



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

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