherlands has some strong competitive internationally sectors, in particular food and beverage, petroleum and chemicals, and transportation, although it also has a strong finance and insurance and some other services sectors. The most important other services sectors are business services (a very broad category covering employment agencies, translators, cleaning and real estate for business, but also the distribution of electricity, water, gas and other oil products), construction services (which includes not only house construction, but also infrastructure and dredging), and postal services.

Several data bases were used for this study: Dun & Bradstreet database, Osiris and Dow and Karunaratna (2006). In addition, we collected data by using a postal survey conducted among managing directors of foreign firms in the Netherlands during the summer of 2011. We selected the initial sample of 800 medium- and large-sized foreign firms operating in the Netherlands from the Dun & Bradstreet database in 2010. To improve our preliminary survey and assess its feasibility, we first conducted 17 in-depth interviews with firms' managers and discussed the survey items. We used their comments and suggestions to revise the survey. Subsequently, we carried out a pilot survey to evaluate the revised survey instrument. The returned responses covered in total 180 foreign firms (22.5% of the sample group) operating in the Netherlands and originating from 21 home countries. Missing survey data reduced the number of usable responses to 160.

4.2. Variables

4.2.1. Dependent variable

The Dependent variable *Type of nonmarket strategy* is constructed from the questionnaire survey. Survey questions measured whether each foreign firm uses a transactional or relational nonmarket strategy. We used the three information, financial incentive, and constituency-building strategies and their related tactics defined by Hillman and Hitt (1999) to select the items. Based on a 5-point scale ranging from 'never used' (indicating various possible actions specific to transactional behavior) to 'continuously used' tactics, specific to relational strategies (see Appendix in Supplementary material). The inquiring tactics are as follows: business associations' participation; partnerships to influence political issues; interest groups awareness and networks; lobbying; supply of technical reports to regulators; press releases; testimonies in expert hearings; contributions to political parties; presence of firm's members in political parties; employing people with political experience; employee training for trade union participation; employee training for media relations; develop internal prevention system; develop internal monitoring

system; proactive self-changing and regulation; building socially responsible reputations; challenge of government regulations; interactions with local governments; interactions with national governments; active cooperation with Dutch institutions; ad-hoc cooperation with Dutch institutions; having a clearly established set of tactics to deal with Dutch institutions; providing local or national governments with products or services. For each firm the average score on transactional was compared to the score on relational; the firms which had the score for transactional higher than 0.5 were coded as implementing transactional (nonmarket) strategy; the firms with a score for relational higher than 0.5 were coded implementing relational (nonmarket) strategy. Interestingly, all foreign firms showed the tendency to fall neatly into one or the other category, thus either transactional or relational. In our sample there was no foreign firm for which it proved difficult to establish whether it pursued one or the other type of nonmarket strategy. Consequently, Hillman and Hitt's (1999) supposition that firms could conceptually use both approaches did not appear to hold for our sample.

4.2.2. Independent variables

The variable *Size* is measured as the number of employees at the foreign firm in the Netherlands (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 subsidiary is indicated by the variable *host country experience* (Hypothesis 2). It is measured by the number of years since the firm established its operations 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 firm is going to the host country market. These shares were used to create the market scope variable ranging between 0 and 1; whereas the closer to 0 indicates a more broad market scope and the closer to 1 a more narrow market scope.

The variable *Regional headquarters role* indicates whether the foreign firm has been given a mandate to dedicate time and resources to perform a regional headquarters role (Hypothesis 4). It is a dummy with the value of 1 if the firm has a regional headquarters role and with a value of 0 if it has no regional headquarters role. Foreign firms that do not have a regional headquarters role are controlled and coordinated from the corporate or a regional headquarters.

Autonomy degree indicates the level of autonomy of the foreign firm to make strategic decisions for the market and nonmarket environment in the host country (Hypothesis 5). We were inquired about the following decisions whether they were made at the headquarters level or at the firm level: 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. An autonomy index was created ranging between 0 and 1. The closer this index is to 1, the more decisions are made at firm level, thus the higher the autonomy of the firm in the host context.

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 & Clarke, 2001). Dow and Karunaratna (2006)

showed that Beck’s political ideology scale provides a good indication of the more general psychic distance measure.

4.2.3. Control variables

The decision to follow a relational or a transactional nonmarket strategy can also be affected by the number of other subsidiaries of the MNC in the same host environment. The more subsidiaries the MNC has in the host environment, the more likely that the MNC enjoys higher visibility in the host setting. Due to this exposure the firm is generally more vulnerable to the power of the nonmarket related actors (Getz, 1997). Therefore, foreign firms with a corporate parent that has established many subsidiaries within the host environment will generally prefer the relational strategy over the transactional nonmarket strategy. The variable *number of other subsidiaries* indicates the MNC visibility in the host country. It is measured by the total number of other foreign firms with the same parent company in the host country.

The preference of the type of proactive nonmarket strategies to follow by a foreign firm in a host environment can differ between industries. Therefore, we control for possible industry effects with the variable industry dummies. The three industries are: *manufacturing, finance and insurance, and services.*

5. Analysis and results

Table 2 presents the descriptive statistics and the correlation matrix for the variables in this study. Correlation are very low for most variables, indicating that multicollinearity is not a problem. It is worth mentioning that 56.25% of the foreign firms use relational strategies to manage the host nonmarket context while 43.75% of our sample follows transactional strategies. We used a binomial logit model to test our hypotheses. 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 binomial logit model correctly predicts 71.25% of the formulated and implemented nonmarket strategies of firms in the host environment. Table 3 presents the results of the binomial logit model by NLOGIT 4.0.

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 size of the foreign firms, the more they use their resources for designing and implementing relational actions in order to manage the host nonmarket context. We should reject Hypothesis 2. Our result shows the opposite: the less the experience that they have within the host country, the more likely foreign firms will use relational strategies to deal with the nonmarket processes in the host setting. Based on the results, we accept Hypothesis 3. As advocated by this

Table 3

Estimation results of binomial logit of the type of nonmarket strategy model.

Variables	Control Model	Full Model
Constant	0.25 (0.35)	-0.65 (0.76)
Size		0.03*** (0.00)
Host country experience		-0.03*** (0.01)
Market scope		1.11* (0.59)
Regional headquarters role		-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: *** significant at 1%; ** significant at 5%.

hypothesis, the narrower the market scope, when the operations of the foreign firms target the host market, the more they prefer to develop relational strategies to insure credible reputations and prevent possible risks or threats coming from the nonmarket arena. Furthermore, we expected that the foreign firms with a regional headquarters role would prefer relational nonmarket strategies over transactional nonmarket strategies (Hypothesis 4). However, our results indicate that firms with regional headquarters role would prefer to use transactional nonmarket strategies over relational ones. 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 firm’s preference for a particular type of nonmarket strategy. Furthermore, the results indicate that difference in political systems between the host and home country of the foreign firm has no effect on the preference for particular forms of proactive nonmarket strategies applied by the foreign firms. Consequently, Hypothesis 6 is rejected.

Interestingly, the result for the control variable number of other subsidiaries in the host country indicates that the number of other foreign firms owned by the same parent in the host market has a significant impact on the preference for a particular type of nonmarket strategy. MNCs with more subsidiaries in the host country prefer more to use relational strategies instead of transactional ones. With respect to the industry control variables, the industry dummies have no effect on the preference for a particular type of nonmarket strategy.

6. Discussion and conclusions

The aim of this study was to explore the preference of firms to use a particular type of proactive nonmarket strategy in a host environment and to identify which firm’s resources and role are

Table 2

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

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10
1. Type of nonmarket strategy	0.56	0.50										
2. Size	47.02	96.81	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 role	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	0.36	0.23	-0.09	0.04	-0.00	0.07	0.01	-0.04				
8. Number of other subsidiaries	3.27	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

Note: ** significant at 5%; *significant at 10%.

underlying the preference. In this study, we used Hillman and Hitt (1999) categories of proactive nonmarket strategies: transactional and relational strategies. Based on international business, resource based view, and corporate political strategy literature, we identified the firm's resources and role which could influence the predilection for implementing a relational or transactional 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 firm operates. The setting of this study is a corporatist host country, the Netherlands. Based on the intensity of use of particular tactics related to information, financial incentive, and constituency strategies, our evidence showed that foreign firms generally preferred either a relational strategy or a transactional strategy. They did not prefer to use both strategies simultaneously. This is an interesting finding because the literature emphasized that firms can use both types of nonmarket strategies simultaneously (Hillman et al., 2004; Mellahi et al., 2016). This study also shows that the preference for a relational or transactional nonmarket strategy depends on different available resources and role of firms. Our evidence confirms that large foreign firms prefer to use relational strategies while small and medium sized ones prefer transactional strategies. This result is consistent with Bhuyan's ideas (2000), and partially consistent with Wan and Hillman (2005) who also found a positive relationship between firm size and firm's preference for a particular type of 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 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 firms have the resources and capacity to develop and maintain long term co-operations with diverse nonmarket related actors. They have more assets at risk; this increases their incentives to foresee and engage within nonmarket context (Masters & Keim, 1985).

Regarding host country experience our empirical finding shows that firms with more experience in the host country are more inclined to implement transactional strategies while the less experienced firms use relational strategies. This finding is somewhat surprising. However, this finding supports the finding of Hogenbirk and Kranenburg (2006). They found that less experienced firms have stronger incentives to build solid reputations, credibility and establish themselves in the Netherlands. Newly established firms in the Netherlands with very limited host experience are trying 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). According to Luo and Peng (1999), firms are channelized their capabilities on creating in-depth relations with policy decision makers and other nonmarket related actors, on getting involved in nonmarket processes and relationship networks which embed social capital. Hence, young established foreign firms are motivated to implement relational strategies to develop social capital derived from the network of relationships. These firms with limited experience, local reputation and credibility, are motivated to make use of relational strategies to establish themselves among the host nonmarket actors (Luo & Peng, 1999). The liability of foreignness in a host environment affects young foreign firms more than older, more experienced ones (Zaheer, 1995). It would be interesting to examine whether this finding is specific to the Dutch context or that it could be found in other small open industrialized regional integrated economies or corporatist environments. In the corporatist context, the opportunity to affect nonmarket processes on specific issues is more limited than in pluralistic environments. It seems that more

experienced firms in the Netherlands have learnt that their influence in the nonmarket process is limited. They preferred to use a transactional approach as a result of the red tape bureaucratic Dutch system. It is likely that foreign firms realized that they have limited power to influence the nonmarket process in comparison to the mainly large Dutch firms.

The evidence also showed that the market scope influences the preference for a particular type of nonmarket strategy. Firms with a narrow market scope prefer to use relational nonmarket strategies over transactional strategies. This result is in line with other studies (Bhuyan, 2000; Hillman & Hitt, 1999; Marx, 1990; Schaffer & Hillman, 2000). They found that firms operating only on local markets are generally more able to acquire extra knowledge and develop intensified interactions with nonmarket linked actors. These firms are more likely to uphold continuous in-depth collaborations due to the one market focus.

The evidence also showed that the assignment of a regional headquarters role to a firm also determines the preference for a particular type of proactive nonmarket strategy, although the results did not support the expectation. To date, little research is known about the relationship between the preference of the use of a relational or transactional nonmarket strategy and the regional headquarters role assigned to the firm in a host environment. This study shows that firms with a regional headquarters role prefer to use transactional nonmarket strategies. These firms have diverse market and nonmarket domains of interest, policy implications and issues that they have to manage (Bhuyan, 2000). They need to interact with nonmarket actors on various production rules and regulations, marketing violations and labor arrangements (non-market issues) since they presumably perform multiple activities (Birkinshaw & Hood, 1998). The results indicate that it may become difficult to thoroughly consider and assign continuous and in-depth tactics meant to manage all the nonmarket domains. In general, these firms not only should focus on the host country environment but also have responsibilities for subsidiaries in other host countries. For this reason, they are likely to merely respond to these issues each time it is needed by momentarily mobilizing resources and tactics. However, in general, foreign firms with no regional headquarters role interact with nonmarket actors related to only a few interest domains. They should only focus on the limited nonmarket areas and issues in the host environment. Therefore, they are more able to develop in-depth relations with this limited number of decision makers specific to those domains involved with their scope (Birkinshaw & Morrison, 1995). Hence, it is easier for these firms to maintain continuous and in-depth relations with this limited multitude of nonmarket related actors. In general, it is easier for these firms to generate knowledge, to thoroughly build up expertise and collaborations with a few nonmarket actors relevant to their scopes.

Related to the firm's autonomy degree, level of autonomy did not contribute to the prediction of the preference for a particular type of nonmarket strategy. Furthermore, the presence of more firms with the same parent company in the host environment proved to have an impact on the preference of firms to use a particular type of nonmarket strategy. These firms prefer to use a relational strategy given the higher visibility of the MNC. These firms are more vulnerable to the power of nonmarket actors. It is likely that the behavior of one firm or a particular issue for one firm may also affect the opportunities, reputation and credibility of the other firms owned by the MNC in the same host environment. Therefore, the MNC has an incentive to monitor and coordinate the behavior of these firms, but will also manage the relationships with the various nonmarket actors to avoid the creation of particular issues which can affect the operations of the firms.

MNCs face challenges in establishing legitimacy in various nonmarket environments. They operate in multiple nonmarket

environments and face multitude of competing and conflicting nonmarket influences. How are MNCs dealing with this situation? It is possible that MNCs face divergence between their own nonmarket tactics and the required nonmarket tactics in the host environments. This can lead to a reduction or even loss of internal and external legitimacy of the MNCs or their foreign subsidiaries. Even though Hillman and Hitt (1999) and Hillman (2003) found a relationship between the difference in political systems and the preference for particular types of corporate political strategies, we did not find evidence for the same predictions in the case of nonmarket strategies. We are also not able to confirm the line of argumentation that MNCs will adapt their nonmarket practices to the host nonmarket environment. Our evidence thus not suggests that the divergence between the use of established nonmarket tactics of MNCs from pluralist home countries will delegitimize MNCs tactics in the host country. Nonmarket strategies target a higher spectrum of institutions or linked actors than political strategies. Moreover, the elements used to categorize a country mainly based on political systems characteristics are probably too narrow compared to the nonmarket spectrum.

This study shows that MNCs operating in the corporatist country the Netherlands prefer either to use a transactional or a relational strategy. It shows that the preference for the type of proactive nonmarket strategy to create in-depth relation networks within the host institutional setting or just sporadic and ad hoc collaborations with various host institutions depends on firm's resources and role. In general, firms are not using these proactive strategies simultaneously. MNCs are using simultaneously the information, financial, and constituency building activities, although the intensity of actions differ between firms. The intensity depends on the available resources and role of firms. In the Netherlands, it is not allowed by law that firms financially contribute to politicians or political parties. When MNCs would like to establish in the Netherlands, they should start with relational strategies to deal with the nonmarket processes. The reason is that they need to build credibility and reputation. They should first learn the specific Dutch context. The Netherlands has established many bureaucratic rules and regulations. These many rules and regulations limit the room of newly established MNCs to negotiate or shape nonmarket processes in the Netherlands. When the focus of the establishment is not only the Netherlands, but also outside the Netherlands and given the red tape of rules in the Netherlands, it is recommended that firms should only deal with ad-hoc issues or events. However, when the firm will mainly focus on the Dutch market, then firms should put effort in building relationship and use relational strategies to deal with the nonmarket processes.

Scholars generally agree that institutional, industry and firm level variables are important determinants related to the use of political and nonmarket strategies. This research used two types of proactive nonmarket strategies which firms have at their disposal and explained the firm's resources and role leading up to the preferred use of these strategies. The management and international business literature has accumulated a vast amount of knowledge on strategies over the years. Nonetheless, the preference of firms to use a relational or transactional nonmarket strategy in a host environment has received much less attention so far. Given the political, regulatory and other nonmarket related aspects involved with foreign firms' activities, a more inclusive approach focusing on both market and nonmarket aspects should shed more light on our understanding of firms' nonmarket behavior. Although this study increases our understanding of the preference for particular types of proactive nonmarket strategies and the underlying firm's resources and role, a number of research topics deserve attention in future work. Evidence in this study reflects the perceptions of managers of foreign firms in

one country. For further research, we recommend including more countries and domestic firms to gain deeper insight into the behavior of firms to influence the nonmarket processes of various types of nonmarket institutions in different nonmarket contexts. Nonmarket queries are also inherently tied to the rationales of corporate headquarters control, coordination and actions, therefore we suggest for future research to include corporate factors into the analysis.

Appendix A. Supplementary data

Supplementary data associated with this article can be found, in the online version, at <http://dx.doi.org/10.1016/j.scaman.2017.03.001>.

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