

Determinants of Nonmarket Strategies of Business Firms

A country-based, comparative Perspective

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von der Fakultät VII: Wirtschaft und Management
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zur Erlangung des akademischen Grades

Doktor der Wirtschaftswissenschaften

– Dr. rer. oec. –

genehmigte Dissertation

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Tag der wissenschaftlichen Aussprache: 14.09.2016

Berlin 2016

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**Determinants of Nonmarket Strategies
of Business Firms**

A country-based, comparative Perspective

Technische Universität Berlin

In cooperation with

BMW Center for German and European Studies

Edmund A. Walsh School of Foreign Service

Georgetown University

Washington, D.C.

and

American Institute for Contemporary German Studies (AICGS)
at Paul H. Nitze School of Advanced International Studies (SAIS)

Johns-Hopkins University

Washington, D.C.

Research Grant from

Stiftung der Deutschen Wirtschaft (sdw)

Studienförderwerk Klaus Murmann

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List of Abbreviations

BTF	Behavioral Theory of the Firm
CAT	Collective Action Theory
cf.	confer
CPA	Corporate Political Activity
CPS	Corporate Political Strategy
CS	Corporate Strategy
CSR	Corporate Social Responsibility
e.g.	exempli gratia
EU	European Union
et al.	et alii
etc.	et cetera
f.	folio
ff.	foliis
GAD	Governmental Affairs Department
IE	Institutional Entrepreneurship
IT	Institutional Theory
IGT	Interest Group Theory
LCM	Life Cycle Model of Public Policy Management
MBV	Market-Based View
NGO	Non-Government Organization
NS	Nonmarket Strategy(ies)
PAC	Political Action Committee
PMT	Product-Market-Technology
PS	Political Strategy
RBV	Resource-Based View
RDT	Resource Dependence Theory
SCP	Structure Conduct Performance
ST	Stakeholder Theory
US	United States of America
vs.	versus

1 Introduction

Scholars, especially in the United States, have long realized the importance of the socio-political environment for businesses. Approximately 35 years ago, Weidenbaum (1980) designated the “*unprecedented expansion*” of governmental influence on the market environment as a “*Second Managerial Revolution*” with profound effects for business.¹ Since then, governmental interaction has increasingly become more important for managers, above all else because of issues such as climate change, workers’ protection, healthcare, and sustainability, but also through the recent massive involvement of politics and central banks in mitigating several financial and economic crises.² More and more money can be gained or even lost by business firms in the socio-political environment and, as a consequence, scholars from several fields have suggested that firms must engage in the so-called “**nonmarket environment**”.³

Baron defines the nonmarket environment as including those interactions “*that are intermediated by the public, stakeholders, government, the media, and public institutions*”⁴. Business firms do not act in a “vacuum”; they act embedded in a legal and socio-political environment. Furthermore, “*interactions in the nonmarket environment may be involuntary*”.⁵ Actors must observe rules, laws, and conventions. Firms’ interactions in the nonmarket environment can be defined as involuntary as they are forced to comply with the rules. As a result, there is no possibility for firms to elude the nonmarket environment. Therefore, it can be assumed that all firms act politically either by engaging in the nonmarket environment or by strategically being absent.⁶

It is useful for business firms to consider the nonmarket or political environment, and there are many opportunities for them to engage in that environment: lobbying, political action committees (PAC), coalition building, litigation, and petitioning.⁷ Many companies, especially multinational enterprises (MNE), have established specialized departments for governmental affairs (GAD) to reduce

¹ cf. Weidenbaum (1980: 48).

² cf. Keim and Hillman (2008: 52); Hillman (2003: 52); Schuler (1996: 720).

³ cf. Bernhagen and Mitchell (2006); Boddewyn and Brewer (1994); Lord (2000).

⁴ Baron (1995: 47).

⁵ cf. Baron (1995: 47).

⁶ cf. Baron (1995); Boddewyn (1995: 144); Lord (2000); Salorio, Boddewyn, and Dahan (2005).

⁷ See also Falk, Rehfeld, Römmele, and Thunert (2006) for an overview of opportunities to consult in the nonmarket environment. Bribery will not be considered in this work, see as well FN 254.

environmental uncertainty and to anticipate or cause regulatory changes in order to advance their own competitive situation.⁸ Concurrent to these organizational changes, so-called **corporate political activity** (CPA) or **nonmarket strategies** (NS) develop from a short-term ad hoc response to external environmental changes (e.g. new regulations, laws, and new competitors) to a long-term strategic tool as a part of an integrated firm strategy.⁹ Therefore, the business firms' involvement in the nonmarket environment and their determinants are interesting topics for the research field of corporate strategy.¹⁰

The increasing influence of the nonmarket environment on firms' activities and outcomes, and the business firms' reaction by progressively becoming involved in public policymaking have led to notable attention from academia.¹¹ Explanations for firms' determinants in nonmarket involvement can be found in the disciplines of economics, political science, sociology, organizational theory, and strategic management, using various different theories.¹²

Towards an Integrated Strategic Approach

Except for regulations, the research field of strategic management has – for a long time – neglected the influence of the government, and has instead only considered product-market-technology (PMT) arenas.¹³ Scholars in strategic management have shown that industry matters to business firms' performance, but they have treated the industry as exogenous. The only piece of strategic advice related to the industry has been restricted to the assessment of the attractiveness of an industry and managers' decisions about whether to enter or to leave it. Business-government relations have, following this approach, primarily been seen as cost producing rather than as a set of opportunities to

⁸ cf. Duncan (1972). I focus in this thesis especially on larger firms; entrepreneurs face especially problems to get in contact; regarding the situation of this group see also: Pinkse and Groot (2015).

⁹ See also cf. Berman (2002); Clemens and Papadakis (2008); Frynas, Child, and Tarba (2015); Marcus and Cohen (2015).

¹⁰ Further, CPA can – from the perspective of the nonmarket environment – been seen as outsourcing of consulting and advisory from politics to other institutions such as universities, think tanks but as well firms. Meaning, public institutions invite other stakeholders such as firms to consult e.g. in law setting procedures; cf. Falk, Rehfeld, Römmele, and Thunert (2007: 327).

¹¹ See Figure 1.

¹² cf. Boddewyn (2003: 299); Mahon and McGowan (1998). Theories to explain CPA are inter alia: interest group theory, collective action theory, public choice theory, transactions cost theory, game theory, resource dependence theory, institutional theory, agency theory, behavioral theory of the firm, business theory and population ecology. Getz (2002: 305).

¹³ cf. Mahon and McGowan (1998: 391).

improve firms' performance.¹⁴ For that matter, the major books and papers in strategic management do not even offer an entry under "nonmarket" or "political". One of the reasons for this is that for a long time Porter's framework, which could be seen as groundbreaking, completely neglected to consider the nonmarket environment.¹⁵ This misled organizations into the believing that they could survive in the long run solely by considering the field of PMT.¹⁶

Furthermore, if scholars assume that firms simply have to adapt to the "exogenous" environment, this hinders firms from taking advantage of all the opportunities of the nonmarket environment to strengthen their own competitive position.¹⁷ Managers need to consider the nonmarket environment as part of an integrated strategic approach. As a consequence, managers need to implement NS that are directed towards the nonmarket environment into their integrated firm strategy. To quote Astley and Fombrun (1983): *"Like the dinosaur, the buggy-whip manufacturer went out of business because it was adapted to a domain that no longer existed"*¹⁸ – firms can no longer survive without considering changes in the nonmarket environment.

In democracies there are various opportunities to take part in the political frame-setting process.¹⁹ There are many ways in which customers, unions, and managers interact with the nonmarket environment to take advantage of their opportunities to influence it. Consequently, it is a common misinterpretation that the nonmarket environment is largely exogenous. Instead, the nonmarket environment in every non-totalitarian system in the world is based on interest aggregation, which gives business firms and other actors the opportunity to shape public policies.²⁰

¹⁴ cf. Oliver and Holzinger (2008: 496) with further references.

¹⁵ cf. Salorio et al. (2005: 29).

¹⁶ cf. Barnett (2006: 1759); Mahon and McGowan (1998: 394); Oliver and Holzinger (2008: 496); Salorio et al. (2005: 29).

¹⁷ cf. Osborn and Chin (2006: 42) (conference paper); Meznar and Johnson, JR. (2005); Schuler (1996: 720 et sqq.).

¹⁸ Astley and Fombrun (1983: 579).

¹⁹ For further explanations, see Section 2.1.1 The Market Environment and the Nonmarket Environment – Definitions and Disparities.

²⁰ cf. Coate, Higgins, and McChesney (1990); Winther Nielsen (2014).

Examples of Nonmarket Implications for Business Firms

In 1980, Weidenbaum indicated that firms must restructure themselves to survive in a world heavily influenced by public policy.²¹ Even firms with the best competitive strategies accompanied by unique firm resources and outstanding products will not survive (in the long run) without considering the nonmarket environment. This is because it is the so-called **political environment**²² that shapes the structure of the industry and makes the rules with regard to how actors on the markets interact.²³ The political environment encompasses all opportunities of a government to affect markets (e.g. governmental procurement, regulations, controlling resources), to structure the markets (e.g. legislations that affect entry and exit barriers and anti-trust laws), and finally to directly affect the cost structure (e.g. employment and environmental laws).²⁴ However, not only governments influence the interactions on the markets: there are also several other actors indirectly engaged in the shaping process, such as international organizations, standardization agencies, and (other) (Non) Government Organizations (N)GOs.

How the political environment affects firms in reality can best be demonstrated with the use of examples. In Germany the legal environment is based on 1,924 federal laws with 76,382 articles. In addition, the laws of 16 states, 22 districts, 295 counties, 11,333 boroughs, and finally European and International laws and treaties all need to be considered.²⁵ The following example emphasizes the importance of the regulatory regime in the United States (US). 50 regulatory agencies on the federal level alone monitor the American markets; and from 1996 to 1999 only, 15,286 new federal regulations came into effect.²⁶ Besides laws and regulations, governments try to influence the industry through subsidies and tax cuts. The German 22nd Subventionsbericht (report on subsidies) reports that subsidies and tax cuts on the federal level in Germany amounted to 29.4 billion Euros in 2009; taking all subsidies and tax cuts together (federal, states, municipal, EU) the level remains at about 50 billion

²¹ cf. Weidenbaum (1980: 53).

²² Even though the pressure comes from any stakeholders of the nonmarket environment such as unions, the political environment encompassing the democratic institutions such as parliaments or regulation agencies shape the structure of industries and societies.

²³ cf. Carroll (1987).

²⁴ cf. Baron (1995); Hillman and Zardkoohi (1999: 826); McWilliams, van Fleet, and Cory (2002: 708).

²⁵ cf. (31. December 2009) LexXpress GmbH (2010); Statistisches Bundesamt.

²⁶ cf. U.S. Federal Government (2012); Boylan (2002).

Euros for the last 20 years (1995-2015; see 25th Subventionsbericht 2016).²⁷ The Obama administration's "economic stimulus package" in 2009 amounted to \$787 billion (including \$282 billion in tax cuts).²⁸ Not only the government with its branches influences the markets, however; a great amount of the standardization is set by private organizations. The Deutsche Institut für Normung (DIN - German Institute for Standardization) has set 32,454 standards in the last 90 years, with enormous effects on the markets. This particular standard setting is organized by the industry itself; every firm is invited to participate in the standardization processes.²⁹

These examples show only a small part of the opportunities for nonmarket forces³⁰ to influence the markets. As a result, the mechanisms in the nonmarket environment are complex and dynamic, and for that reason not easy for managers to understand. One could say that *managers understand the markets but not how the rules are made*.³¹

State of Research:

- ① Approaches from economics, political science, sociology, organizational and management theory
- ① Firm-government relations as a **source of costs** (DiMaggio '83/Pfeffer '78)
- ② Growing influence of the political environment (Lenway '91/Weidenbaum '80)
- ③ Evolution of "Political Strategies" (Baron '98/Bonardi '05/Getz '02/Shaffer '95)
- ④ **Until now: lack of an overarching framework**



Figure 1: State of Research in Academia

After having done a short overview about the field of NS, I will provide a short overview of the theoretical state of the art in academia in the following section (see Figure 1: State of Research in Academia). The development of this field of research has primarily been forced by US researchers. Above all, the possibility to undertake empirical research due to the transparency initiatives of the lobbying disclosure acts of 1949 and 1995 has boosted research.³² In the 1960s, only a few researchers

²⁷ cf. Bundesfinanzministerium (2010); Bundesfinanzministerium (2015).

²⁸ cf. Laura Meckler (2009).

²⁹ cf. Deutsches Institut für Normung (2015).

³⁰ See 2.1 Definitions. Even though NS are an important field and especially in lobbying there is big money, it should not be overseen that quantified in currency lobbying is a relatively small market: e.g. \$3.2 bil spent on lobbying in 2014 (U.S.) compared to the marketing budget of Coca-Cola \$3.3 bil. Newmyer (2015).

³¹ cf. Keim and Hillman (2008: 48).

³² cf. Legislative History -S. 1060 (H.R. 2564) (S. 101) (1995).

focused on this area due to the changes in the social and political environment of firms.³³ However, the influence of the nonmarket environment for firms increasingly began to occupy the academic world.

Beginning with the assumption that firm-government relations are only cost factors for or institutional constraints on firms (DiMaggio (1983), Pfeffer (1978)),³⁴ other authors highlighted the progressing influence of the political environment on firms (Lenway (1991), Weidenbaum (1980)).³⁵ In the 1990s, the research gained international attention; studies from Canada, Europe, and Australia increased the opportunity to compare CPA approaches in different countries. Finally, a group of authors assumed that firms should engage in the political environment to strengthen their own competitive situation by analyzing the nonmarket environment and developing NS (Baron (1995), Bonardi (2005), Hillman (1999) and others).³⁶

This short overview of the perspectives of scholars' work in this field of research explains the increasing quantity of articles that have been published in the last years. Starting with Baron (1995), academia changed its perspective and started to see firms' engagement in the nonmarket environment as beneficial; for that reason, an increasing number of articles were published. In addition, the interplay of states and firms changed around the so-called millennium due to the intensifying globalization and the increasing power of NGOs.³⁷

Compared to other fields of research, however, the empirical outcome regarding NS could be better. Furthermore, as Frynas et al. (2015) indicate, the research in the area of NS has "*largely suffered from the failure to integrate insights and methodologies from political science, legal studies, sociology, history and other related disciplines*"³⁸. Some of these drawbacks will be mitigated in this thesis.³⁹ In

³³ cf. Epstein (1969); Olson (1965).

³⁴ cf. DiMaggio and Powell (1983); Pfeffer and Salancik G. R. (1978).

³⁵ cf. Lenway and Rehbein (1991); Weidenbaum (1980).

³⁶ cf. Baron (1995) and other articles; Bonardi, Hillman, and Keim (2005); Getz (2002); Hillman and Hitt (1999); Hillman, Keim, and Schuler (2004); Keim and Baysinger (1988); Oliver (1991b); Shaffer (1995) and others.

³⁷ cf. Althaus, Geffken, and Rawe (2005); Baron (2006); Bonardi, Holburn, and Vanden Berg (2006); Bouwen (2002); Dahan (2005c); De Figueiredo, J. M. and De Figueiredo, R. J. P. (2002); Hillman et al. (2004); McGrath (2005); Speth and Leif (2003); Streeck, Grote, Schneider, and Visser (2006); Wilts and Quittkat (2004).

³⁸ Frynas et al. (2015: 566).

³⁹ See Ormrod et al. (2015) how to apply theories from other areas to discuss upcoming research tasks; here at the example of Political Parties (Ormrod, Zaefarian, Henneberg, and Vries (2015)).

addition, the current literature is heavily focused on the US, while analyses from other regions (Europe, Asia, and Latin America) are scarce. In Germany in particular, especially the academic discourse in the area of business management remains weak.⁴⁰ Only in the research field of political science, theoretical constructs have been developed and empirical studies have been undertaken.⁴¹ Especially the concept of legitimacy is an important point in the area of political science.⁴² In Germany, one could generally say that lobbying and any kind of NS are seen with some reservations by the wider audience; for academics in particular, lobbying a part of real life (e.g. Lösche (2006): democracy needs lobbying).⁴³ Due to the European integration (especially after the Treaty of Maastricht in 1992), firms' engagement in NS with European institutions has gained importance and researchers from European countries have started with specific analyses.⁴⁴

The present thesis is based on nearly 50 empirical studies and its own minor investigation; due to the lack of a standardized overarching framework based on different research approaches from various disciplines, results are not directly comparable. Furthermore, empirical investigations in the nonmarket environment seem to face more challenges than in the market environment: required data do not exist or are not (easily) available. In addition, the data are often imprecise and biased by market and nonmarket effects.⁴⁵ Finally, especially in Europe, lobbying and other NS are not accepted in society; it is therefore difficult for researchers to find interview partners with whom to discuss this topic.

Following the above analysis of the state in the literature, the following research gaps could be distinguished:

1. The literature does not encompass theoretical substantiation;
2. There is a lack of an overarching framework;
3. There is scarce integration of aspects from the field of strategic management; and
4. There is scarce empirical work in Europe, with most studies focusing on the US.

⁴⁰ cf. Getz (1991); Söllner (2008).

⁴¹ cf. Rühl (1992); Strauch (1993).

⁴² See also 3.3.1.2 Reference Field: Legitimacy.

⁴³ cf. Kleinfeld, Willems, and Zimmer (2007); T. Leif und R. Speth (2006); Lösche (2006); Sebaldt (1998).

⁴⁴ cf. Lahusen and Jauß (2001); Michalowitz (2007); Tenbrücken (2002); Teuber (2001).

⁴⁵ cf. Baumgartner and Leech (1996); Meznar (2002).

Research Questions – Purpose of this Work

By developing an overarching framework based on theories, two research questions will be answered in this thesis:

1. What are the determinants that force business firms to engage in NS?
2. Are there differences between the determinants in the US and in Europe? What can lobbyists learn from each other?

The demand for a theory-based grand framework to explain the determinants of firms' involvement in NS can be found in several papers published in recent years. In their Academy of Management Journal (AMJ) article, Bonardi et al. (2006) criticize the lack of *"a unifying conceptual framework that analyzes the determinants of nonmarket strategy"*⁴⁶. In their paper, Levy and Egan (2003) discuss the lack of theoretical substantiation of existing frameworks (*"Managerialist discussions of [Corporate Political Strategy] CPS have been relatively atheoretical, providing a more empirical and descriptive framework somewhat disengaged from broader streams of social theory"*)⁴⁷. Hillman (2002) discusses the opportunity to develop a *"grand theory that incorporates [...] CPS"*⁴⁸ and demands its development (*"a grand theory [...] is possible or even desirable"*⁴⁹) not forgetting that this is a difficult task for academia (*"agreeing on one general model would be difficult given that our community of scholars is comprised of a number of individuals all from distinct theoretical perspectives and disciplines"*⁵⁰). However, Hillman (2002) directly refers to Schuler's (2002) article, in which the latter demands a *"grand theory to guide our empirical efforts"*⁵¹.

The present thesis responds to this criticism of the literature, working on an approach for a theory-based "grand framework". Therefore, the literature on NS is analyzed in order to identify the most important theories that explain interactions between firms and the nonmarket environment. After connecting them to the political environment, these theories are used to provide answers to the most important questions, such as why, how, when and what (kind of) firms engage in NS. The propositions

⁴⁶ Bonardi et al. (2006: 1209).

⁴⁷ Levy and Egan (2003: 804).

⁴⁸ Hillman (2002: 357).

⁴⁹ Hillman (2002: 357).

⁵⁰ Hillman (2002: 357).

⁵¹ Schuler (2002: 351).

are developed based on a literature review. As part of the model to explain the determinants of NS for business firms, this thesis, based on the resource-based view (RBV), focuses on needed political resources to enter this market and explains how firms can develop these resources. The outcome of this thesis will be the approach of an integrated NS driver model based on major theories related to NS.

Methodology – Research Process

This section provides insight into the research process. To ensure objectivity and rigor, a systematic review was pursued.⁵² Relevant publications were identified using specific keyword search in their title or abstract in EBSCO host. However, as the research focus of this thesis changed over time, two phases in the research process need to be explained. In the first phase, a literature review was conducted to analyze the *antecedents and the outcome of CPA* (See Chapter 3.1 for an introduction of the second phase of the literature review). Therefore, theories from relevant areas of research were analyzed and adapted to the nonmarket environment to build a theoretical framework to answer the questions of why, when, how, and what firms become involved in CPA. Furthermore, the question of which different nonmarket strategies could be chosen from a firm's perspective was investigated to build an integrated strategic framework, including an analysis of the outcome of these strategies for the business firm's performance (this part (outcome of NS) has been dropped for the final version).

The literature review covered papers published in academic journals between 1990 and 2010.⁵³ To accomplish a qualitative systematic management review, a preliminary database search was conducted with several keywords regarding the purpose of the review. Since there were neither an overarching framework nor standardized expressions, the paper selection was an iterative process. To cover the complete (newer) bibliography, EBSCO host was used including the academic search premier, business source premier and other political, sociological and business databases. Over several search steps, a large but fragmented body of literature comprising about 720 articles was revealed. In order to identify the relevant studies, the following selection process was applied:

1. selecting by title;

⁵² cf. Tranfield, Denyer, and Smart (2003).

⁵³ The Literature Review has been finished May 2011.

2. selecting by abstract;
3. selecting by text; and
4. including additional papers via cross-referencing (revoking the time filter).

This procedure resulted in a sample of 108 publications. Of these, 53 (49 %) are empirical studies and 55 (51%) are qualitative articles.⁵⁴

As an outcome of the research work, mirroring the results of the first literature review, the research area was narrowed down and the research questions were redefined. The development of the antecedents of CPA by applying several theories, and in addition the development of basic market and nonmarket strategies by including an empirical analysis about their outcome on firm performance would both be either superficial or too long and would not meet academic standards. Therefore, this thesis focuses on the determinants of business firms' nonmarket strategies and adds a comparative analysis between Europe and the US, as this aspect is widely neglected in literature. The author spent one year in Washington, D.C. to work on this topic. With respect to the literature, the empirical studies focusing on the outcome of CPA were abstracted from the thesis.⁵⁵ Furthermore, literature on the development of market and nonmarket strategies was removed. The new boundaries of the literature were based on the definitions of market and nonmarket environments and CPA.⁵⁶ New literature was implemented to cover the state of the art in academic research until the end of 2015. The determinants of nonmarket strategies were developed through the identification of theoretical approaches (e.g. based on the selected theories from the first literature review) and conceptual patterns within and across the different papers. Cross-referencing was used by applying the basic frameworks of Boddewyn and Brewer (1994), Bonardi et al. (2006), Blumentritt (2003), Hillman et al. (2004), Meznar & Night (1995), Oliver and Holzinger (2008), and Schuler et al. (2002).⁵⁷

Due to the intertwingularity of the topic, overlap in the body of literature is a serious issue. For this reason, papers were analyzed, and for each paper a summary was created of the major insights that it provided, including original quotes. These summaries were then put into a database that follows the

⁵⁴ See Appendix F.

⁵⁵ See Appendix A.

⁵⁶ See Chapter 2.1.

⁵⁷ cf. Boddewyn and Brewer (1994); Bonardi et al. (2006); Blumentritt (2003); Hillman et al. (2004); Meznar and Nigh (1995); Oliver and Holzinger (2008); Schuler, Rehbein, and Cramer (2002).

structure of the thesis. Working with this database, which includes more than 2,000 entries, helped to differentiate between the different determinants of business firms' involvement in CPA.

Academia can help managers to understand the nonmarket environment. Therefore, the "State of the art" in NS will be discussed in this section. However, to determine whether it in fact does, a database search on EBSCO host⁵⁸ was conducted. Using the search string "strategic management" provided 13.377 results for work published since the 1970s. If one combines the search with the term "politics or political or nonmarket or non-market", the results are reduced to 988. Only 6% of all articles in strategic management seem to consider the nonmarket environment. The real affiliation of articles in the area of strategic management to the political or nonmarket environment is even lower, as less than 300 articles (< 2%) note the search string (see above) into the title, the abstract or the subject terms.

This result is not as easy to understand as it seems; for this reason, this section explains it in further detail. Only 6% (respectively 2%) of all published papers in the research field of strategic management are somewhat related to the nonmarket environment. Compared to the importance of this environment for firms, this is a small proportion; but with about 900, respectively 300 articles, one cannot say that there is scarce or even no research on the subject. To formulate the research questions, a closer analysis is needed. The discussion of two aspects in particular seems to be worthwhile.

(1) There are hundreds of articles relating to the nonmarket environment and no consensus regarding one perspective or theoretical substantiation; this makes it difficult to find results. Due to the multitude of different research perspectives and approaches to the topic, scholars such as Holburn and Vanden Bergh (2014) and Meznar (2002) consummate that research on NS in management lacks an overarching framework.⁵⁹

⁵⁸ Including the following databases: Business Source Premier, International Political Science Abstracts, Political Science Complete including (Academic) Journals, Books and Magazines. Only Scholarly (Peer Reviewed) Journals. Results from March 5th 2016. The author refers to the search strategy as shown in Villa, Rajwani, and Lawton (2015: 420 f.).

⁵⁹ cf. Holburn and Vanden Bergh (2014: 450 f.); Meznar (2002: 331).

(2) Furthermore, nearly 1.000 is a significant amount for academic standards and is an encompassing amount for to start a literature review. More than 42 empirical studies in this field of research provide interesting insights, but they cannot easily be integrated in an overarching framework. For that reason, the aim of this thesis is to develop an integrated approach based on theories that is open for a test by empirical study. However, before developing this approach, the state of the art in the research field of nonmarket strategies must be further analyzed. For that reason, the structure of the literature shall be analyzed in the following paragraph.

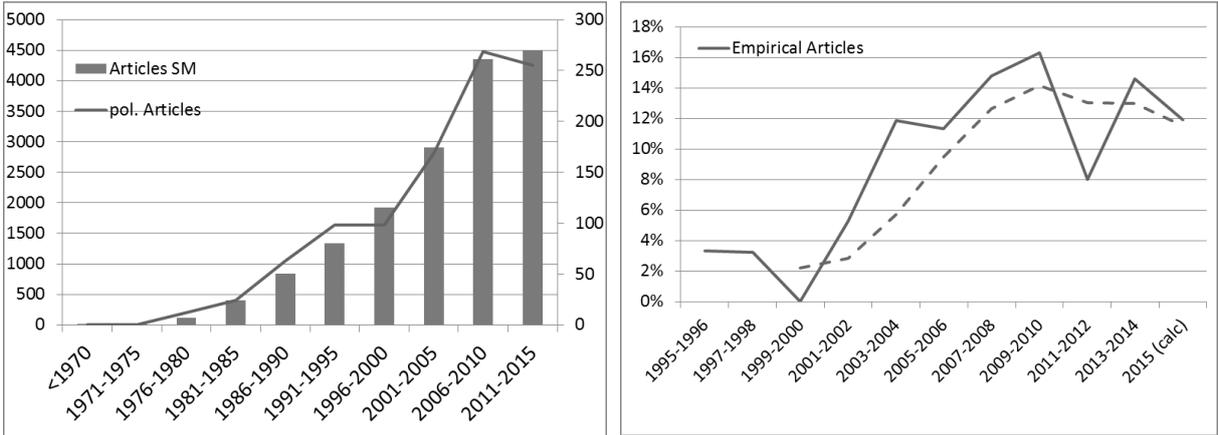


Figure 2: EBSCO Host Search on Articles in Strategic Management

Figure 2 depicts the development in academia over the last 45 years. One can see that strategic management is rapidly developing; the research on nonmarket strategies has increased in the last 15 years in particular. In this thesis’s sample of empirical papers, for example, about two thirds were published since 2000 (1980s: 5%, 1990s: 26%, 2000s: 57%, 2010s: 12%). Overall, a rapid increase of empirical studies could be found in the literature in the last 15 years as well (see Figure 2). The increasing consideration of the nonmarket environment in the field of strategic management, even on a “lower level”, can be explained by profound changes in the economic world. The business and finance markets are becoming increasingly globally interconnected. Supply chains spread out over the whole globe. Firms have to consider customer, labor, and environmental laws and regulations of several countries in conducting their daily business. Modern information technologies have opened new opportunities in global trade.⁶⁰ Since the fall of the Berlin wall, governments all over the world have tended to be more liberal and market-oriented, giving firms more opportunities to conduct business.⁶¹

⁶⁰ cf. Meznar (2002: 330).

⁶¹ cf. Harrison and Freeman (2004: 53); Keim and Hillman (2008: 47).

Furthermore, supranational bodies have been founded to enable international trade.⁶² All of this creates opportunities, but also the necessity for firms to engage in nonmarket strategies.

Other changes in the market and nonmarket environment underline the importance of the nonmarket environment. Increasing wealth of societies for example has illuminated other issues: sustainability, climate change, healthcare, and trade policies are becoming increasingly important for governments. Laws and regulations are being changed and are becoming progressively important for managers. Hundreds of issues are being formulated in industrialized countries alone every year.⁶³ The growing influence of the government on the one hand and the ongoing liberalization of international trade on the other hand make it clear that the political environment has become more complex and dynamic over time.⁶⁴ As a result, governments can be seen as critical sources of uncertainty for firms by shaping the firms' competitive environment and controlling critical resources.⁶⁵

On the one hand, governments and international organizations have the possibility to alter the market environment of firms in several ways.⁶⁶ On the other hand, however, firms and the other actors in democratic societies have the opportunity to influence the public policy shaping process, which also affects their market environment (indirectly). Hence, Weidenbaum (1980) assumes that firms should view requirements from the political environment, such as regulations and laws, as opportunities instead of as restrictions. Other authors, such as Hillman et al. (1999) and Jauch and Kraft (1986), follow this example.⁶⁷ Nonmarket strategies (NS) give firms the opportunity to take part in shaping their own market environment. For that reason, NS will be considered by firms if they develop their competitive strategies.⁶⁸ Furthermore, a better understanding for managers of the political environment improves the managers' ability to assess opportunities and threats, and helps them to formulate strategies to shape the environment of future markets.⁶⁹ Nowadays these capabilities are necessary for managers because they are now not only responsible for the performance of their firms in the market

⁶² cf. McLaughlin, Jordan, and Maloney (1993: 192).

⁶³ cf. Hillman and Hitt (1999: 826); Keim and Hillman (2008: 52).

⁶⁴ cf. Oliver and Holzinger (2008: 504); McWilliams et al. (2002: 711).

⁶⁵ cf. Baron (1995); Hillman and Hitt (1999: 826).

⁶⁶ cf. Vining, Shapiro, and Borges (2005: 150).

⁶⁷ cf. Jauch and Kraft (1986: 783); Hillman and Zardkoohi (1999: 68); Weidenbaum (1980: 50).

⁶⁸ cf. Hillman and Hitt (1999: 826); Oliver and Holzinger (2008: 496); Vining et al. (2005: 168).

⁶⁹ cf. Keim and Hillman (2008: 48)

environment; they are also responsible for their firms' performance in the nonmarket environment.⁷⁰

As an interim conclusion, Salorio et al.'s (2005) assumption that "*all firms act politically*" is confirmed.⁷¹

Structure

This thesis begins with a defining section, which includes the explanation of the market and nonmarket environment and how to borrow theories from other research fields to integrate them into an overarching framework. Then, the RBV of the nonmarket environment is presented (Chapter 2). Subsequently, the main section (Chapter 3) analyzes the antecedents of firms' engagement in NS. The chapter thus examines theoretical, qualitative, and empirical aspects of the literature to answer the questions of why, when, how, and what firms engage in NS. These insights are combined with six basic theories to develop the propositions that explain the most important drivers that force firms to engage in the nonmarket environment. To understand the internal drivers of firms' engagement in NS, the chapter analyzes the needed political resources (reputation, legitimacy, access, and influence) that are the link to the research field of strategic management. Subsequently, Chapter 4 compares the devised propositions with this thesis's own interview investigation, and Chapter 5 discusses the results of this comparison. Finally, Chapter 6 suggests directions for further research, with a focus on an integrative empirical model, and concludes the thesis.

⁷⁰ cf. Baron (1995: 48).

⁷¹ Salorio et al. (2005: 31).

Chapter 1 Introduction		
Chapter 2 Definitions and Theories		
<p>Chapter 2.1 Definitions</p> <ul style="list-style-type: none"> The Market and Nonmarket Environment Market vs. Nonmarket Strategies (Non)Market Resources and Public Goods The RBV of the Nonmarket Environment The Tension Field of (Non)Market 	<p>Chapter 2.2</p> <p>The Concept of Borrowing Theories</p>	<p>Chapter 2.3</p> <p>Main Theories in The Research Field of Nonmarket Strategies</p>
Chapter 3 Determinants of Nonmarket Strategies – The Driver Model		
Chapter 3.1 Introduction and Methodology		
Chapter 3.2 The Three Perspectives Connected to Strategic Management		
Chapter 3.3 Internal Access-related Drivers		
Chapter 3.4 External Drivers		
Chapter 3.5 Issue-related Drivers		
Chapter 4 The Driver Model in the Real World – Interviews		
Chapter 4.1 Methodology		
Chapter 4.2 Insights		
Chapter 5 Discussion and Implications		
Chapter 5.1 Discussion		
Chapter 5.2 Implications		
Chapter 6 Limitations, Further Research and Conclusion		
Chapter 6.1 Limitations and Further Research	Chapter 6.2 An Empirical Approach	Chapter 6.3 Conclusion

Figure 3: Structure of the Thesis

Summary of Chapter 1: Introduction

The political environment is of high importance for firms:

- **Globalization connects** not only markets but also **political and juridical systems**
- **Transnational organizations** and **treaties** “control” international markets (e.g. WTO, EU)
- **Juridical decisions** and regulations are of growing importance for business
- **New issues** in society: health care, environment, sustainability and “climate change”

The political environment has significant effects on firms:

- The political environment is a source of **uncertainty** (complexity, change and dynamics) in addition to the uncertainty of the market environment, and with sometimes even stronger implications
- The political environment controls critical **resources (“primacy of politics”)**
- The political environment **structures** the markets (laws and regulations/standards)
- and finally **influences** the costs structures of firms
- The political environment sometimes even follows demands of populist developments (pressure from non-political nonmarket environment)
- The political environment highly impacts the **survival** of firms and markets

Implications:

***for Practice: Managers should not treat the political environment as a “given”;
for Theory: Strategic management has to consider complexity and interplay of economic and political influences and needs to develop encompassing models for explanations.***

Based on the guiding principle and the implications, the following research objectives are defined for this thesis:

Research Objectives: By developing an overarching framework based on theories, two research questions will be answered in this thesis:

- 1. What are the determinants that force business firms to engage in NS?***
- 2. Are there differences between the determinants in the US and in Europe?
What can lobbyists learn from each other?***

Conclusion:

Nonmarket Strategies are crucial for firm survival in the age of globalization.

2 Definitions and Theories

This chapter provides the theoretical background for the framework that this thesis will develop. Firstly, it defines the basic terms necessary to understand this thesis (Section 2.1). Secondly, it introduces the method of borrowing theories from other fields of research (Section 2.2).

2.1 Definitions

For proper orientation in the field of NS, a number of definitions are necessary. Therefore, the following paragraphs discuss the terms market and nonmarket environment (Section 2.1.1), market strategies and nonmarket strategies (Section 2.1.2) and market and nonmarket resources (Section 2.1.3). Finally, Section 2.1.4 discusses the application of the RBV in the area of the nonmarket environment and Section 2.1.5 discusses the tension field between market and nonmarket.

2.1.1 The Market Environment and the Nonmarket Environment – Definitions and Disparities

The **market environment** is the place where individuals and firms exchange goods and property, and is where rights are held. The market environment is voluntary: actors in this environment engage in *“free, legally enforceable and contractual exchanges”*⁷². Markets are the areas for selling and buying, and for exchanging more or less distorted information.⁷³ Following Baron’s (1995) definition, the market environment includes *“those interactions between the firm and other parties that are intermediated by markets or private agreements”*⁷⁴. In this thesis, the market environment encompasses all interactions (exchange of goods, rights, and information) between actors following the rules stemming from the nonmarket environment, which will be discussed subsequently.⁷⁵

Conversely, the **nonmarket environment** is involuntary and includes *“those interactions that are intermediated by the public, stakeholders, the government, the media and public institutions”*⁷⁶. The nonmarket environment is involuntary because firms have to follow laws and regulations and have to

⁷² Hollingsworth, Schmitter, and Streeck (1994: 5).

⁷³ cf. Baron (1995: 47).

⁷⁴ Baron (1995: 47).

⁷⁵ Compared to the market environment, the nonmarket environment is seen as exogenous.

⁷⁶ Baron (1995: 47).

consider major developments in society to assure their survival in the long run.⁷⁷ Furthermore, the nonmarket environment can cause far-reaching changes in the market environment. For example, the US government can fundamentally alter the domestic market structure through the enactment of trade policies.⁷⁸ Figure 4 illustrates the interactions between the market and nonmarket environments.

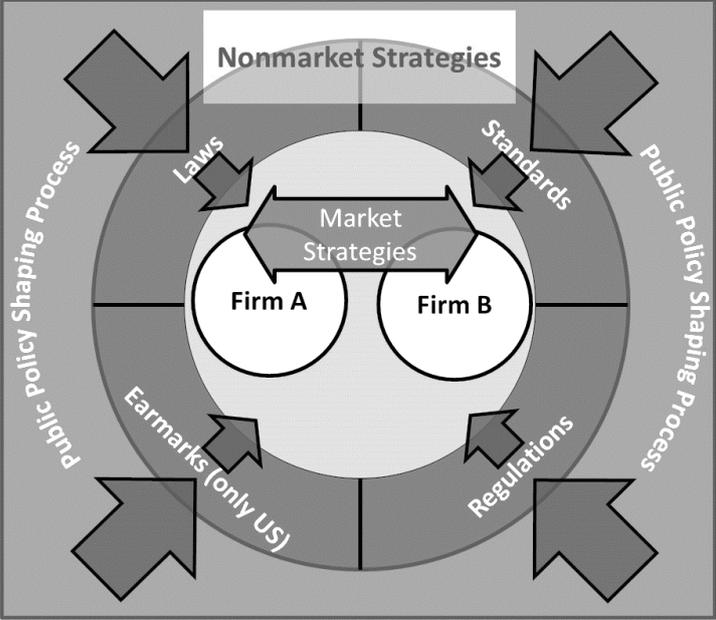


Figure 4: Interactions between the Market and Nonmarket Environments

In contrast to the market concept, which has been enacted since the dawn of time, the relevance of the nonmarket concept for firms is relatively new; it is closely connected to the development of “modern society”, i.e. the democratic state governed by the rule of law. While neoclassical theory merely acknowledged the existence of political, legal, monetary, and other institutions but regarded them as neutral in their effect on economic outcomes,⁷⁹ recent research streams have moved beyond this perspective.⁸⁰ Firms and markets are now part of an all-encompassing socio-economic system and cannot exist without that system.⁸¹ While the market concept only considers courses of action within the market environment, the nonmarket concept goes further and integrates societies’ subsystems with their public (governmental system), nonpublic (NGOs), and private actors. The application of the nonmarket concept is necessary as solutions solely from market environment are often times not

⁷⁷ cf. Baron (1995: 47).

⁷⁸ cf. Stigler (1971).

⁷⁹ cf. Furubotn and Richter (2000: 8 f.).

⁸⁰ cf. Baron (1995); Boddewyn (2003); Pei Sun, Mellahi, and Wright (2012).

⁸¹ cf. Astley and van de Ven (1983: 266).

satisfactory.⁸² For instance, only NS can dissolve natural monopolies, e.g. in the telecommunications sector.⁸³

The nonmarket concept is not free of criticism. Boddewyn (2003) sees problems in the application of the nonmarket concept. The “nonmarket” label is, as he declares, an umbrella expression applicable to a variety of intra- and interorganizational and institutional phenomena. Its versatility makes it a “*Swiss-Army-knife*”⁸⁴ allowing researchers to “*analyze many of these phenomena without being bound by too much precision*”.⁸⁵ This wide application can be explained by the complex structure of the nonmarket environment, encompassing several political layers (boroughs, states, federal, supranational), various ways of coercion (laws, regulations, courts), and manifold interactions between members of the society and governments/markets. However, even though the nonmarket environment is encompassing, its definition will not be blurry; it is important to clearly define the border between it and the market environment.

Against this background, Boddewyn’s (2003) definition will be applied: “[The] **Nonmarket [environment]** refers to (a) values expressing the purposive pursuit of public interests; (b) internal and external interchange mechanisms of coercion and cooperation that complement and balance competition in a reciprocal manner at various levels of interaction; (c) relationships among market and nonmarket organizations resting principally on their actors’ sovereignty rights; and (d) the conflictual integration in the light of their failures of society’s economic, political, social, and cultural organizations”.⁸⁶

2.1.2 Market Strategies versus Nonmarket Strategies

Having clarified the definitions of market and nonmarket environments, the definitions for market strategy and NS will now be discussed. In general, a market strategy is aimed at the market

⁸² cf. Boddewyn (2003: 320).

⁸³ Accordingly, the nonmarket environment can be seen as a construct to correct failure. Failure applies to all organizations, both firms and nonmarket organizations. Even though these failures lead to self-corrective-processes in the organization, nonmarket correctives are necessary because the self-corrections inside the market environment are only partially and temporarily successful and do not apply to all organizations. Then, nonmarket correctives are needed to assure “efficient” markets (cf. Boddewyn (2003: 317 ff.)).

⁸⁴ Boddewyn (2003: 298).

⁸⁵ Boddewyn (2003: 298).

⁸⁶ Boddewyn (2003: 320).

environment and a NS aims for changes in the nonmarket environment. To define **market strategy**, this thesis follows the definition of the majority of researchers in strategic management.⁸⁷ For that reason, market strategy is defined as *“a concerted pattern of actions taken in the market environment to create value by improving [the firms’] economic performance”*⁸⁸. One point is clear: strategic management is concerned with the *“consistent and long-run direction”* of the firm.⁸⁹

Compared to market strategies, the definition of NS is more difficult, as the definition of the nonmarket environment has already demonstrated. First, the existing terminology is elucidated. In the literature, one can find many terms that explain firm strategies aimed at the nonmarket environment: corporate political activity or action, corporate political strategy, NS, and political strategy are the terms used most frequently in the literature⁹⁰. The ambiguity of terms can be explained by the origins of NS. Following Mahon and McGowan (1998), NS research stems from three different academic areas: political science, business strategy, and business and society.⁹¹

Mahon (1989) defines corporate political strategy as *“using the organization’s resources to integrate objectives and to undertake coherent actions directed toward the political, social, and legal environment in order to secure permanent or temporary advantage and influence over other actors”*⁹². On this basis, Getz (1997) defines corporate political strategy as a *“broader set of actions undertaken in the governmental arena”*⁹³. In these first definitions, the emphasis is on integrating the governmental arena into the corporate strategic agenda, and on exerting influence over other actors.

⁸⁷ cf. Mintzberg and McHugh (1985); Prahalad and Hamel (1990); Porter (2008).

⁸⁸ Baron (1995: 47).

⁸⁹ cf. Lynch (1994: 530).

⁹⁰ cf. e.g. Corporate Political Activity: Baysinger, Keim, and Zeithaml (1985); Brady, Drutman, Schlozman, and Verba (2007); Brasher and Lowery (2005); Clougherty (2003); Drope and Hansen (2006); Drutman (2009); Hansen and Mitchell (2000); Hillman and Keim (1995); Lenway and Rehbein (1991); Marsh (1998); Mitchell, Hansen, and Jepsen (1997a); Rehbein (1995); Sadrieh and Annavarjula (2005); Schuler (2002); Schuler et al. (2002); Shaffer (1995). Corporate Political Strategy: Coen and Grant (2001); Dahan (2005c); Hillman and Hitt (1999); Holburn and Vanden Berg (2008); Lenway and Rehbein (1991); Levy and Egan (2003); Lord (2000); Mahon, Bigelow, and Fahey (1989); Ozer and Lee (2009); Schuler (1996); Ullmann (1985); Vanden Berg and Holburn (2007); Zhilong Tian and Xinming Deng (2007). Nonmarket Strategy: Baron (1995); Bonardi et al. (2006); Mahon, Heugens, and Lamertz (2004).

⁹¹ cf. Mahon and McGowan (1998: 174).

⁹² Mahon et al. (1989: 51 f.).

⁹³ Getz (1997: 33).

Gale and Buchholz (1987) define strategic *“political management as a set of [...] actions that firms plan and enact for the purpose of maximizing economic returns”*⁹⁴. This definition is in line with that of Baysinger (1984), which describes any kind *“of corporate political behavior as an attempt to use the power of government to advance private ends,”*⁹⁵ defining it as “strategy” if an individual firm is able to influence the public policy shaping process.⁹⁶ Salorio et al. (2002) find *“political behavior to be strategic to the extent that it aims at furthering a firm’s economic goals through its positioning in nonmarket environments”*⁹⁷. Finally, Baysinger (1984) emphasizes, together with Dahan (2005), Mitnick (1993), and Oliver and Holzinger (2008), the proactive characteristic of corporate political strategy to affect the public policy environment in favorable ways.⁹⁸

The differences between the particular definitions are marginal, and thus this thesis defines NS, following the definition of Baron (2005), as a *“concerted pattern of actions taken in the nonmarket environment to create value by improving [the firms’] overall performance”*⁹⁹. Nonmarket strategies are, for example, compliance, avoidance, circumvention, conflict-laden bargaining, partnering, and lobbying.¹⁰⁰

2.1.3 Market and Nonmarket Resources and Public Goods

Having clarified the definitions of market strategy and NS, this section will discuss the resources in the market and nonmarket environments, highlighting that this thesis is based in the research area of strategic management. According to the RBV of strategic management, firms are bundles of heterogeneous resources that provide the foundation of competition.¹⁰¹ Resources are defined as *“firm-specific assets that are difficult if not impossible to imitate”*¹⁰². Firm resources can be observed in different manifestations (tangible or intangible, financial, human, etc.) and must not necessarily be

⁹⁴ Gale and Buchholz (1987: 39).

⁹⁵ Baysinger (1984: 300).

⁹⁶ cf. Baysinger (1984: 300) and see also Schuler (1996: 720 f.).

⁹⁷ Salorio et al. (2005: 30).

⁹⁸ cf. Baysinger (1984); Dahan (2005a: 49); Hillman (2003: 455); Mahon and McGowan (1998); Mitnick (1993: 220 ff.); Oliver and Holzinger (2008: 499).

⁹⁹ Baron (1995: 47 f.).

¹⁰⁰ cf. Boddewyn and Brewer (1994: 136); Boddewyn (2003: 146); Cladeira and Wright (1998); Yoffie (1987). As discussed earlier, NS such as bribing are not incorporated in this analysis.

¹⁰¹ cf. Penrose (2009); Wernerfelt (1995: 172).

¹⁰² Teece, Pisano, and Shuen (1997: 516); see further definitions at: Amit and Schoemaker (1993: 35); Barney (1991: 101); Wernerfelt (1984: 172).

owned by the firm. It is sufficient if the firm has a **secure privileged access to the resource**.¹⁰³ For that reason, unique resources can provide sustainable competitive advantage in an imperfect market environment.¹⁰⁴

The origin of the RBV focuses on internal market resources and does not (or only partly, as will be seen in the following) consider resources of the nonmarket environment.¹⁰⁵ Over the last 25 years, several scholars have started to broaden the concept of firm resources by integrating nonmarket aspects, such as reputation, stakeholder trust, and regulation.¹⁰⁶ Goods that have been defined as non-tradable according to the classical RBV – which means that there is no economic market for them – are now being integrated to an “extended RBV” concept because they are now seen as tradable in the nonmarket environment.¹⁰⁷ If resources are tradable in the nonmarket environment, they need to be excludable, too. Nevertheless, tradability and excludability in connection with nonmarket seem to be odd due to the term “nonmarket”. However, Mahon and McGowan (1996) assert that a firm or another organization can use nonmarket resources like money to obtain what it wants. These resources can further be stockpiled for later use and compared with the resources of competitors.¹⁰⁸ Salorio et al. (2005) define political resources as being “well beyond” assets such as physical, human, and organizational capitals considered in the RBV¹⁰⁹ because the sources of power and influence are “*much broader than the sources of efficiency*”¹¹⁰.¹¹¹ A good example of this kind of resource is access through hiring former politicians.

Yet, a huge difference is observable between market and nonmarket resources in the opportunity of firms to exclude other actors from their use. If goods are accessible for the entire business community, they are considered public goods (non-rivalry, non-excludability). An example of a public good is the infrastructure or the legal system. However, if it is possible to limit the access to the good to a

¹⁰³ cf. Barney (1986); Barney (1991); Dierickx and Cool (1989); Wernerfelt (1984). For further explanation, see also RDT in Chapter 3.4.1.1.

¹⁰⁴ cf. Barney (1986: 1240).

¹⁰⁵ cf. Boddewyn and Brewer (1994: 135); Dahan (2005a: 43).

¹⁰⁶ cf. Fombrun and Shanley Mark (1990); Barney and Hansen (1994).

¹⁰⁷ cf. Salorio et al. (2005: 36 f.).

¹⁰⁸ cf. Mahon and McGowan (1996: 52 ff.).

¹⁰⁹ cf. Barney (1991: 101 f.).

¹¹⁰ Turk (1983: 196).

¹¹¹ cf. Salorio et al. (2005: 36).

restricted group, it is considered to be a club good.¹¹² For example, financial and organizational resources can be owned (market resources/private goods), whereas patent law¹¹³ (nonmarket resources/public goods) granted by the government cannot be owned.¹¹⁴

The integration of nonmarket resources into the RBV is not without controversy. In his study from 2005, Dahan illustrates that the resource concept is useful in the context of business (market environment) but possibly *overstretched* in politics (nonmarket environment). In contrast to market resources, nonmarket resources do not result in an individual sustainable advantage for a single firm. Dahan (2005) underscores his view by demonstrating the different characteristics of the resources in both environments; following his suggestions, public policy advantages have been considered as public goods, because it is not possible to exclude other firms from benefiting from them in the long run.¹¹⁵ Other authors share Dahan's argumentation. Teece (1988) uses the example of investments to differentiate between the market and nonmarket environments¹¹⁶ by saying that investments in public policies differ from other types of strategic investments. Investing in public policies always has implications for other actors in the industry as well, because the benefits in the nonmarket environment are collective goods.¹¹⁷ For example, Olson (1965) marks trade protections as public goods.¹¹⁸ As the resource concept is of high importance for this study, the so-called **political resources** will be discussed in the next section.

2.1.4 The RBV of the Nonmarket Environment – Political Resources

To analyze the determinants of NS, this thesis applies the RBV from the research field of competitive strategy. This is not a common approach for the nonmarket environment, as a look at the literature confirms. Boddewyn and Brewer (1994), for example, bemoan the "*relative silence*"¹¹⁹ of the RBV

¹¹² cf. Dahan (2005b: 11).

¹¹³ In regard to the legal system, not the patent as such.

¹¹⁴ cf. Dahan (2005b: 11); Duhigg and Lohr (2012).

¹¹⁵ cf. Dahan (2005b: 23).

¹¹⁶ Even he did not use the words market and nonmarket environment.

¹¹⁷ cf. Teece (1988).

¹¹⁸ cf. Olson (1965).

¹¹⁹ Boddewyn and Brewer (1994: 120).

regarding NS. This is even odder as the RBV was firstly applied to the nonmarket environment by Fainsold (1940), and not even in the market environment.¹²⁰

There are several possible reasons for this silence. In the beginning, the RBV (Wernerfeldt (1984))¹²¹ very much focused on internal resources only. Later in the 1990s scholars started to broaden the range of resources to include more “external aspects” such as brand reputation (Fombrun (1990))¹²², stakeholder trust (Barney & Hansen (1994))¹²³, and finally regulation as the first real resources related to the nonmarket environment (Boddewyn (2000))¹²⁴. In general, the RBV continues to pay “*relative little attention to nonmarket variable*”¹²⁵. For example, Mahoney and Pandian (1992) identified 37 “*isolating mechanisms*”, as they call them, and only three of them could be classified as being related to the nonmarket environment. However, all three are classified as exogenously given.¹²⁶ In summary, the RBV still heavily focuses on market resources and does not fully consider nonmarket/political resources. However, it makes sense to implement the RBV into the development of a model explaining the determinants of NS in the area of strategic management. For that reason, business firms’ internal resource structure regarding the nonmarket environment should be investigated in greater detail in this thesis.

From an RBV perspective, unique resources can provide a sustainable competitive advantage.¹²⁷ Therefore, a firm’s strategy should fit its resources.¹²⁸ Thus, a firm’s market strategy must be aligned with its market resources. But how can this approach help in the even more complex system of the nonmarket environment? In the RBV, on the one hand, the “*market system [...] remains exogenous*”¹²⁹; following an encompassing approach, on the other hand, this “*market system*” does not remain a “*black box*”¹³⁰, but is rather part of the system and open for manipulation.

¹²⁰ cf. Fainsold (1940).

¹²¹ cf. Wernerfeldt (1984).

¹²² cf. Fombrun and Shanley Mark (1990).

¹²³ cf. Barney and Hansen (1994).

¹²⁴ cf. Schendelen, M. P. C. M. (2003).

¹²⁵ Boddewyn (2003: 308).

¹²⁶ cf. Busch-Janser (2004).

¹²⁷ cf. Barney (1986).

¹²⁸ cf. Zhilong Tian and Xinming Deng (2007).

¹²⁹ Boddewyn (2003: 308).

¹³⁰ Boddewyn (2003: 308).

Therefore, the political resources of a firm need to be considered in an **extended RBV**. Furthermore, analogous to the market RBV, specific **political resources** are needed to engage in specific **NS**. In addition, as a cooperation of firms in the nonmarket environment is not regulated (e.g. due to anti-trust law), firms can decide whether to engage alone (for resource-rich firms) or to engage in collective political action (possibly aligned through an umbrella organization).¹³¹ Overall, to apply a comprehensive approach the RBV needs to be expanded and enriched by political resources, which some researchers thus far see as *“largely missing in the literature”*¹³².

As explained above¹³³, these “new” kinds of resources can have several names: nonmarket resources, political resources, nonmarket assets, or institutional resources.¹³⁴ Bonardi et al. (2006) define *“nonmarket capabilities [...] as tacit and nontacit knowledge and skills that enable firms to manage the public policy process”*¹³⁵ to receive benefits from the nonmarket environment.¹³⁶ These resources are needed for firms to engage in NS.¹³⁷ Therefore, these resources need to be integrated in the framework proposed in this thesis.

Dahan (2005) identifies the following important political resource fields: legitimization, access, and influence.¹³⁸ Compared to market resources, political resources are infinite in their characteristics, encompassing reason, facts, power, argument, persuasion, access, legitimacy, reputation, and diplomacy.¹³⁹ The goal is to build resources that are **valuable, rare, and difficult to imitate**; and furthermore, to build an **organization** that is able to exploit those resources (**VRIO**).¹⁴⁰ This is fostered by political resources being less visible for competitors compared to market resources. Furthermore, political resources are difficult to imitate compared to market resources. Some researchers even

¹³¹ cf. Hillman and Hitt (1999) see as well Chapter 3.4.2.1 Theoretical Background: The Collective Action Theory.

¹³² Boddewyn and Brewer (1994: 135).

¹³³ See Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment.

¹³⁴ cf. Baron (1995); Boddewyn and Brewer (1994); Oberman (1993); Sadrieh and Annavarjula (2005); Sadrich and Varjulia (2002); Salorio et al. (2005).

¹³⁵ Bonardi et al. (2006: 1211).

¹³⁶ cf. Bonardi et al. (2006: 1211 f.).

¹³⁷ cf. Eggertsson (1990).

¹³⁸ Dahan (2005b: 23 f.).

¹³⁹ cf. Boddewyn and Brewer (1994: 136).

¹⁴⁰ cf. Coen and Grant (2006b); Barney (1991).

assume that it is not possible to “replicate” political resources because they exist in “*knowledge, expertise and skills of managers in addressing nonmarket issues*”¹⁴¹.

To summarize, political resources are – compared to market resources – harder to imitate, and therefore valuable. The concept of political resources seems to be a valuable contribution for research beyond the field of NS.¹⁴² In the framework that will be proposed in this thesis¹⁴³, and based on the work of Dahan (2005), political resources are used to explain many actions in the nonmarket environment: to legitimize firm’s behavior, to gain access to public policy decision-makers, and finally to influence them on behalf of the firm.¹⁴⁴ The major aim of both market and nonmarket resources is to gain long-term survival through anticipating and integrating market and NS. The increasing competition in a globalized economy promotes the identification of these resources.¹⁴⁵

2.1.5 The Tension Field between Market and Nonmarket

Based on the literature analysis, nonmarket resources and public goods should be seen as strategic assets. Accordingly, this thesis defines **nonmarket resources** as **a firm’s assets that can alter the nonmarket environment of the business firm**. They include expertise and competency in dealing with nonmarket forces such as public goods, and they can also be indirectly connected to the market environment.¹⁴⁶ These nonmarket resources as well as market resources are, based on this understanding, always the property of the firm.

Figure 4 on the page 18 and Figure 5 explain the structure and the interactions of and between the market and nonmarket environments. Market strategies occur in the market environment (in this example) between the two sample firms. The nonmarket environment “shapes” the market environment through laws, standards, and other regulations stemming from governmental and non-governmental institutions. Applying NS, firms try to change the nonmarket environment to implement new or changed public goods (public policy shaping process), for example. This, in the second step, has

¹⁴¹ Baron (1995: 61).

¹⁴² cf. Boddewyn and Brewer (1994: 136).

¹⁴³ See Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment.

¹⁴⁴ cf. Dahan (2005c: 5).

¹⁴⁵ cf. Schwaiger (2004: 46).

¹⁴⁶ For example, lobbying expertise could strengthen the competitive situation of the firm in the market environment.

an effect on the structure of the market environment and can create new opportunities for market strategies.

Figure 5 (see below) focuses on the interactions of the market resources, nonmarket resources, and public goods. As explained above, this thesis differentiates between the nonmarket resources (being the property of the firm) and public goods, provided by the government and other state organizations. The latter (public goods) are non-excludable goods and can therefore not be owned by a single firm. Accordingly, public goods can only be strategic assets for a firm in conjunction with the firm’s own market or/and nonmarket resources. This means that firms need a tool (respective market or nonmarket resource) to benefit from a public good. For example, a legal system is not a strategic asset of a firm because all actors can make use of it. However, if a firm owns competences in litigation strategies (e.g. by having its own legal department), it has the opportunity to use the legal system to achieve a competitive advantage over its competitors.¹⁴⁷

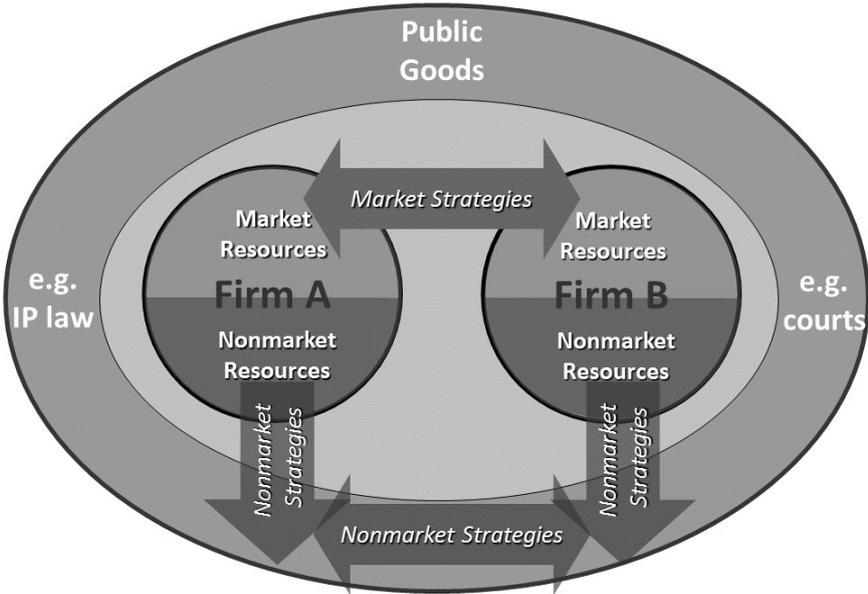


Figure 5: Interactions among Market Resources, Nonmarket Resources, and Public Goods

NS such as litigation strategies use public goods to gain competitive advantages for a single firm. An example can be a litigation strategy regarding intellectual property rights. If firm A has a patent for an application in the market environment of firm A and firm B, it can gain a competitive advantage over firm B by pursuing its rights from the patent. In the model that will be proposed in this thesis, the

¹⁴⁷ cf. Alter and Vargas (2000); Bizjak and Coles (1995).

patent being the intellectual property of the firm is protected by law. The patent law is a public good for firm A and firm B. If firm A pursues rights from the patent against firm B, it utilizes courts (which are public goods) using its nonmarket resources (e.g. a legal department). If firm A wins the law suit, this results in a competitive advantage over firm B because the competitor is no longer allowed to use this technology in the market environment.

To summarize, in developing an approach to explain the determinants of business firms' NS, market and nonmarket resources of firms need to be considered. The past section has defined the market and nonmarket environment, further discussed market strategies and NS and has developed a link to the research field of strategic management. In the next section, a concept how to borrow theories to develop a theory-based model will be introduced.

2.2 The Concept of Borrowing Theories

The field of NS is relatively young and, as was demonstrated above, is a small and highly specialized field of research. Therefore, in order to explain firm behavior in the nonmarket environment and to develop an overarching framework, this thesis applies the method of borrowing theories from other fields, e.g. from social science, political science, and management. Using this approach is in line with what other researchers do in the field of management, where "*routinely*"¹⁴⁸ insights from other fields of research are used to develop new insights.¹⁴⁹ To explain the background of this methodology, this section presents an overview of the state of the academic discussion about borrowing theories.

Theory is the answer to the question of **why**. It is an explanation of causal relationships and of underlying processes to understand why things occur and why others do not.¹⁵⁰ To quote the Oxford English Dictionary, theory is "*supposition of a system of ideas intended to explain something, especially one based on general principles independent of the thing to be explained*"¹⁵¹. The borrowing of theories

¹⁴⁸ Okhuysen and Bonardi (2011: 6).

¹⁴⁹ cf. Okhuysen and Bonardi (2011: 6).

¹⁵⁰ cf. Sutton and Staw (1995: 378). Following this concept of theories, my approach to analyze firm behavior in the nonmarket environment using theories seems to be reasonable.

¹⁵¹ Oxford Dictionaries (2011).

is – following these definitions – the process of importing a system of ideas or explanations of a phenomenon from one discipline to another.¹⁵²

According to Whetten et al. (2009), borrowing theories from neighboring disciplines is extremely important, especially for relatively young fields such as organizational theory.¹⁵³ The method of borrowing theories from core social science disciplines has helped organizational theory to develop credibility as a legitimate form of scholarly inquiry.¹⁵⁴ Organizational research, for example, has borrowed theories and concepts notably from sociology (and psychology).¹⁵⁵

In the case of this thesis, the borrowing of theories can be reasoned from two perspectives. First, firms need to be regarded as embedded in a larger environment, comprising both market and nonmarket environments. For that reason, it is impossible to study their relationships and interactions in this larger environment without using economic and sociological theory.¹⁵⁶ Second, organizational and management research is often seen as an “applied discipline”, i.e. an application of theories originated from other basic research fields.¹⁵⁷

At the same time, borrowing theories is not without problems. Especially in organizational and management theory, Oswick et al. (2011) identify an “*overreliance on borrowing theories*”¹⁵⁸ with the consequence that this predominance of borrowing limits the development of original theories.¹⁵⁹ Even though this could be seen as a problem it does not affect the present research because the field of NS is relatively young and there is – beyond controversy – a lack of own theories to explain firm behavior in the nonmarket environment.¹⁶⁰ Therefore, it is useful to first borrow theories from other fields of research to develop the field of NS. In a further step, the development of own theories might be reasonable, but this goes beyond the scope of the present work. In particular, it seems useful to borrow

¹⁵² cf. Oswick, Fleming, and Hanlon (2011: 167).

¹⁵³ cf. Whetten, Felin, and King (2009: 163); in my research I analyze the behavior of firms in an environment. Therefore, my research can be subsumed as part of organizational studies. Therefore, I focus on concepts of borrowing theories in this field of research.

¹⁵⁴ cf. Agrawal and Hoethker (2007: 1306); Whetten et al. (2009: 163).

¹⁵⁵ cf. Whetten et al. (2009: 537).

¹⁵⁶ cf. Scott (2001: 63 ff.).

¹⁵⁷ cf. Zald (1993: 515 ff.).

¹⁵⁸ Oswick et al. (2011: 318).

¹⁵⁹ cf. Oswick et al. (2011: 318).

¹⁶⁰ cf. Levy and Egan (2003: 804).

theories from both strategic management and political science research because an integrated theoretical approach to understand strategic firm behavior in the nonmarket environment does not yet exist.¹⁶¹

Another issue could arise, which is even more critical to this work: the wrong usage of theories. Suddaby (2010) defines theories as **tools** in order to emphasize that they are developed for a specific purpose and intent. This means that theories should not be misused.¹⁶² To analyze this problem, a more detailed examination of the borrowing of theory needs to be undertaken.

Whetten et al. (2009) distinguish between two kinds of theory borrowing: horizontal and vertical. The latter is the application of theories across levels, and is not relevant for the present work. In contrast, horizontal borrowing allows the application of theories developed in one field to explain behavior in another. If researchers find similar phenomena in several contexts and there is a theory explaining a phenomenon in one of those contexts, they are willing to borrow this theory and use it in the other context.¹⁶³ Accordingly, horizontal borrowing is useful for developing the research field of NS in order to explain the strategic behavior of firms in the context of the nonmarket environment.

A challenge inherent in the application of horizontal borrowing is researchers' lack of context sensitivity. For example, they might use theories from other disciplines explaining the relationship between two subjects and transfer them to a complete different context, or they might simply generalize interrelations.¹⁶⁴ To avoid misinterpretations in theory borrowing, Whetten et al. (2009) recommend carefully examining the contexts, seeking contextual differences, and identifying the theory's limits for generalizability.¹⁶⁵

In this thesis, this recommendation was followed, and the applicability of the theories was tested in the new context before the theories were used to explain firms' behavior in the nonmarket environment. Further, the thesis describes the origin of every theory and provides transparency on how each theory is used in the new context in order to explain NS always when introducing the new

¹⁶¹ See e.g. Baron (1997b); Ullmann (1985).

¹⁶² cf. Suddaby (2010: 160).

¹⁶³ cf. Whetten et al. (2009: 553).

¹⁶⁴ cf. Whetten et al. (2009: 542).

¹⁶⁵ cf. Whetten et al. (2009: 553).

theory in Chapter 3. Additionally, the thesis analyzes the frameworks of other scholars (see Chapter 5.1.) and their usage of theories and discusses the results. To summarize, it is useful (and perhaps even needed) to borrow theories to develop an overarching framework to explain the determinants of business firms' NS. The risks of the misuse of a theory are controllable. However, the risks of misuse and the interrelations between the theories will be discussed accordingly. Ultimately, the advantage of borrowing theories to develop the research field of NS exceeds the risks.

2.3 Main Theories in the Research Field of Nonmarket Strategies

As discussed in the introduction, hundreds of articles have been published during the last decades in the research field of NS. This thesis is based on more than 500 qualitative and quantitative articles. These numbers could lead anyone to believe that there might be an adequate understanding of why, when, and how firms engage in NS. However, in the process of trying to link all of this work together to build a model that explains the determinants of business firms' NS, an aligned underlying theoretical logic was not found.¹⁶⁶ The literature is fragmented over several disciplines and presents, on that account, different research approaches.¹⁶⁷ In addition, encompassing and explicit theoretical explanations are not as frequent as the amount of 500 articles (as basis of this thesis) might suggest. In their literature review, Lawton et al. (2013) highlight that "*scholarly research [...] has not kept pace with the prevalence of CPA practice in industry or across political systems*"¹⁶⁸.

To structure the research work of the last decades and to connect the approaches to explaining theories, a literature review was conducted (phase one). The purpose of the investigation was to review the state of the art in NS literature by analyzing the basic theories and connecting them to empirical results. Therefore, the qualitative studies were first analyzed to obtain an overview of the research status and to understand different approaches and theories explaining why and under which conditions business firms engage in the nonmarket environment. The theories and approaches

¹⁶⁶ Several authors discuss the lack of an overarching framework and/or the lack of detailed theoretical work and empirical proof; cf. Bonardi et al. (2006); Hillman (2002: 357); Levy and Egan (2003: 804); Schuler (2002: 351).

¹⁶⁷ cf. Hillman (2002: 357); Schuler (2002: 351).

¹⁶⁸ Lawton, McGuire, and Rajwani (2013: 87).

originate from several disciplines including economics, political science, sociology, and management, and for that reason have a different focus and understanding.

As an outcome of the review, it was possible to define several approaches or levels to analyze the determinants of NS. Economists treat public policy makers and business actors as self-interested and analyze the exchange of “inducements” in the public policy market.¹⁶⁹ On this highly aggregated level of analysis, sociologists investigate the effects of business political power on the democratic society. Political scientists understand the public policy shaping process as an attempt to reach a compromise between the competing goals of different interest groups.¹⁷⁰ Studying both the process of governing and the efforts of business actors to influence the government, political scientists focus on the body of constituents. Sociologists, conversely, analyze the behavior and the relationships of humans and organizations. Finally, management schools, while focusing on the firm level, analyze the behavior of organizations in relationship to their leaders.¹⁷¹

To determine whether the theories of strategic management are enough to explain the determinants of business firms’ NS, the aforementioned results were compared to the theoretical approaches in the research field of strategic management. The results of the literature review indicate that this is not the case. All existing models in the literature review also apply theories from other fields of research: e.g. in their AMJ article, Greening and Gray (1994) apply the Institutional Theory and the Resource Dependence Theory.¹⁷² In addition to the RBV, Hillman (2003) applies the Institutional Theory.¹⁷³ Grier et al. (1994) use the Collective Action Theory to explain the determinants of CPA.¹⁷⁴ Schuler (1999), in his Business and Politics article about CPA, references the Behavioral Theory of the Firm.¹⁷⁵ Finally, in their AMR article about a dynamic capabilities framework for political management, Oliver and Holzinger (2008) refer to other theories, such as Stakeholder, Resource Dependence, and Behavioral and Institutional Theory.¹⁷⁶ Furthermore, as was discussed in the excursus about borrowing theories

¹⁶⁹ cf. Stigler (1971).

¹⁷⁰ cf. Shaffer (1995: 499).

¹⁷¹ cf. Getz (2002: 308 ff.).

¹⁷² cf. Greening and Gray (1994).

¹⁷³ cf. Hillman (2003).

¹⁷⁴ cf. Grier, Munger, and Roberts (1994).

¹⁷⁵ cf. Schuler (1999).

¹⁷⁶ cf. Oliver and Holzinger (2008).

in Section 2.2, researchers recommend that “applied disciplines”, such as management research, make use of theories originating from other basic research fields.¹⁷⁷

As an outcome of this literature review, it was discovered that manifold approaches exist in the literature and elucidate different parts of interactions in the nonmarket environment. After analyzing these approaches and consolidating the theories with several names, 19 theories (+ four theories in the area of management studies)¹⁷⁸ altogether could be counted related to NS (see Table 1: Theories) in four disciplinary groups (economics, political science, sociology, and management). It is clearly not possible to consider all of these theories in a thesis; therefore, a preliminary review was conducted to identify the five most important theories (with the addition of one theory to explain the Life Cycle within public policy management), along with the RBV to explain the firms’ internal resources.

To this end, the results of the literature review were clustered into four areas, based on the research questions of the literature review: which, why, when, and how do business firms become involved in the nonmarket environment.¹⁷⁹ An iterative process was followed (for further information, see Section 3.1.) in selecting the leading theories. (1) The empirical studies were selected, including a theoretical deduction, and assigned to their respective cluster. (2) The leading theories were chosen based on (a) their strength in explaining the respective cluster, and (b) the number of entries in leading papers. (3) The qualitative studies from the literature review were incorporated and articles were cross-referenced to explain the theories. If theories were “borrowed” for the model from other areas of research, the established techniques of borrowing theories described in Section 2.2 were followed. In this process, connections between the respective theories were analyzed to avoid including conflicting theories in the framework (see theories in Chapter 3). (4) If possible, theories were assigned to the empirical studies without a theoretical deduction in order to obtain a broader foundation for the following discussion, because only a small proportion of the empirical studies discuss the theoretical basis of NS.¹⁸⁰ In order to do this, references were made to the theoretical framework (see point 3

¹⁷⁷ cf. Zald (1993: 515 ff.).

¹⁷⁸ See Table 1.

¹⁷⁹ As explained in Chapter 1, this thesis was developed in two phases with a redefinition of the research questions.

¹⁸⁰ See Appendix B for an overview.

above) explaining the statements of every theory. Then, the studies were integrated into the theoretical framework encompassing the leading theories.

Table 1: Theories

Theory	Field	Authors
Principal Agent Theory	Economics	Michael Jensen, William Meckling
Transaction Cost	Economics	Ronald Coase
Population Ecology	Biology/Mathematics	Thomas Malthus
Public Choice Theory	Social Science/Economics	Duncan Black
Collective Action Theory	Sociology/Political Science/Economics	Mancur Olson
Behavioral Theory of the Firm	Management/Economics	Richard M. Cyert, James G. March
Corporate Political Behavior	Merged with BTF	
Life Cycle Model of Public Policy Management	Political Science	Buchholz
Institutional Theory	Sociology	DiMaggio, Powell
Pivotal Politics	Merged with IT	
Public Interest Theory and Market Failure	Economics	Arthur Cecil Pigou
Stakeholder Theory	Political Science/Management	R. Edward Freeman
Interest Group Theory	Political Science/Economics	Stigler, Peltzman, Becker & Landes, Posner, McCormick, Tollison
Social Movement Theory	Sociology	Gustav LeBon, Herbert Blumer, William Kornhauser, Neil Smelser
Resource Dependence Theory	Sociology	Pfeffer, Salancik
(Social) Exchange Theory	Sociology	Homans, Blau, Levine and White
Game Theory	Economics	von Neumann, Smith
Neo-pluralist Theory	Sociology	McFarland
Event Study	Statistics	McGuckin, MacKinlay, Mitchell, Netter, Warren-Boulton, Dalkir
Organizational Theory	Sociology/Management	Max Weber, Karl Marx, Abraham Maslow
Business Strategy	Management	Alfred Chandler
Resourced Based View	Management	Wernerfeld, Rumelt
Market Based View	Management	Porter

For a better understanding, the theories are presented in conjunction with the particular driver in the main chapter (Chapter 3) of this thesis: Institutional Theory (Section 3.3.2.1), Behavioral Theory of the Firm (Section 3.3.3.1), Resource Dependence Theory (Section 3.4.1.1), Collective Action Theory (Section 3.4.2.1), Interest Group Theory/Stakeholder Theory (Section 3.4.2.2) and Life Cycle Model of Public Policy Management (Section 3.5.1).

Summary of Chapter 2: Definitions and Theories

Guiding Principle:

Clear definitions need to be developed and suitable theories need to be selected and “borrowed” to answer the research questions.

Definitions for the market and nonmarket environment were developed:

Market Environment:

The market environment is the place where individuals and firms exchange goods and property, and where rights are held.

The market environment is voluntary; actors in this market engage in “free, legally enforceable and contractual exchanges”.

The actors in the market environment consist of existing competitors, suppliers, buyers, new entrants, and substitutes.

Nonmarket Environment:

The nonmarket environment is involuntary and includes “those interactions that are intermediated by the public, stakeholders, the government, the media and public institutions”. It is involuntary because actors need to follow laws and regulations and have to consider major developments in society to assure their survival in the long run.

The nonmarket environment consists of social, political and legal arrangements structuring the firms’ interactions.

Definitions for the respective strategies were developed:

Market Strategy:

A market strategy is a “concerted pattern of actions taken in the market environment to create value by improving economic performance”.

Nonmarket / Political Strategy:

Political strategies are concerted patterns of actions taken in the nonmarket environment to create value by improving the overall firm performance.

They are directed at unlocking opportunities, structuring the rules of competition, and weakening competitors. They are competitive tools in an environment of increasing governmental influence. NS always deal with public goods.

To develop an integrative model to explain the determinants of NS of business firms, theories from several research fields were gathered, evaluated and transferred to an application in the nonmarket environment. The concept of “borrowing theories” based on experiences in academia was applied to prevent the “misusage of theories” and to adapt the theories to the new environment.

Borrowed Theories:

Six out of 23 theories were chosen and (if applicable) borrowed to develop an overarching framework (driver model).

3 Determinants of Nonmarket Strategies – the Driver Model

3.1 Introduction and Methodology

The aim of this thesis is to analyze the determinants of business firms' NS based on established theories. To this end, theoretical approaches are gathered from literature in this section, and then connected to the framework built as part of this thesis. The results will subsequently be compared to this thesis's own investigation, before recommendations for future research are provided. The result is a driver model that shows the preconditions under which firms engage in NS. Furthermore, insight is given into the firms' internal resources (connected to the RBV) that are needed to engage in NS and into the differences between the political environments in the US and Europe.



Figure 6: Methodology: Analyzing the Determinants of Nonmarket Strategies

To understand NS, the following questions first need to be answered: **why** and **when** do firms engage in the nonmarket environment, namely in the **public policy shaping process**? **Who** is involved? And finally, **how** is the right strategy determined?¹⁸¹ Based on theories and both qualitative and empirical approaches in the literature, this thesis aims to answer these research questions.

¹⁸¹ As discussed in Chapter 1, the selection of the right NS is dropped out of the focus of this thesis.

This section provides insight into how the Driver Model was developed.¹⁸² The starting point is the research questions as introduced above (see also Figure 6: Methodology: Analyzing the Determinants of NS). In the second step (No. 2 in the figure), the literature from the sample (phase one: literature review)¹⁸³ was screened to find approaches to answer each of the four research questions. In step 3 (No. 3 in the figure), the major theories were selected and defined based on results of the literature review (see Section 2.3.) implementing, if needed, the concept of borrowing theories (see Section 2.2.). In the next step (No. 4 in the figure), propositions were developed and connected to the six basic theories of this thesis. Altogether, 12 propositions were defined that explain the determinants of business firms' NS of within the scheme of the four research questions. These can be found in Appendix E: The Propositions I.

In the fifth step (No. 5 in the figure), these propositions were compared to empirical results from the literature (Literature Review II). As empirical results were taken from other studies in the literature, which were not designed to test the model being developed, it would not meet academic standards to put this procedure on the same level as a test of hypotheses with an own empirical study. For that reason, empirical results were summarized into so-called **variables** and connected to the six basic theories within the scheme of the four research questions.

The main drawback of this method was the iteration of results. For example, variables were deduced from quantitative studies that show a correlation between firms' internal resources (e.g. revenue, assets) and firms' engagement in NS (e.g. expenditure, PAC participation). These variables were connected to the Behavioral Theory of the Firm (either by definition in the study (part of grounding framework) or by alignment; see Section 2.3). In the approach presented in this thesis, this relationship is part of the explanation of two of the four research questions (Why and Who).

For this reason, an intermediate step was implemented. This reorganization of the variables following the scheme of the six major theories in combination with insights from qualitative literature (e.g. Lawton et al (2013): here, three perspectives have been defined to structure the results:

¹⁸² See as well Chapter 1. Introduction and Chapter 2.3. Main Theories in the Research Field of Nonmarket Studies.

¹⁸³ See as well Chapter 1.

“resources/capabilities, institutions, and environment”¹⁸⁴ unveiled an underlying logic. All 143 variables¹⁸⁵ deducted from 42 empirical studies that explain the determinants of firms’ engagement in NS could be grouped into 12 so-called **antecedents** (Firm Size, Origin of Firm, Internal Resources & Structure, Experience with NS, Level of Regulation, Dependence on Controlled Resources, Governmental Purchases, Political System, Industry Concentration, Unionization, External Pressures, Issue). All variables of the respective driver are now explained by one theory. On a higher abstraction level, the antecedents can be grouped into three perspectives. This new structure is called the **Antecedents** (No. 6 in the figure), as the variables were reorganized following the determinants of business firms’ NS, which could be seen as an intermediate step towards the **Driver Model**.

The three perspectives are the firm’s internal structure, the firm’s (external) environment, and finally shocks from the external environment (issue). Therefore, the propositions were reassigned, and eight could be defined (Step 7 – No. 7 in the figure).¹⁸⁶ The antecedents view changed the perspective from the macro-level (step one: Research Questions) to the perspective of the business firm (micro-level), which is the better approach for an investigation in the area of strategic management. In step 8 (No. 8 in the figure), a field investigation provided an initial impression of the direction of the driver approach. Finally, in step 9 (No. 9 in the figure) the **Driver Model** was defined, implementing the outcome of the field investigation.

From the business firm’s perspective, the Driver Model is a tool that helps to strategically lead a business. It presents a structure that explains the firm’s determinants for engaging in NS. From the perspective of a firm it creates the possibility to better understand the behavior of competitors and to strategically manage the firm’s own engagement in the nonmarket environment. The Driver Model can be seen as a step towards an overarching framework.

After this short methodological introduction, this section will now develop the basic proposition of the Driver Model. As explained in the introduction, the market environment is embedded in a social-political nonmarket environment. Firms need to follow the rules and regulations but they have (in

¹⁸⁴ cf. Lawton et al. (2013: 87).

¹⁸⁵ See Appendix A: Empirical Results from Literature – The Variable View.

¹⁸⁶ All eight proposition will be developed in the following sections.

democratic societies) the opportunity to alter these rules: to affect the public policy shaping process. NS give firms the opportunity to strengthen their own competitive position.

- Accordingly, the Driver Model's basic proposition is: **firms engage in NS and make all of the investments in their political resources to benefit from public goods stemming from the nonmarket environment in order to strengthen their own competitive position.**

This encompasses all benefits stemming from the nonmarket environment, such as gathering information about processes in the political, regulatory, and standardizing environment, and about the society and interest groups to reduce uncertainty and consider (further) NS; furthermore, it comprises benefits from new laws, regulations, subsidies, and tax cuts, as well as benefits from hindering the political environment to change rules.

3.2 The Three Perspectives of the Driver Model Connected to the Research Field of Strategic Management

In the present section, the Driver Modell will be connected to the research field of strategic management. The development of the Driver Model is embedded in the tension field between the classical theories from the research field of strategic management, such as the RBV or Porter's Five Forces, and the manifold approaches from economics, political science, sociology, and organizational theory explaining the nonmarket environment. The aim of this thesis is to understand the determinants of business firms' NS from the perspective of a firm. To this end, it is useful to connect approaches from strategic management with the theories that explain the nonmarket environment (see Figure 7 below).

For the first perspective, making this connection is easy, as political resources have already been defined as the RBV of the nonmarket environment (see Section 2.1.4.). The political resources of a business firm are the nonmarket-specific internal resources, as these are the resources of a firm that enable that firm to interact in the public policy shaping process.¹⁸⁷ Dahan (2005) identifies access,

¹⁸⁷ See Chapter 2.1.4 The RBV of the Nonmarket Environment – Political Resources and Chapter 2.1.5 The Tension Field of Market and Nonmarket.

legitimacy (reputation), and influence as the most important resources of a firm in the nonmarket environment.¹⁸⁸ However, as the drivers (e.g. firm size in regard to employees) and the theories (Institutional Theory, Behavioral Theory of the Firm) are not directly connected to the RBV of the nonmarket environment, a so-called **reference field** has been introduced to connect the internal drivers to the area of strategic management: firm size with regard to employees → legitimacy of the firm to interact in the public policy shaping process (Institutional Theory) → legitimacy as a nonmarket resource of the firm to gain access (reference field) → nonmarket RBV.

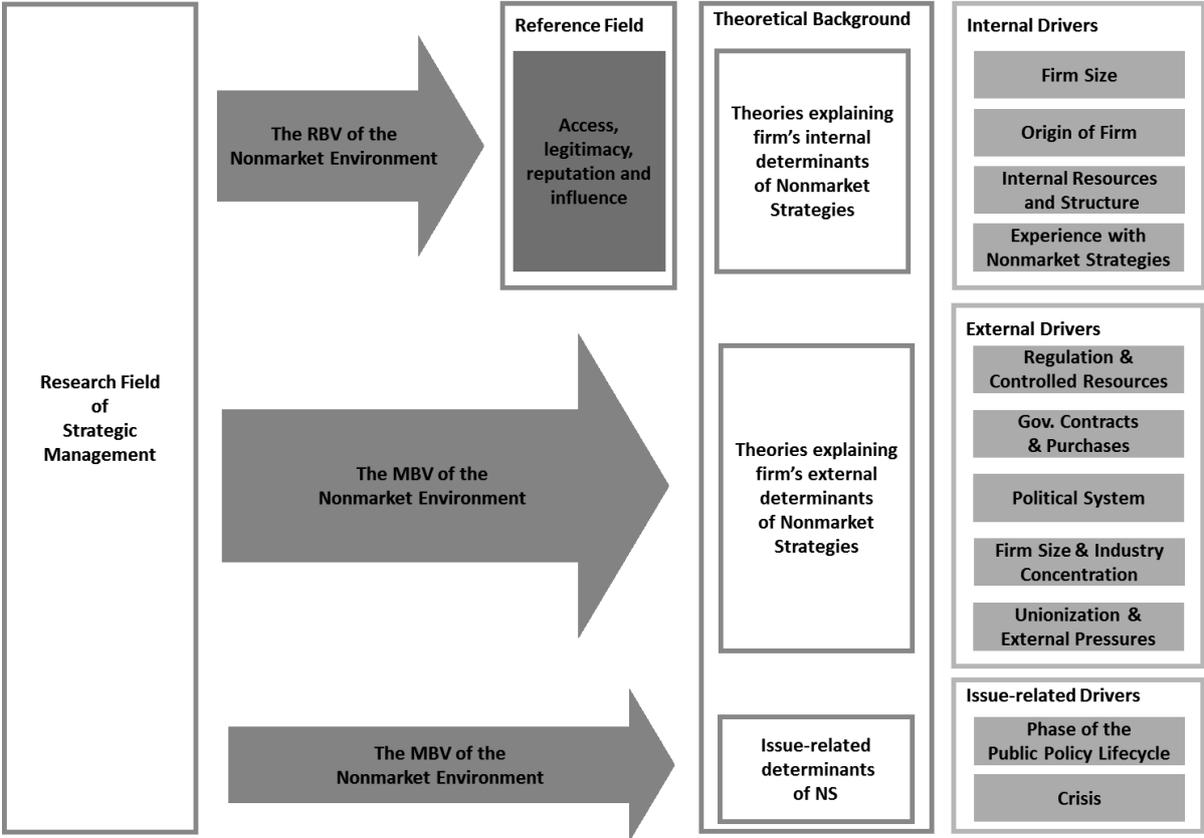


Figure 7: The Three Perspectives of the Driver Model with regard to Strategic Management

The external drivers represent the second perspective of the Driver Model. With regard to the area of strategic management, they can be connected by applying a so-called market based view of the nonmarket environment (see Chapter 1: Introduction, and the discussion about research in the areas of strategic management and of the nonmarket environment).¹⁸⁹ To link the classical market based

¹⁸⁸ Dahan (2005b: 23 f.).
¹⁸⁹ cf. e.g. Barnett (2006: 1759); Mahon and McGowan (1998: 394); Meznar and Johnson, JR. (2005); Oliver and Holzinger (2008: 496); Salorio et al. (2005: 29).

approaches, such as Porter's Five Forces¹⁹⁰, and the nonmarket environment, it is useful to refer to Baron (1995), who connected these two areas, introducing a kind of a "sixth force"¹⁹¹ that represents the nonmarket environment.¹⁹² Further reference to the "sixth force" can be found in the work of Vining et al. (2005).¹⁹³ In contrast to the internal drivers, external drivers can directly be connected to the (nonmarket) market based view (MBV); e.g. the driver industry concentration (Collective Action Theory) can directly be connected even to the original MBV (rivalry among existing competitors). The driver level of regulation (e.g. environmental laws – Resource Dependence Theory) is a typical example of the sixth force and can directly be connected to the MBV of the nonmarket environment; a reference field for the external drivers is not needed.¹⁹⁴ As the issue-related perspective is also related to the market and nonmarket environments, the connection to the research field of strategic management is implemented in the same way; again, a reference field is not needed. In the following, the internal drivers shall be developed.

3.3 Internal, Access-related Drivers of Firms' Engagement in Nonmarket Strategies

The previous section has connected the Driver Model to the research field of strategic management; the present section will start with the first Drivers Model's perspective. The first perspective of the Driver Model regards internal, access-related drivers. Internal drivers subsume firms' internal resources and characteristics that have a direct impact on business firms' determinants of NS. The internal drivers can be described as an "**RBV of the nonmarket environment**", adapting the RBV approach to the socio-political environment. Following the approach of the Driver Model, every driver (section) is based on a theory. For the internal drivers, a reference field has additionally been identified¹⁹⁵ to link the drivers and the respective theory to the area of strategic management. The foundation of this approach is that firms are enabled by their internal resources to obtain access to the public policy shaping process. Therefore, "the concept of access" with its two major pillars, (1.)

¹⁹⁰ cf. Porter (1980); Porter (1985); Porter (2008) or Oster (1990).

¹⁹¹ Baron (1995: 58).

¹⁹² cf. Baron (1995: 48 ff.).

¹⁹³ cf. Vining et al. (2005: 152).

¹⁹⁴ cf. Vining et al. (2005: 154) at the example of anti-trust and trade policy.

¹⁹⁵ See Chapter 3.2 The Three Perspectives of the Driver Model Connected to the Research Field of Strategic Management.

legitimacy and (2.) reputation, has been developed and will be explained in the following section, as is shown in Figure 8.

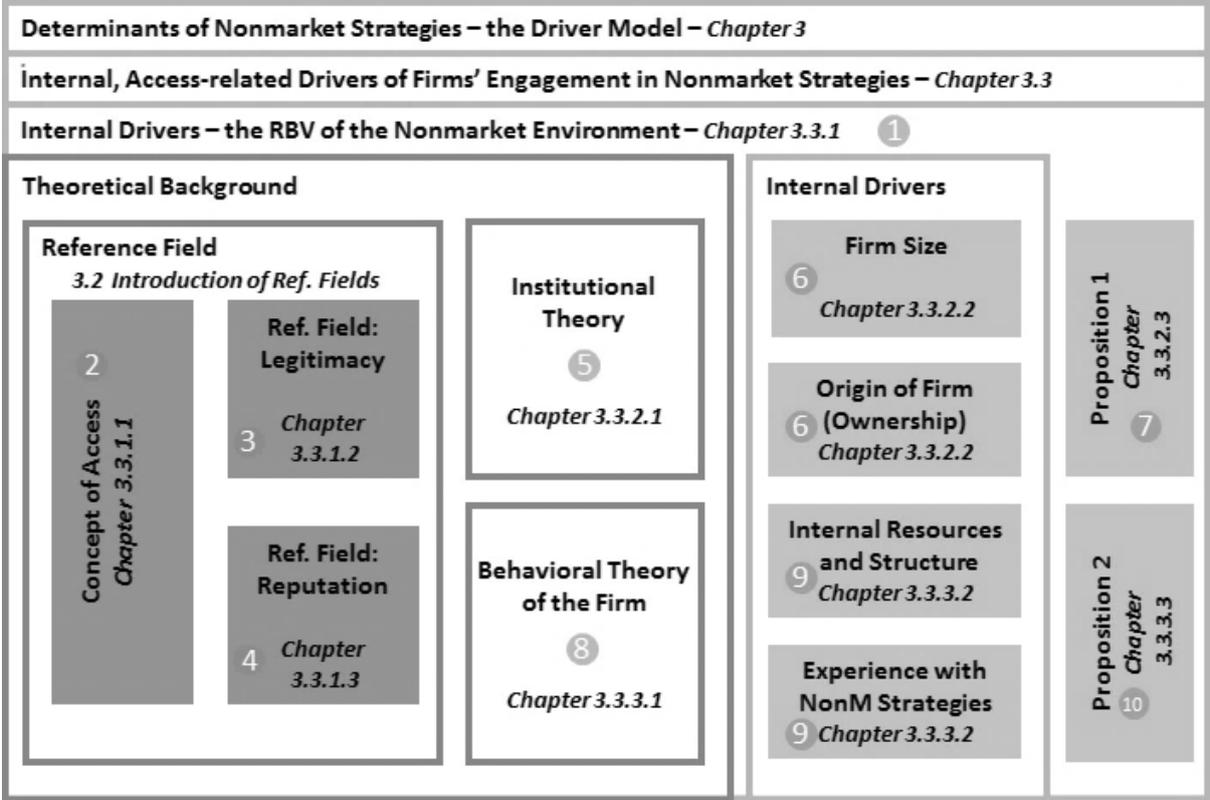


Figure 8: Structure of Internal Drivers

3.3.1 Internal Drivers – the RBV of the Nonmarket Environment

Before the concept of access will be introduced, the present section will discuss the Driver Model’s internal perspective and will connect this perspective to the RBV. Internal drivers can be seen as the political resource base of a firm.¹⁹⁶ Political resources are needed to obtain access to the nonmarket environment; their existence is the precondition for firms to engage in NS. Referring to the RBV from strategic management, which explains firm behavior in the market environment¹⁹⁷, it is obvious to interpret the concept of internal drivers/political resources as the **RBV of the nonmarket**

¹⁹⁶ See also Chapter 2.1.1 The Market Environment and the Nonmarket Environment – Definitions and Disparities and Chapter 2.1.4 The RBV of the Nonmarket Environment – Political Resources.

¹⁹⁷ cf. Barney (1991); Penrose (2009); Wernerfelt (1984).

environment. To illustrate the similarities and differences between these two concepts, the literature was reviewed for existing answers.

Interestingly, the first theoretical concept of a resource-based perspective is connected to the political environment in a study by Fainsold (1940). He argues that an industry obtains a favorable regulation by its capacity to mobilize three kinds of resources: financial (political campaign financing), human (the use of lobbyists and lawyers), and political (political coalition building).¹⁹⁸ In the years following this publication, more authors focused on the requirement of firms to develop and mobilize specific resources in order to successfully influence public decision-making.¹⁹⁹ The research field developed but, due to the lack of a common understanding, did so under different names. Some scholars, such as Boddewyn (1994) and others²⁰⁰, use the term “political resources”, while other scholars use different names to designate the same concept, such as “nonmarket assets” (Baron (1995)²⁰¹) or “institutional resources” (Oberman (1993)²⁰²).

Political resources can take a large number of forms, including expertise and competence in dealing with nonmarket actors. In addition, they include reputation for responsible behavior in the past.²⁰³ Bonardi et al. (2006) define “*nonmarket capabilities [...] as tacit and nontacit knowledge and skills that enable firms to manage the public policy process*”²⁰⁴ to receive benefits from the nonmarket environment.²⁰⁵ Firms that are able to sustain “trade” in political markets (e.g. by developing reputation) can overcome the barriers to entry and implement NS.²⁰⁶ For that reason, political resources can be seen as internal drivers or determinants of firms’ engagement in NS.

Political resources, such as image and support by stakeholders, cannot – in contrast to market resources – be “owned” because they are external attributes of a firm.²⁰⁷ Nevertheless, firms can build

¹⁹⁸ cf. Fainsold (1940).

¹⁹⁹ See. Dahan (2005b: 12 f.) for further references.

²⁰⁰ cf. Boddewyn and Brewer (1994); Sadrieh and Annavarjula (2005); Sadrieh and Varjulia (2002); Salorio et al. (2005).

²⁰¹ cf. Baron (1995: 60).

²⁰² cf. Oberman (1993).

²⁰³ cf. Baron (1995: 60).

²⁰⁴ Bonardi et al. (2006: 1211).

²⁰⁵ cf. Bonardi et al. (2006: 1211 f.).

²⁰⁶ cf. Eggertsson (1990).

²⁰⁷ cf. Dahan (2005b: 13); Dahan (2005a: 44).

internal structures to archive these political resources. Examples are GADs, lobbyists with wide networks within the political environment, and charities used to influence the firm's image. In this vein, Baron (1995) indicates that the "*principal nonmarket capability that cannot be replicated*" exists in "*knowledge, expertise and skills of managers in addressing nonmarket issues*"²⁰⁸. Another political resource that is difficult to imitate is personal service for the nonmarket environment offered by the firm's managers. It strengthens the relations between firms and other actors in the nonmarket environment, increases the legitimacy of the firm, and provides access points to the nonmarket environment.²⁰⁹ In short, political resources can be understood as the capacity of a firm to handle processes, networks, and other soft competences with regard to the nonmarket environment.

Another difference between market and nonmarket resources, and an important issue in the field of strategic management, is the question of how to imitate resources. Boddewyn and Brewer (1994) assume that the barriers of imitation are much higher for political resources due to their lower visibility. Political resources are not as visible as market resources are.²¹⁰ Plants, patents, and even access to resources are easy to identify; reputation and legitimacy if they are connected to employment as well as education and social involvement are visible at least to insiders. Conversely, personal networks and access to decision-makers are not visible to outsiders. Therefore, the imitation of political resources frequently fails due to a lower visibility. Furthermore, the lower visibility of political resources makes it even more difficult to "measure" the importance of internal drivers.

Finally, a large difference between market and political resources stems from the anti-trust law. Political resources can be combined with political resources "owned" by other firms without violating legal regulations. This means that firms from the same industry can work together in the nonmarket environment; thus, the value of a political resource also depends on the nonmarket competencies of the firm's allies.²¹¹ The political power of the group – the firm and its supporting stakeholders – depends on its size (number of employees, member of an interest group, union, or other), the diversity of actors (the diversity of the allies groups increases the political power and decreases the appearance

²⁰⁸ Baron (1995: 61).

²⁰⁹ cf. Hillman and Zardkoohi (1999: 80).

²¹⁰ cf. Boddewyn and Brewer (1994: 136).

²¹¹ cf. Baron (1995: 61).

that the firm acts in self-interest), and the unity of interests (members of a group should speak with one voice).²¹²

The concept of political resources interpreted as the RBV of the nonmarket environment is a valuable contribution to research in the field of NS. It offers scholars the opportunity to analyze and understand internal firm drivers from a resource-driven perspective, and therefore connects to the research field of strategic management. Political resources are infinite in their characteristics, encompassing reason, facts, power, argument, persuasion, access, legitimacy, reputation, and diplomacy.²¹³ Analyzing political resources is beneficial, enabling managers to understand the nonmarket environment and illustrating ways to influence it. Furthermore, political resources can serve as internal drivers that force firms to engage in NS.

This is supported by the work of Dahan (2005). He sees the functions of political resources in the following nonmarket activities: to legitimize a firm's behavior, to gain access to public policy decision-makers, and finally to influence them on behalf of the firm.²¹⁴ Demil and Bensédine (2005) define legitimacy and power (political pressure) as an opportunity to gain access and influence.²¹⁵ Furthermore, according to Baron (1995) reputation is important for addressing nonmarket issues in a responsible manner.²¹⁶ In addition, due to the dynamic and complex environment, governments are increasingly dependent on the expertise of firms.²¹⁷ Business firms that provide reliable information have an advantage: they not only gain access to the suppliers of public policies (political environment), but they further have the opportunity to influence the policy shaping process with their input.

The concept of political resources interpreted as the RBV of the nonmarket environment is a good theoretical approach to explain firms' internal drivers and their effect on firms' engagement in NS. As explained above, political resources are the precondition for firms to engage in NS. This means that firms that own political resources will use this opportunity to engage in NS to strengthen their own competitive position.

²¹² cf. Dahan (2005a: 46).

²¹³ cf. Boddewyn and Brewer (1994: 136).

²¹⁴ cf. Dahan (2005c: 5).

²¹⁵ cf. Demil and Bensédine (2005: 58).

²¹⁶ cf. Baron (1995: 62).

²¹⁷ cf. Coen and Grant (2001: 43).

3.3.1.1 *The Concept of Access – the Basis for the Internal Reference Fields*

A precondition to pursue NS is access to political decision-makers, without access to a market, firms cannot interact with actors in this environment, as was already discussed in Section 3.2.²¹⁸ In the market environment firms need internal resources to obtain access to (new) markets; in the nonmarket environment, firms need specific nonmarket resources (political resources) to engage in the nonmarket environment. To explain both firms' internal drivers that force them to engage in NS and the needed resources to engage in the socio-political environment, the **concept of access** was developed as a part of the Driver Model.

The political resource legitimacy is the pre-requirement to gain sustainable access; an actor has to *appear* legitimate to engage in the nonmarket environment.²¹⁹ For this reason, the whole driver section about internal drivers in this thesis is based on the concept of access. Firms' internal resources are necessary for building legitimacy and reputation. This means that a firm's internal resource base is a determinant of that firm's engagement in NS and its connection point to strategic management.

Many scholars support the concept of access. Hillman et al. (1999) and Bouwen (2002) define access as the first step to gaining political influence.²²⁰ In his book from 1969, Epstein defines access to political decision-makers and influencers as an important political resource.²²¹ The firm has to be accepted at the "*negotiation table*"; from this point of view it is simply consequent to see access to the political decision-makers as a "*strategic goal*"²²² and, following this, as the bridge to strategic management. For this reason, gaining and maintaining access may be the firm's single most important goal.²²³ Following the concept of the reference fields, all four drivers from the internal driver section in the model are related to the concept of access. The internal drivers can also be defined as access strategies from the perspective of strategic management.

²¹⁸ See Chapter 3.2 The Three Perspectives of the Driver Model Connected to the Research Field of Strategic Management.

²¹⁹ See Chapter 3.3.1.2 Reference Field: Legitimacy.
cf. Demil and Bensédine (2005: 58).

²²⁰ cf. Bouwen (2002: 366); Hillman and Zardkoohi (1999). See also Falk et al. (2006: 13 ff.) and Falk et al. (2007: 324 ff.) for a short history of access to the nonmarket environment.

²²¹ cf. Epstein (1969).

²²² cf. Demil and Bensédine (2005: 58); Hillman and Zardkoohi (1999); Schuler et al. (2002).

²²³ cf. Hillman and Zardkoohi (1999); Weidenbaum (1980).

Access strategies are the management tool used to contact public policy makers. Beyers (2004) defines access strategies as “the exchange of policy-relevant information with public officials through formal or informal networks”²²⁴. Scholars emphasize that access strategies transmit information directly and are useful for the transfer of more technical information.²²⁵ Furthermore, direct access allows actors to provide more specified and discrete information.²²⁶ Apart from a direct way to transmit information, other access strategies use indirect ways by utilizing the general public and subgroups, or by using professional “door-openers”, such as lobbyists and consultants.²²⁷ The following paragraphs discuss four main strategies that firms can use to obtain access, and which resources (drivers) are needed (see Figure 9: Concept of Access).

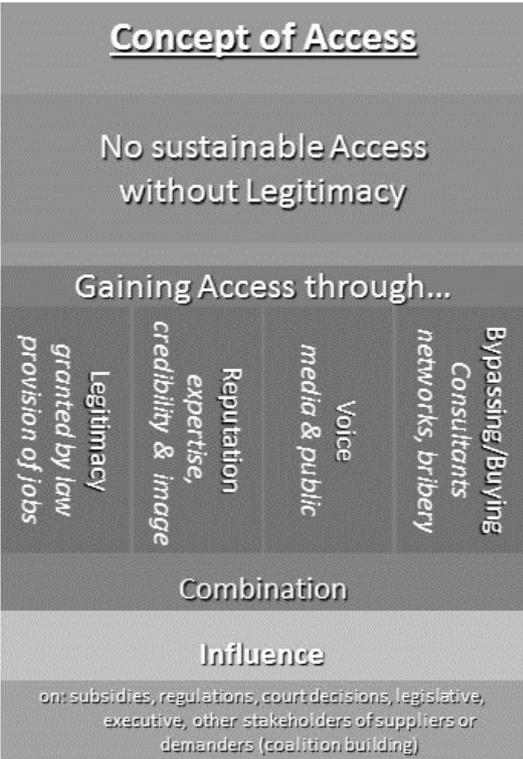


Figure 9: Concept of Access

The first way (also see as reference Dahan (2005)) to obtain access is through **legitimacy**.²²⁸ Firms or other actors, such as unions or interest groups, can obtain access because they *have to* be considered due to statutory provisions (legal or organizational legitimacy).²²⁹ In democratic societies, several actors have to be considered in negotiations according to the law (legal legitimacy). Examples are collective bargaining, civil participation in communal proceedings, and court hearings.²³⁰ Another way to obtain access is through organizational legitimacy. Organizations can obtain organizational legitimacy if they employ many citizens in the respective area (Driver Model: firm size),

²²⁴ Beyers (2004: 213).

²²⁵ cf. Beyers (2004: 213); Bouwen and Mccown (2007: 423); Bouwen (2002).

²²⁶ cf. Hojnacki and Kimball (1999: 1000).

²²⁷ cf. Ansolabehere, Snyder Jr, and Tripathi (2002).

²²⁸ Dahan (2005) presents four strategies how to obtain access: (1) legitimization, (2) supply of financial resources, (3) use of relational resources and (4) recreational capabilities. Even though Dahan’s approach is reasonable, I adapted the access strategies to my framework (see Figure 9: Concept of Access). Dahan (2005b).

²²⁹ See Chapter 3.3.1.2 Reference Field: Legitimacy.

²³⁰ For further explanations, see Chapter 3.3.1.2 Reference Field: Legitimacy – Legal Legitimacy.

or if they comply with accepted norms and rules (institutional approach; Driver Model: origin of firm / ownership).

The second way to achieve access in the nonmarket environment is through **reputation**.²³¹ There are many opportunities for firms to have a “seat at the negotiation table” due to reputation. Firms oftentimes offer information or are asked by regulatory agencies or the legislator for their knowledge (expertise; Driver Model: experience with NS).²³² For this reason, firms participate in official hearings and present their information to the political decision-makers and to the public. This kind of lobbying requires a positive reputation, which can be built on the supply of trustworthy and reliable information over a long period of time and several interactions.²³³ Otherwise, no access will be granted.

A useful example of these reputation-driven transactions is the legislative process in the EU. The EU embraces consulting experts in the policy shaping process for two of its system-inherent drawbacks: firstly, it can soften its democratic deficit and legitimacy problem²³⁴; and secondly, European institutions obtain first-hand information and support for their political work.²³⁵ This is necessary because in a highly dynamic and interrelated world, not only the European institutions but all governmental actors need information from the “markets” to introduce need public policies. An increasing demand for information from the governmental body can widely be observed.²³⁶

In the specific case of the EU, three access goods are needed: (1) expert knowledge (e.g. technical expertise), (2) information about European interests (knowledge related to concerns on a European level), and finally (3) interests on a national level.²³⁷ To achieve access based on reputation, both sides have to come together. Bouwen (2004) provides an example from the European Parliament (EP): private actors (e.g. firms) need the capacity to supply access goods, such as technical expertise, at the

²³¹ See Chapter 3.3.1.3 Reference Field: Reputation.

²³² A good example for firms to provide their knowledge and to participate from its outcome are standard-setting procedures such as DIN or ISO; cf. Abbott Kenneth and Snidal (2001).

²³³ See Chapter 3.3.1.3 Reference Field: Reputation.

²³⁴ cf. Bouwen (2002: 380); Glencross (2011).

²³⁵ This is especially important for EU institutions because of scarce resources. See also McLaughlin et al. (1993: 201).

²³⁶ See Chapter 4 The Driver Model in the real World – Results from a Field Investigation. Further, see Falk et al. (2007: 326 f.), how European institutions try to overcome their legitimacy problem by involving actors from the political advisory environment.

²³⁷ cf. Bouwen (2002: 396).

same time and for the same issues for which the EP has a demand.²³⁸ In this case, the private and public actors become interdependent because they need resources from each other. In summary, in any decision-making process, access is largely determined by intangible (nonmarket) resources such as knowledge, information, and expertise.²³⁹

Firms' internal resources (knowledge, information, and expertise) as well as the demand from the political environment (demand for information) can be seen as antecedents of firms' engagement in NS. The first two strategies (legitimacy and reputation) of the access model serve as a reference field to explain the Driver Model.

The third way to obtain access is through **voice strategies**; these strategies belong to the group of indirect access strategies. If actors do not have the opportunity to be in contact with decision-makers in a direct way, they can choose voice strategies. This means that, without having direct access, firms can use the *power of the street*²⁴⁰ for their purpose by utilizing the impact of society's pressure on governmental or non-governmental institutions and interest groups. The development of new communication technologies gives interest groups in particular the opportunity to communicate to a large group of citizens at low costs in order to motivate them to engage with regard to a specific issue. The involvement of the media can also increase this pressure. However, voice strategies can pose risks for firms for two reasons. Firstly, these strategies cannot be controlled. For example, a firm encourages its customers to produce videos about how they see the firm. If customers upload negative videos, the firm is in a hopeless situation and can either delete those videos and evoke a so-called "shitstorm", or it is forced to give these negatives films a platform. Secondly, voice strategies are mostly used by interest groups against firms. For this reason, firms need to observe their direct and indirect environment to shape counter-strategies, which can also be voice strategies.

Voice strategies have an impact on firms' engagement in NS in two ways. (1) When voice strategies are used by competitors, interest groups and unions, then these external pressures are antecedents for firms' engagement in NS as a defensive strategy.²⁴¹ (2) Voice strategies can also be used by the firm

²³⁸ cf. Bouwen (2004b: 481).

²³⁹ cf. Bouwen (2002: 396).

²⁴⁰ E.g. grass roots lobbying; see also Baysinger (1984).

²⁴¹ Consider that information from interest groups are often biased; Bennedson and Feldmann (2006).

itself. Then reputation (internal driver) is needed because voice strategies are dependent on actors outside the firm to communicate with policy shapers. Reputation is needed because it is only under this condition that these actors will act authentically and finally successfully on behalf of the firm towards governmental decision-makers.

The fourth strategy to obtain access to policy decision-makers is the **bypassing/buying strategy**. It is neither a direct way nor an indirect way to obtain access. Actors such as firms but also interest groups and unions can bypass the “official ways” to obtain access if they (1) have relational resources or personal bonds to decision-makers (knowing someone on a first-name basis) or (2) via recreational capabilities (knowing someone from social events).²⁴² These kinds of access goods are important nonmarket assets; therefore, many firms promote personal relationships between members of the governmental environment and executives of their organizations.²⁴³ A good example is politically engaged CEOs: Yoffie (1988) defines them as “*effective weapons against the ever-increasing Washington barriers to entry*”²⁴⁴. Furthermore, they are seen as “*important for maintaining political ties*”²⁴⁵. Personal bonds between managers and public policy shapers are antecedents of firms’ engagement in NS, and necessary political resources for firms to pursue this strategy.²⁴⁶

A further opportunity to obtain access is buying (which this model considers as part of the fourth strategy of bypassing/buying). Kim (2008) assumes that money cannot buy a position, but that it can certainly buy access and provides the opportunity to convince the decision-maker.²⁴⁷ This hypothesis is also confirmed in the literature by empirical analysis.²⁴⁸ Scholars confirm that giving money can have two effects: (1) it gains and maintains access;²⁴⁹ and (2) it mobilizes “friendly” legislators to lobby their colleagues or to alter the “language” of the bill. Buying access is an indirect way to gain contact with

²⁴² cf. Dahan (2005b: 13).

²⁴³ cf. Baron (1995: 61).

²⁴⁴ Yoffie (1988: 88).

²⁴⁵ Yoffie (1988: 88).

²⁴⁶ A good analysis of this kind of Nonmarket Strategy could be found at Heinz et al. (1990) in the paper: *Inner Circles or Hollow Cores? Elite Networks in National Policy Systems*; Heinz, Laumann, Salisbury, and Nelson (1990).

²⁴⁷ Jin-Hyuk Kim (2008: 14).

²⁴⁸ cf. Smith (1995: 93).

²⁴⁹ cf. Grenzke (1989b); Langbein and Lotwis (1990); Wright (2004).

decision-makers.²⁵⁰ In most cases, firms mandate specialized consulting companies for this reason.²⁵¹ These “professional lobbyists” have access because of personal relationships (see bypassing), which they provide for money to their customers.²⁵²

Access to political decision-makers is usually limited.²⁵³ Therefore, access as a political asset is valuable. Buying access can be understood as bypassing the “official way” (legitimacy, reputation, and voice) by using professional, external resources. Even though buying strategies can be pursued without a firm’s own resources (but money), their success can be improved in combination with own political resources, such as legitimacy and reputation. Buying strategies are mostly seen as “door-openers” and less as a way to directly influence political decision-makers.²⁵⁴

Another way to gain access to these decision-makers, which is important in the US in particular, is by donating money to politicians, e.g. for their election campaigns. Corporate Social Responsibility (CSR) programs are also useful. These are popular “door-openers” for firms. If firms need access in the future, they can refer to their CSR programs to communicate with decision-makers in governmental institutions.²⁵⁵ For this reason, CSR activities and further activities in the nonmarket environment can also be antecedents of firms’ engagement in NS (internal drivers).

Furthermore, combinations of the four strategies are not only possible but are usually the rule in practice.²⁵⁶ For example, firms employ professionals from the location to use their personal networks, and hire consultants and lobbyists for specific tasks and targets. Moreover, investments in new plants, takeovers of companies, and the development of new products and procedures all enhance the legitimacy and reputation of firms and create more access points. In addition, firms can reduce their uncertainty through direct access to decision-makers.²⁵⁷

²⁵⁰ Most important in this regard: lobbying. Hauser (2011) gives the following definition: “*Lobbying is generally defined as the attempted or successful influencing of legislative-administrative decisions made by public authorities through the use of interested representatives*”; Hauser (2011: 682).

²⁵¹ cf. Harris and Lock (1996).

²⁵² In an article about lobbying in the EU, Baumgartner (2007) compared lobbyists with farmers spending “*much time attempting to convince others that their issue should be seen in a particular light*”; Baumgartner (2007: 485).

²⁵³ cf. Shaffer (1995: 509).

²⁵⁴ Finally, bribery is an opportunity to affect decision-making processes and belongs to this group of access strategies but will not be considered in this work as only court decisions can be analyzed (too less data).

²⁵⁵ cf. Jazbinsek (2009: 69).

²⁵⁶ cf. Ozer and Lee (2009: 3).

²⁵⁷ cf. Farjoun (2010); Hillman and Zardkoohi (1999: 79).

Access to political decision-makers has several implications. (1) It helps firms to anticipate changes in the environment through providing information, thereby reducing uncertainty and increasing the firm's ability to survive. (2) Access is necessary, but not sufficient to allow actors to shape their environment. Actors "achieve influence" on decision-makers to the degree that the latter grant them access. (3) Scholars and lobbyists have long recognized that "access is the key to persuasion".²⁵⁸ However, it is only the key to open doors. To obtain access in the long run and to further influence the public policy shaping process, all aspects of legitimacy are needed.

A firm's internal (political) resource base is first and foremost related to the access approach. Internal structures such as GADs, experience with NS, as well as the number of employees are all needed to pursue access strategies. An important factor could be the political system, since it defines the access points. Accordingly, the concept of access (together with the legitimacy and reputation approaches) is a valuable reference field to explain firms' antecedents in NS and the defined connection point to the RBV of the nonmarket environment. Furthermore, it is also a useful connection to the research field of strategic management.²⁵⁹

3.3.1.2 *Reference Field: Legitimacy*

In the previous section, the concept of access has been introduced; in the present section the first access approach, legitimacy will be elaborated. Legitimacy is the central resource in the nonmarket environment, because firms need to be legitimate to influence public policy decision-making processes and to set standards with an impact on society in a democratic system. Furthermore, it is important to understanding the negotiations in the nonmarket environment in general and the concept of legitimacy in particular that all resources that firms need are ultimately controlled by the government(s) and its (their) institutions. Even the access to the firms' customers is regulated by governmental institutions.²⁶⁰ Firms need legitimacy to interact in the market of public policies (nonmarket environment) in order to gain and maintain access to nonmarket resources. Therefore, it is necessary for firms to engage in the nonmarket environment.

²⁵⁸ cf. Schuler (2002: 659).

²⁵⁹ See Chapter 3.2 The Three Perspectives of the Driver Model Connected to the Research Field of Strategic Management.

²⁶⁰ cf. Boddewyn (1995: 157).

Legitimacy is part of the concept of access. It is not only one of four strategies that firms can pursue to achieve access to public policy decision-makers; it is also the most important of these strategies.²⁶¹ The concept of legitimacy answers the question of for what reasons firms are allowed to enter the nonmarket environment and influence the public policy shaping process.

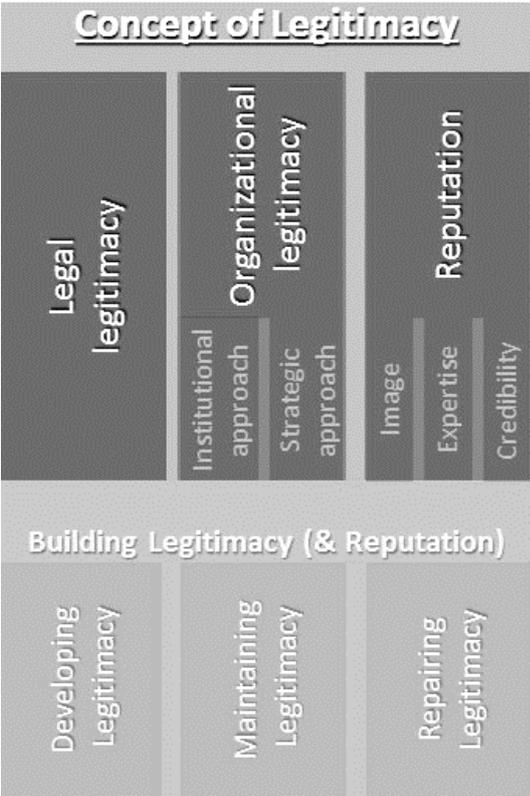


Figure 10: Concept of Legitimacy

Whether legitimacy is even a concept for the business world may be questioned. As a political administrative concept, legitimacy can be defined as *“the right to govern according to the law”*²⁶². Transferred to the purpose of this thesis, this definition has two weaknesses: 1. (in particular) it is only connected to nonmarket actors (governmental institutions); and 2. (in general) someone has to create the laws and the whole legal framework. In a democratic society, the power comes from the people. In elections they vote for their representatives who have – because they have been elected – the legitimacy to develop and modify the legal framework.²⁶³

However, firms are not (democratic) societies. They cannot gain legitimacy from elections, and even their shareholders, who can represent a large part of the society, are not comparable to an electorate, because the influence of an individual (or an organization, such as a bank or a pension fund) is connected to its share of stocks and is not equal to that of a person, breaking the rule of “one man one vote”. Thus, managers are not comparable to governments; they cannot legitimate their behavior through their nomination from the board. The important difference in the legitimation consists of

²⁶¹ See Chapter 3.3.1.1 The Concept of Access – the Basis for the internal Reference Fields.
²⁶² Jordan (2006: 637).
²⁶³ cf. Palazzo and Scherer (2006).

election vs. ownership.²⁶⁴ Firms cannot claim a right to influence the public policy shaping process according to this definition of legitimacy.²⁶⁵

Nevertheless, firms are actors in the nonmarket environment too: they are part of the society. One could assume that firms' executives are – comparably to politicians and governmental officials – accountable for a wide array of internal (such as employees) and external (the “society”) stakeholders.²⁶⁶ Furthermore, and without any doubt, firms are accountable for following laws and rules. Thus, firms' behavior in the market and nonmarket environments might be a way for firms to legitimate their participation in the public policy shaping process. Firms can enhance their legitimacy by catering to societal goals, such as employment, technological development, and the respect of laws, customs, and symbols.²⁶⁷

However, in the neoclassical and liberal understanding, the role of business only consists of making money, while the government is responsible for social issues. This is the *traditional division* between business and government according to Levitt.²⁶⁸ However, Epstein and Votaw (1978) argue that firms have to act in accordance with the moral foundations of the society.²⁶⁹ Even Friedman (1970) concludes that firms need to conform to “*the basic rules of the society, both that embodies in law and those that embodies in ethical customs*”²⁷⁰. Evidently, the concept of legitimacy is also applicable to the business environment.

In summary, ***legitimacy can only be obtained from the nonmarket environment through behavior.***

Three opportunities to gain legitimacy to influence the public policy shaping process will be developed for the Driver Model in the following section: legal legitimacy, organizational legitimacy, and reputation (see Figure 10: Concept of Legitimacy). These three parts of the concept are introduced below.

²⁶⁴ cf. Harrison and Freeman (2004: 51).

²⁶⁵ Whether firms are object to legitimacy will be discussed below: The Theoretical Concept of Legitimacy.

²⁶⁶ cf. Harrison and Freeman (2004: 52).

²⁶⁷ cf. Boddewyn and Brewer (1994: 135).

²⁶⁸ cf. Levitt (1970).

²⁶⁹ Epstein and Votaw (1978: 3.).

²⁷⁰ Friedman (1970: 218).

The Theoretical Concept of Legitimacy

The legitimacy concept is a constituent of this thesis. Therefore, theoretical contributions are provided in this following section. The literature about legitimacy is vast; but, as Fallon comments in his 2005 paper, “those who appeal to legitimacy frequently fail to explain what they mean or the criteria that they employ”²⁷¹. For him, this can result in confusion among the readers and in the minds of those who write.²⁷² For this reason, the concept of legitimacy will be described precisely in this section. Furthermore, legitimacy approaches are based in the research fields of political science and sociology, and less in strategic management. Concepts therefore need to be “borrowed”²⁷³ and this process needs to be comprehensible and logical.

In general, legitimacy can be understood as the fulfillment of norms, values, and expectations; for this reason, the Institutional Theory (IT) will provide important insight to the Driver Model (see the next chapter).²⁷⁴ Legitimacy implies approval.²⁷⁵ It is needed to enter into “*processes of social exchange*”²⁷⁶. The nonmarket environment is a place where social exchange of public policies that can affect firms’ competitive situation takes place. Some scholars see legitimacy as a relationship with the audience rather than a possession of the organization.²⁷⁷ In this vein, legitimization can be described as a process in which organizations actively participate.²⁷⁸ Suchman (1995) emphasizes the relationship perspective by assuming that “*legitimacy is a perception or assumption in that it represents a reaction of observers to the organization as they see it*”²⁷⁹. Suchman (1995) further asserts that firms can possess legitimacy. It is “*socially constructed in that it reflects congruence between the behavior of the legitimated entity and the shared [...] beliefs of some social group*”²⁸⁰. Even if the organization does not follow the social rules, it retains legitimate until the divergence is noticed.²⁸¹

²⁷¹ Fallon, JR. (2005: 1790).

²⁷² cf. Fallon, JR. (2005: 1790 f.).

²⁷³ See Chapter 2.2 The Concept of Borrowing Theories.

²⁷⁴ See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

²⁷⁵ cf. Droege, Lane, and Spiller (2011: 97).

²⁷⁶ Palazzo and Scherer (2006: 71).

²⁷⁷ cf. Suchman (1995a: 594). In how far legitimacy can be possessed by an organization will be discussed in the following chapters.

²⁷⁸ cf. Demil and Bensédine (2005: 59).

²⁷⁹ Suchman (1995b: 574).

²⁸⁰ Suchman (1995b: 574).

²⁸¹ cf. Suchman (1995b: 574).

In summary, legitimacy is a sociological concept. It can be possessed insofar as the public regards the firm's behavior as justified, appropriate, or otherwise deserving.²⁸²

Furthermore, legitimacy depends on the socio-political environment of the organization. Several country-specific variables affect the effectiveness and legitimacy of social norms: the socio-historical development of a country, the degree of democracy and freedom, and institutional factors, such as the legal system, the freeness of the media, the level of corruption, and the economic resources.²⁸³ From a global view, there are no widely accepted normative standards in legal and/or moral terms.²⁸⁴ For this reason, both the origin of the firm and the political system are predicted to be drivers for firms' engagement in NS (and both drivers are connected to the IT).²⁸⁵

In addition, modern societies are subject to significant change. Changing conditions lead to changing social acceptance of specific (firms') behavior. Another driver of this development is the proceeding globalization. The interconnections between economic systems lead to an exchange of social norms and beliefs as well.²⁸⁶ Therefore, legitimacy "*has become one of the most critical business issues*"²⁸⁷, especially for MNEs.²⁸⁸

Overall, the legitimacy concept seems to be beneficial for explaining firms' behavior, especially in the nonmarket environment. The next paragraphs will analyze how legitimacy can be reasoned. Several scholars have developed definitions for concepts within legitimacy.²⁸⁹ This section presents two theoretical types of legitimacy: **pragmatic legitimacy** and **moral legitimacy**.

Pragmatic legitimacy results from the self-interested calculations of the immediate audience or, in the diction of this thesis, the other actors in the market and nonmarket environments. This audience – following Suchman (1995) becoming constituencies – begins "*scrutinizing organizational behavior to determine the practical consequences for them*"²⁹⁰. Therefore, organizations are evaluated by the key

²⁸² cf. Fallon, JR. (2005); Suchman (1995b).

²⁸³ cf. Karlsson-Vinkhuyzen and Vihma (2009: 416).

²⁸⁴ cf. Habermas (2001); Huntington (1998).

²⁸⁵ See also Chapter 3.3.2.2 and 3.2.3.1.

²⁸⁶ Palazzo and Scherer (2006: 73).

²⁸⁷ Palazzo and Scherer (2006: 77).

²⁸⁸ cf. Palazzo and Scherer (2006: 73 ff.).

²⁸⁹ See Demil and Bensédrine (2005); Droege et al. (2011); Suchman (1995a); Palazzo and Scherer (2006); Suchman (1995b).

²⁹⁰ Suchman (1995b: 578).

stakeholders as well as by the wider audience regarding the usefulness of their output (e.g. products, employment, investments), procedures (e.g. following labor and safety laws), structures (e.g. work-life balance), and leadership behavior. Organizations are aware of this and consequently try to actively manipulate the actors' perceptions of and attitudes towards them. This perspective underlines the *"instrumental value of legitimacy"*.²⁹¹

Moral legitimacy, on the other hand, describes the *"conformance to what is right and wrong in society"*²⁹². Moral legitimacy is based on the judgment about *"whether an activity of an organization is the right thing to do"*²⁹³. An activity is *"the right thing to do"*²⁹⁴ from the perspective of society's values if it *"effectively promotes social welfare"*²⁹⁵. Moral legitimacy is thus based on normative approval. To understand how this judgment is constructed or how the outcome of an organization is approved, one has to consider the *"value system"*²⁹⁶ of the society. Even if an organization or an activity enjoys broad support, or a behavior is legally correct, it may be morally illegitimate.²⁹⁷

In contrast to pragmatic legitimacy, moral legitimacy – which reflects a positive normative evaluation of the structure, processes, and outcomes of the organization – results not from the judgment of whether a *"given activity benefits the evaluator"* but from whether the behavior is *"the right thing to do"*.²⁹⁸ Moral legitimacy refers to conscious moral judgments. It is socially constructed by evaluating actions and practices of organizations as well as of the institutions themselves. Suchman (1995) describes moral legitimacy as reflecting a *"prosocial logic that differs fundamentally from narrow self-interest"*²⁹⁹. For him, the moral legitimacy of organizations is the result of *"explicit public discussions"*³⁰⁰. In contrast to pragmatic legitimacy, organizations can achieve moral legitimacy by *convincing the society by reasonable argument rather than by manipulation and persuasion*.³⁰¹

²⁹¹ cf. Demil and Bensédrine (2005: 59); Droege and Johnson (2007: 103); Palazzo and Scherer (2006: 72); Suchman (1995b: 571, 578).

²⁹² Droege and Johnson (2007: 103).

²⁹³ Droege and Johnson (2007: 103).

²⁹⁴ Suchman (1995a: 579).

²⁹⁵ Droege and Johnson (2007: 103).

²⁹⁶ Suchman (1995b: 579)

²⁹⁷ cf. Droege and Johnson (2007: 103); Fallon, JR. (2005: 1796); Suchman (1995b: 579).

²⁹⁸ cf. Suchman (1995a: 579).

²⁹⁹ Suchman (1995b: 579).

³⁰⁰ Suchman (1995b: 585).

³⁰¹ cf. Palazzo and Scherer (2006: 73).

Moral legitimacy offers many points of contact to the IT. The IT postulates that firms that are in compliance (isomorph) with the expectations of the institution can obtain advantages from public policies.³⁰² Following the theoretical concept of legitimacy, firms can gain legitimacy if their behavior is the “right thing to do” (moral legitimacy) or if the firms’ behavior has advantages for the audience (pragmatic legitimacy). The following example will underline this relation.

The Krombacher Regenwald (rainforest) project is a good example of how firms can gain moral legitimacy. In this project, Krombacher (a German brewery) is spending money to save the rainforest. With every bottle sold, one square meter of rainforest will be saved.³⁰³ The customers do not earn any advantage from this project; in fact, they have to pay more money for the same product (bottle of beer). However, saving the rain forest may be “the right thing to do”. Following the moral legitimacy approach, Krombacher can gain legitimacy through this project.

Firms that invest in new plants and hire large amounts of new employees provide a good example of pragmatic legitimacy for those people who gain employment. The output of the firm (employment) has a direct advantage for those new employees. Therefore, the firm gains pragmatic legitimacy.

Both behaviors can increase a firm’s legitimacy to engage in NS. Furthermore, the IT is able to explain firms’ advantages in the nonmarket environment through these actions. To save the rainforest and to employ citizens may be accepted as positive by society. Therefore, the firms act in compliance with the expectations of society and institutions and, following IT, can obtain advantages from public policies.

Legal legitimacy

Having presented an overview of the theoretical background of the legitimacy approach and its contact points to the IT, this section will now introduce the first column of the concept of legitimacy: legal legitimacy.³⁰⁴ Fallon (2005) states that “*legal legitimacy and illegitimacy depend on legal norms*”³⁰⁵. In his view, legal legitimacy is based on complying with laws and regulations.³⁰⁶ Accordingly, organizations

³⁰² See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

³⁰³ cf. Krombacher (2013).

³⁰⁴ See Figure 10: Concept of Legitimacy.

³⁰⁵ Fallon, JR. (2005: 1794).

³⁰⁶ cf. Fallon, JR. (2005: 1794).

that stick to the legal environment by following the entirety of rules are legitimized by their actions. For example, a firm that considers all work, environmental, tax, and other laws is more legitimized to claim “support” from the nonmarket environment than a firm that is “careless” in following the rules. In this way, the approach of legal legitimacy is closely connected to that of the IT (see above).

However, in order to gain legitimacy from the legal environment, the legal environment has to be legitimate itself. Legal legitimacy of an environment depends fundamentally on sociological legitimacy, which is closely connected to moral legitimacy.³⁰⁷ The constitution and the legal rules in a society are “*accepted as such*” because their foundation lies in the “*sociological embrace and acceptance of rules, norms and interpretive practices*”.³⁰⁸ Or, to take the perspective of the moral legitimacy approach: laws define what the right thing to do is. In modern democracies, the constitution assumes that “*electorally assumable officials will derive sociological legitimacy not only from their legal authorizations, but also from electoral mandates*”³⁰⁹. Following this approach, laws shaped and enforced by politicians are legitimized through election and can for that reason be regarded as legitimate. In turn, firms that follow these laws are legitimate according to *legal legitimacy*, as the laws themselves are legitimized through a legitimate process. In addition, the legitimization can be enhanced if society sees this behavior as morally correct (moral legitimacy).

Weber (1978) indicates that the “*most common form of legitimacy is the belief in legality, the compliance with enactments which are formally correct and which have been made in an accustomed manner*”³¹⁰. Weber’s “accustomed manner” is a good description of the law enforcement process based on the constitution and elections and a link to the concept of moral legitimacy (the right thing to do). Habermas (1996) argues that modern law must be understood in terms of a self-legislating, legal community that agrees to organize its common life on the basis of the law. Following this approach, the basis of the legitimacy of legal statutes is derived not from being enacted by a democratic legislature, which can be seen as a necessary condition, but rather from societal discourses. The legitimacy of the law is based on public communicative action, involving moral, ethical, and

³⁰⁷ See above.

³⁰⁸ cf. Fallon, JR. (2005: 1748).

³⁰⁹ Fallon, JR. (2005: 1743).

³¹⁰ Weber, Roth, and Wittich (1978: 37).

pragmatic claims. At this point of this discussion in academia, legal legitimacy is developed from the theoretical concepts of moral legitimacy and pragmatic legitimacy. Accordingly, *“only those statutes may claim legitimacy that can meet with the “Zustimmung” (assent) of all the citizens in a discursive process of legislation that in turn has been legally constituted”*.³¹¹

Having defined the theoretical basics of legal legitimacy, this section will now explain the two major fields of its application: **soft law** and **hard law**. It will focus in particular on the implications for MNEs. Hard law encompasses all laws and treaties that are legally binding by themselves. In contrast, soft law is not directly binding, is sometimes even not in written form, and does not belong to any category of customary law.³¹² National and international norms and even customs are useful examples of soft law, but lobbying behavior is as well. They are not “binding” the way that hard law is, and for that reason compliance with these statutes depends on firms’ motivation and capacity to comply. The consequences of firms’ non-compliance with soft law are mostly soft-sanctions with *possible* impacts to the firm’s reputation.³¹³ Chayes and Chayes (1995) assume that disapproval of a noncompliant actor can be shown through *“exposure, shaming, and diffuse impacts on the reputation and international relationships”*³¹⁴. For this reason, legal legitimacy and even soft law are important for firms that pursue NS. Non-compliance reduces the opportunities for firms to engage in NS (lack of image, reputation, legitimacy) and also has a significant impact on competitive strategies. The knowledge about hard and soft laws is thus one of the major political resources of a firm; acting in compliance with these rules increases the legitimacy of a firm and offers it access to the nonmarket environment.

Organizational legitimacy

The second column of the concept of legitimacy is organizational legitimacy. Following the organizational legitimacy approach, organizations are legitimate if they conform to prevailing (=“Zeitgeist”) (social) norms, practices, and beliefs of parts of the society.³¹⁵ Actions need to be *“desirable, proper, or appropriate within some socially constructed system”*³¹⁶. A useful example is a

³¹¹ Habermas (1996: 110).

³¹² cf. Karlsson-Vinkhuyzen and Vihma (2009: 401 f.).

³¹³ cf. Karlsson-Vinkhuyzen and Vihma (2009: 405 f.).

³¹⁴ Chayes and Chayes (1995: 110).

³¹⁵ cf. Bigelow and Stone (1995: 183); Demil and Bensédine (2005: 59); Meyer and Rowan (1977); Powell (1985); Zucker (1987).

³¹⁶ Suchman (1995b: 574).

firm that sticks to its pronouncements, for example relating to work, safety, and environmental laws. Politicians are assessed based on their behavior once they are elected. If they act differently than they proposed, a reelection is less likely. Furthermore, organizations have to follow the “Zeitgeist” to gain organizational legitimacy. For example, fuel-consuming, inefficient, and heavy cars might have been acceptable in the past but not nowadays. The downfall of the American car industry is an illustrative example of firms developing products for another “decade”.

Another way to gain organizational legitimacy is explained by Ashforth and Gibbs (1990). They state that organizations are legitimate if they pursue “*socially acceptable goals in a socially acceptable manner*”³¹⁷. The best example of one such goal is employment. If firms invest in or employ citizens of a state following the law (in an “acceptable manner”), they gain legitimacy. If organizations lose legitimacy due to their own misbehavior, they lose the opportunity to engage in NS. Moreover, they lose access to the market and the nonmarket environment, e.g. access to politicians. Examples include wrong products, poor working conditions, and diminishing image. Overall, organizational legitimacy is vital for organizations’ long-term survival.

Having explained the impact of organizational legitimacy on the market and nonmarket environments, its theoretical background will be elucidated in this section. IT defines organizational legitimacy as being a precondition for the continuous flow of resources and the sustained support of the organization’s constituents.³¹⁸ The invention of the concept of organizational legitimacy can be found decades ago: the “*Open System*” theories³¹⁹ and the *IT*³²⁰ focus on the interactions between organizations and their (social) environment, and therefore established this concept.³²¹

Institutional legitimacy is an important part of the organizational legitimacy approach. An example is the Supreme Court as a branch or organ of the state. The legitimacy of the Supreme Court stems from two columns: first, from the legal legitimacy as described in the previous section resting upon the constitution, and second from organizational legitimacy. The Supreme Court is seen as a “*generally*

³¹⁷ Ashforth and Gibbs (1990: 177). Which is connected to state goals such as jobs.

³¹⁸ See the theoretical section and Pfeffer and Salancik G. R. (1978); Palazzo and Scherer (2006: 71); Weber et al. (1978).

³¹⁹ cf. Scott (1987).

³²⁰ See above.

³²¹ cf. Suchman (1995b: 571).

*trustworthy decision maker whose rulings therefore deserve respect or obedience*³²². The Court's organizational legitimacy, as the organizational legitimacy of any institution, is relative and depends on the *"diffuse support"*³²³ from society. Furthermore, organizational legitimacy changes over time and can be seen as a dynamic variable.³²⁴ This again puts organizational legitimacy next to the reputation approach and provides further evidence of the intertwined concept of legitimacy (see Figure 10: The Concept of Legitimacy). A useful approach to further explain organizational legitimacy is the institutional approach. This perspective emphasizes the importance of obtaining legitimacy; it is connected to IT and emphasizes *"social worthiness"* and complying with *"externally imposed criteria of acceptable behavior"*.³²⁵

The Institutional Approach

To understand the institutional approach of organizational legitimacy, a wider social context has to be considered because *"here the legitimacy judgments are made"*³²⁶. Following the institutional approach, *"legitimacy and institutionalization are virtually synonymous"*³²⁷. For this reason, organizational legitimacy is based on approval by society, implying *"dynamic stability"*³²⁸ and *orderly and stable patterns*.³²⁹ Organizational legitimacy is based on the *"congruence between the social values associated with or implied by organizational activities and the norms of acceptable behavior in the larger social system"*³³⁰. Organizations are legitimate when they are understandable rather than desirable.³³¹ The institutional approach emphasizes conformity (mimetic behavior) to the environment. In uncertain environments, managers seek legitimacy by positioning their organization within a preexisting institutional regime. They *"manipulate"* only their own organizational structure to gain legitimacy.³³² This behavior can be described as passive compliance and active manipulation. In terms of the concept of access, this means that organizations that act *"understandably"* or

³²² Fallon, JR. (2005: 1828).

³²³ Fallon, JR. (2005: 1828).

³²⁴ cf. Fallon, JR. (2005: 1828).

³²⁵ Oliver (1991b: 150).

³²⁶ Droege et al. (2011: 102).

³²⁷ Suchman (1995b: 576).

³²⁸ Droege et al. (2011: 101).

³²⁹ cf. Droege et al. (2011: 98 ff.).

³³⁰ Dowling and Pfeffer (1975: 122).

³³¹ cf. Pfeffer and Salancik G. R. (1978); Suchman (1995b: 573).

³³² cf. Suchman (1995a: 587 ff.).

“appropriately” can more “easily” gain organizational legitimacy. For example, a firm that follows contemporary laws and conventions of a society (product range, work and safety laws, and philanthropic activities) gains organizational legitimacy.

Analyzing the antecedents of firms’ engagement in NS with regard to the institutional approach means that firms’ mimetic behavior towards the institutional environment and firms’ behavior that is seen by the society as socially valuable can be drivers, because this behavior will legitimate firms’ engagement in NS.

The last pillar in the concept of legitimacy is reputation (see: Figure 10: The Concept of Legitimacy). Due to its importance to the Driver Model, it will be discussed in a separate, the following section.

3.3.1.3 *Reference Field: Reputation*

Reputation is the third column in the concept of legitimacy and can be described as the most apparent in daily life. In a study by Hall (1992), CEOs rated firms’ reputation and product reputation along with employee know-how as the most important reasons for success.³³³ In several academic articles, reputation is seen as “*perhaps the most important strategic resource*”.³³⁴ Furthermore, reputation is an integral part of the other two columns in the concept of legitimacy (see Figure 11: Triangle of Legitimacy). The triangle of legitimacy depicts the interrelatedness of the three columns. In general, legitimacy explains the relationship between the firm and the institutional environment, while reputation explains the relationship between the firm and the audience.

³³³ cf. Hall (1992: 143).

³³⁴ Flanagan and O’Shaughnessy (2005: 445); cf. Baron (1995); Flanagan and O’Shaughnessy (2005); Hall (1992); Tesler and Malone (2008).

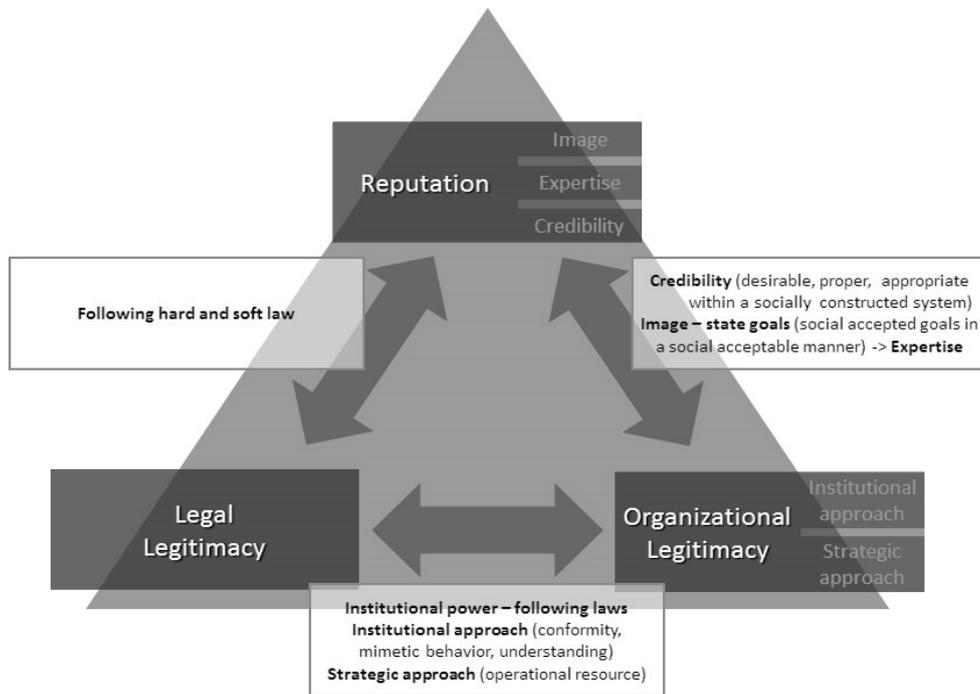


Figure 11: Triangle of Legitimacy

Scholars in the research field of strategic management have defined reputation as an *intangible asset* that provides “*sustainable competitive advantage*” in the market and nonmarket environments.³³⁵ Furthermore, firms not only compete for customers; they compete for reputational status, too.³³⁶ In recent years, the importance of intangible assets in general and reputation in particular has grown rapidly. Particularly to foster customer retention and to create market barriers for competitors, reputation is nowadays seen as a strategic tool.³³⁷ Gardberg and Fombrun (2002) suggest four factors that can explain the growing importance of reputation to create and maintain competitive advantage: 1. the global interpenetration of markets based on an advancing globalization; 2. the media congestion and fragmentation; 3. the appearance of even more vocal constituents (and stakeholders); and 4. the commoditization of industries and their products.³³⁸

To understand the concept of reputation and in particular how firms can gain a long-term positive reputation, a theoretical overview is presented in the following. The word reputation stems from the

³³⁵ cf. Mahon and Wartick (2003: 19) with further references. Boyd, JR. (2010); Roberts and Dowling (2002); Shamsie (2003); Ponzi, Fombrun, and Gardberg (2011).

³³⁶ cf. Fombrun and Shanley Mark (1990: 235).

³³⁷ cf. Schwaiger (2004: 47).

³³⁸ cf. Gardberg and Fombrun (2002: 303).

Latin word *reputatus*, which means to think over, to reflect.³³⁹ The Webster dictionary defines reputation as follows: *“The estimation in which one is held; character in public opinion; the character attributed to a person, thing, or action; repute.”*³⁴⁰ This very wide definition is based on the different usage of the term reputation in daily life. Even in the academic literature, reputation is used in different contexts. Some examples are illustrated below.³⁴¹

Reputation in academia is used as:

- a potential market barrier;
- goodwill in accounting;
- a manifestation of corporate identity;
- a result of marketing;
- a signal about future actions and behavior; and
- as a possible driver of firms’ engagement in NS.

Clearly, reputation is a widely used concept in academia; therefore, various perspectives to understand reputation can be found. Within the Driver Model, the impact of firms’ reputation on gaining access to (and influencing) nonmarket decision-makers, has to be analyzed. However, as will be shown below, the processes that shape firms’ reputation are complex and intertwined with great interrelations between the market and nonmarket environments. For this reason, a definition of reputation will be comprehensive but at the same time “to the point”. Barnett et al. (2006) define corporate reputation as *“observers’ collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time”*³⁴².

This thesis’ definition of reputation is as follows:

A firm’s reputation is a collective representation of its past actions that describes the firm’s ability to deliver valued outcomes to multiple stakeholders. Herein, reputation is *“determined by the value*

³³⁹ Babylon Ltd. (2012).

³⁴⁰ Webster (2012).

³⁴¹ cf. Schwaiger (2004: 48).

³⁴² Barnett, Jermier, and Lafferty (2006: 34).

*of the actor's previous efforts*³⁴³. It is determined by "*perceptions of corporate behavior and emotional responses to these behaviors*"³⁴⁴.

In their SMJ article, Basdeo et al. (2006) refer to signaling theory and hypothesize that a "*firm's reputation is shaped by its own market actions and the actions of its own industry rivals*"³⁴⁵. They view market actions as signals that convey information about the firm's underlying competencies, which influence the stakeholders' evaluations about the firm (link to the Driver Model). They assume that the industries' contexts as well as the rivals' market actions have an impact on the reputation of the (focal) firm because of how stakeholders receive and interpret the market signals.³⁴⁶ Rindola et al. (2005) assert that the perceived quality of firm's actions by the audience is influenced by the quality of inputs. This means that the organization benefits from a higher reputation through a higher performance by lowering buyer costs and enabling higher prices related to a higher buyer confidence. Rindova et al. (2005) argue that the market prominence dimension of reputation has cachet for which buyers are willing to pay a premium.³⁴⁷ This is closely connected to image and product reputation, which will be defined below.

Other scholars agree on this assumption and argue that the reputation of the whole industry can only be as strong as the reputation of its weakest member. Thus not only the firm's own behavior, but also the context is important for the judgment of a firm's reputation.³⁴⁸

The Theoretical Concept of Reputation

To understand how firms can gain reputation to be able to pursue NS, the concept of reputation was developed as part of this thesis (see Figure 12: Concept of Reputation). The model differentiates between two audiences: the general public, which encompasses the customers, voters, citizens, and even interest groups and politicians as private persons; and the professional nonmarket actors, such as politicians, judges, committee members, and staff from governmental and non-governmental

³⁴³ Roberts and Dowling (2002: 1078).

³⁴⁴ Ponzi et al. (2011: 32).

³⁴⁵ Basdeo, Smith, Grimm, Rindova, and Derfus (2006: 1205).

³⁴⁶ cf. Basdeo et al. (2006: 1205 f.).

³⁴⁷ cf. Rindova, Williamsson, Petkova, and Sever (2005).

³⁴⁸ cf. Barnett and HoffmanRoss (2008: 1); Tucker (2008: 7).

institutions. The model further differentiates between three approaches to gain long-term reputation: image, expertise, and credibility, which is also an integral part of image and expertise.

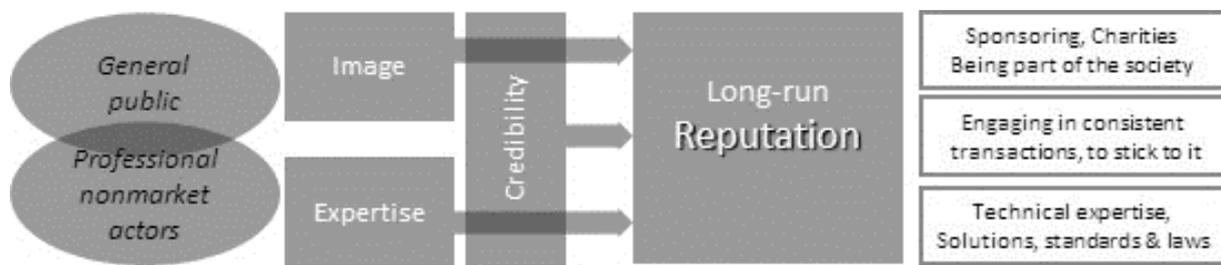


Figure 12: Concept of Reputation

Credibility: An integral part of reputation is credibility. The credibility of an actor increases if that actor keeps to its pronouncements or intentions in its final true behavior or action. To gain a long-term positive reputation, actors need to engage in consistent credibility transactions.³⁴⁹ For example, a firm agrees to invest in a new filter system; furthermore, the firm pronounces that it will start the construction immediately. If the firm breaks its promises (does not invest in a new filter system), the free press will always uncover as much and inform the audience immediately, which can have a great (negative) impact on the firm’s long-term reputation. The firm will no longer be seen as trustworthy by the general public and/or the professional nonmarket actors, and will have difficulty convincing actors in both the market and the nonmarket environments.

Credibility is clearly connected to reputation because reputation is developed over time and depends on a “*firm making stable and consistent investments over time*”³⁵⁰. For this reason, reputation can be defined as a strategic asset.³⁵¹ Schwaiger (2004) defines reputation as an intangible asset that is scarce, valuable, sustainable, and difficult to imitate.³⁵² Moreover, reputation is owned over time in “*complex interrelationships and exchanges between and among stakeholders and the organization in different contexts*”³⁵³. In this vein, credibility can be seen as the central strategic component in reputation because it transforms short-term ratings of firms’ behavior into long-term reputation.

³⁴⁹ cf. Brown, Drake, and Wellman (2015); Mahon and Wartick (2003: 27 ff.); Pinkse and Groot (2015: 636).

³⁵⁰ Roberts and Dowling (2002: 1091).

³⁵¹ cf. Roberts and Dowling (2002: 1091 f.).

³⁵² cf. Schwaiger (2004: 51).

³⁵³ Mahon and Wartick (2003: 23).

Further evidence of this point is provided by Mahon and Wartick's (2003) definition of reputation. They define reputation as being based on "*historical actions, and memories/perceptions of the stakeholders*" *being involved with the organization "in a given situation over time"*³⁵⁴. Each strategic choice of a firm has two effects: one direct impact of changing its competitive situation, and a long-term effect on its reputation. Therefore, firms have to consider the impact of their current actions with regard to their future reputation.³⁵⁵ From the perspective of strategic management, managers need a solid understanding of how stakeholders assess firms' reputation in order to develop a reputation for their firm.³⁵⁶ In doing so, credibility also has to be considered while gaining reputation through image and expertise.

Image: The next component that is used to build reputation is image. Image can be seen as "*fugitive perception*"³⁵⁷, related to firms' visible actions and varying in the short term.³⁵⁸ Dahan (2005) emphasizes the different perceptions of reputation and more precisely image in addressing other actors. In his perception, political reputation (in this thesis: expertise) is built in relation to professional nonmarket actors in the long run. The actors in the nonmarket environment decide whether the firm is "*politically credible, dangerous, legitimate, trustworthy, etc.*"³⁵⁹ Image, in contrast, is a perception by the "general public"; its opinion is shaped by the media and is much shorter in memory.³⁶⁰ Image is closely connected to market strategies, such as marketing campaigns and product management. Distinguished products and services shape the image of companies in the long run and can be seen as a strategy to build a long-term positive reputation. Furthermore, the nonmarket environment provides firms further opportunities to improve their image, such as for example through charities and sponsoring.³⁶¹

To transfer short-term image to long-term reputation, credibility is needed. Products and services in the market environment and philanthropic activities in the nonmarket environment need to be

³⁵⁴ Mahon and Wartick (2003: 23).

³⁵⁵ cf. Flanagan and O'Shaughnessy (2005: 446).

³⁵⁶ cf. Mahon and Wartick (2003: 23).

³⁵⁷ Dahan (2005a: 44).

³⁵⁸ cf. Dahan (2005a: 44).

³⁵⁹ Dahan (2005a: 44).

³⁶⁰ cf. Dahan (2005a: 44).

³⁶¹ Further examples in Chapter 4 The Driver Model in the real World – Results from a Field Investigation.

credible, which means that they have to fit the firm, and that the firm needs to follow these activities/services over a long period of time and not only as a reaction to reputation problems. One example can be a shift in a firm's corporate strategy, from a quality leadership to a cost leadership strategy. A firm pursuing this change will lose its reputation as an exclusive brand. A practical example is that of Mercedes Benz and its merger with Chrysler (further, in combination with quality problems with its own cars). In the long run, Mercedes Benz lost its status as the most prestigious German car manufacturer.

Expertise: The last cornerstone, and perhaps the most important one in gaining a positive long-term reputation, is expertise. In contrast to image, expertise exerts its effect mostly in relation to professional nonmarket actors. Firms do not only demand public policies, standards, and rulings by pursuing NS; they also provide goods to the nonmarket environment. One of the most important inputs for public policy shapers in the decision-making process is information about the particular market situation. Without this information, public policies cannot be legitimized and will not be successful. However, public policy shapers will only trust actors with a positive reputation. In practice, only these trustworthy actors (firms and interest groups) are consulted in the public policy shaping process, for example in hearings and background talks. Firms and other actors can gain this reputation through expertise. Here the connection point to the Driver Model is obvious: public policy shapers know firms that have experience with NS and whose internal resources and structures as experts. Due to their expertise, they are invited to hearings and background meeting. Therefore, expertise could be a determinant for firms' engagement in NS.

Expertise can take various forms: (technical) expertise about technical processes, market information, expertise in dealing with transitions and innovations, and knowledge about which standards and laws are required and adaptable. When firms submit this information, they need to be truthful. Credibility is needed to transform expertise into a positive long-term reputation.

In summary, the concept of reputation explains how firms can gain the political resource reputation. The following paragraphs will analyze different perspectives of the reputation approach.

Reputation is a comprehensive concept, and can therefore be analyzed from three different perspectives: the perspectives of the issue, of the process itself, and of the stakeholders.³⁶² As this chapter has already demonstrated that legitimacy and reputation can be earned through behavior, this section focuses on the stakeholders' perspective in greater detail. Reputation is earned over time, and for some stakeholders as a result of direct experiences. Other stakeholders adopt their perception from those stakeholders with direct experiences. In general, stakeholders are boundedly rational and biased.³⁶³ Their evaluation of the firm's reputation reflects only their "*impressions of the firm's disposition to behave in a certain manner*"³⁶⁴, comparing the behavior of the firm to the behavior of its competitors. These evaluations are adopted by the stakeholders without direct experience and without any proof. For that reason, favorable impressions are valuable for the firm because they not only increase a willingness to exchange resources but also increase the willingness of those stakeholders to absorb their reputational perceptions.³⁶⁵ Therefore, it stands clear that reputation with stakeholders may be the most important component in managing an organization's reputation.³⁶⁶

Reputation mitigates information asymmetry and customer uncertainty, and substitutes for expensive governance and regulation mechanisms. Furthermore, it helps stakeholders to distinguish between actors. Finally, reputation is a strategic asset that gives firms the opportunity to engage in NS (Driver Model) and links to organizational performance.³⁶⁷ Reputation is a "*general organizational attribute*"³⁶⁸ whose value is derived from "*interconnections of factors that lead to casual ambiguities, competitive advantage, and ultimately, performance superiority*"³⁶⁹.³⁷⁰ Reputation building strategies consider both the market and the nonmarket environments. Reputation is a valuable concept with which to explain the antecedents of firms' engagement in NS, because it analyzes the firms' opportunities to convince actors in the market and nonmarket environments.

³⁶² cf. Mahon and Wartick (2003: 21).

³⁶³ cf. Barnett and HoffmanRoss (2008: 4).

³⁶⁴ Basdeo et al. (2006: 1206).

³⁶⁵ cf. Basdeo et al. (2006: 1206).

³⁶⁶ cf. Mahon and Wartick (2003: 24).

³⁶⁷ cf. Shamsie (2003).

³⁶⁸ Roberts and Dowling (2002: 1078).

³⁶⁹ Barney (1986: 1991).

³⁷⁰ cf. Barney (1991); Boyd, JR. (2010: 592); Roberts and Dowling (2002: 1078).

3.3.1.4 *Influence*

This section provides a short overview of how firms can influence decision-makers. This is useful to better understand what drives firms to engage in NS. Some may think that once access is secured, influence will follow automatically.³⁷¹ In practice, this outcome cannot be guaranteed; actors that have gained access have to consider that usually several other actors have managed to gain access as well. For that reason, the decision-makers are confronted by several partly conflicting recommendations.³⁷² Which recommendation the decision-maker will follow is based on a complex assessment process. In general, all actors act in self-interest, following their own goals. Actors in the governmental environment in particular have to consider their actions, however, because most of them have to be reelected or are appointed. Policy makers strongly care about what their constituents think and are for that reason heavily influenced by those constituents.³⁷³ Their behavior can be defined as “self-interested in the long run”.

The outcome of all strategies (influence outcome) depends on the following variables: the political resource base of the firm, the target and its interest, the policy, and the behavior of other actors. To influence decision-makers is the goal of any NS, and many ways and opportunities can lead firms to achieve this goal.

Furthermore, the political resources of legitimacy and reputation are used in the Driver Model as reference fields to connect the drivers to the firms’ internal resource base. This provides the opportunity not only to analyze the antecedents of NS and to understand which firm engages in NS and why; it further provides hints with regard to which resources a firm should build to engage in the nonmarket environment and to strengthen its own competitive position in its industry. After having introduced the internal drivers, so called the RBV of the nonmarket environment with its concept of access including legitimacy and reputation, the next section will develop the first part of the Driver Model: the legitimacy-related drivers.

³⁷¹ cf. Hillman and Zardkoohi (1999).

³⁷² cf. Dahan (2005b: 16).

³⁷³ cf. Lord (2003: 113 f.) see also voice strategy.

3.3.2 Legitimacy-related Drivers: Firm Size (Employment) and Origin of Firm (Ownership)

Following the concept of access, the first strategy to becoming involved in the public policy shaping process is through legitimacy. For that reason, this section begins with an investigation of the determinants of NS of business firms. Based on a review the 23 theories in the literature review³⁷⁴ to explain the relationship between legitimacy and the firms' determinants in NS, it is necessary to select a theory based on both (1) its strength in explaining the connection between legitimacy and the firm's engagement in NS, and (2) the count of entries in the database related to the topic.

(1) In the previous section, the concept of legitimacy was defined. To summarize, the cornerstones of this concept are as follows. Business firms can possess legitimacy if their behavior is "*justified, appropriate or otherwise deserving*"³⁷⁵. Actors reward business firms from a moral point of view if their actions are the "*right thing to do*"³⁷⁶. Finally, (organizational) legitimacy can be gained by "*conforming to prevailing norms, practices, and beliefs*"³⁷⁷.

Based on the theories reviewed in this thesis, the following approaches are able to explain the needed relationship: the IT, the Behavioral Theory of the Firm (BTF), and the Resource Dependence Theory (RDT). The RBV is already considered in the reference field and the framework for the internal driver section.³⁷⁸ The RDT analyzes the relationship between organizations (firms) and institutions.³⁷⁹ Further, it has many similarities with the RBV.³⁸⁰ However, it focuses more on the outside of a firm, and on needed resources of a firm, and is therefore not the best way to explain legitimacy-related internal drivers.³⁸¹ Another opportunity to explain this relationship is to apply the BTF. This theory focuses heavily on the decision-making process, reflecting its internal resources and structures and its conventional practice and history.³⁸² A third approach to explain this relationship is provided by the IT. The IT proposes that firms that comply with institutional pressures achieve stability, legitimacy, social

³⁷⁴ See Chapter 2.3 Main Theories in the Research Field of Nonmarket Strategies

³⁷⁵ Fallon, JR. (2005: 1795).

³⁷⁶ Suchman (1995a: 579).

³⁷⁷ Bigelow and Stone (1995: 183).

³⁷⁸ See Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment.

³⁷⁹ cf. Getz (2002: 313); Kotter (1979); Pfeffer and Salancik G. R. (1978: 43); Walsh, Meyer, and Schoonhoven (2006: 661).

³⁸⁰ cf. Barney (1991); Nienhüser (2008: 17); Medcof (2001); Knyphausen-Aufseß (1997).

³⁸¹ cf. Frooman (1999: 195).

³⁸² cf. Cyert and March (1963); Getz (2002: 316).

support, and prestige.³⁸³ Even though institutionalization reduces short-term efficiency, it increases the chances for long-term survival.³⁸⁴ This is related to the legitimacy of the organization. An organization that conforms to external expectations (e.g. laws, standards) is less likely to have its legitimacy questioned.³⁸⁵ If these remaining two theories are compared, the IT is stronger in explaining the relationship between the legitimacy-related drivers and firms' engagement in NS.³⁸⁶

(2) From the database created for this thesis, only a small number of entries could be analyzed. The most important one is the study by Hillman (2003), where IT and RBV are introduced to explain the relationship between legitimacy-related drivers and firm's engagement in NS, further Griffin & Dunn (2004) and Ingram & Simons (1995) apply IT as well.³⁸⁷ Furthermore, the study by Rehbein & Schuler (1998) applies the BTF; however, the focus of this analysis is more on the area of firms' reputation and experience.³⁸⁸ For this reason, the application of the IT was selected. Finally, it is necessary to analyze whether the interaction of the IT and the RBV is problematic and excludes the chosen approach. Both approaches provide the same prediction: institutional variables (IT) and firm-level variables (RBV) are determinants of NS.³⁸⁹ It was useful to refer to the work of Oliver (1991, 1997, 1997b, 2008), where she analyzes the relationship between these two perspectives.³⁹⁰ Based on her analysis, no problems were found in combining these two approaches.

The concept of legitimacy builds the bridge from the RBV-perspective to the IT, as both approaches emphasize compliance with expectations of a social group, as well as predictable behavior. The IT will be introduced in the next section.

³⁸³ cf. DiMaggio and Powell (1983); Meyer and Rowan (1977); Oliver (1990).

³⁸⁴ cf. Zucker (1987: 451); Zucker (1977).

³⁸⁵ cf. DiMaggio and Powell (1983).

³⁸⁶ "Conforming to prevailing norms, practices, and beliefs" (Bigelow and Stone (1995: 183)); comply with institutional pressures achieve stability, legitimacy, social support and prestige (cf. DiMaggio and Powell (1983); Meyer and Rowan (1977); Oliver (1990)).

³⁸⁷ cf. Hillman (2003); Griffin and Dunn (2004); Ingram and Simons (1995).

³⁸⁸ cf. Rehbein and Schuler (1998).

³⁸⁹ cf. Rehbein and Schuler (1998: 460).

³⁹⁰ Oliver (1997a); Oliver (1997b); Oliver (1991a); Oliver and Holzinger (2008).

3.3.2.1 *Theoretical Background: The Institutional Theory*

(Neo)IT originates from the research field of sociology and deals with the choices of organizations in response to or in compliance with their institutional environment.³⁹¹ The theory explains the kind of relationship and the behavior of the firm in a dependent relationship. The institutional environment comprises the rules and requirements with which the organizations must comply. Therefore, organizations primarily seek legitimacy to gain desired rewards (conformity with norms, traditions, and social influences). Compliance with the expectations of the institutions and, in a further understanding, other interest groups is therefore essential for organizational success and to ensure survival.³⁹²

To understand the IT, institutions first have to be defined. Institutions are – in general – humanly created constraints that limit choices, shape incentives of a society, and structure political, economic, and social interactions. They include both formal institutions, such as the constitution, laws, regulations, and contracts, as well as informal constraints (social norms, sanctions, taboos, customs, traditions, and codes of conduct).³⁹³ Institutional sources and belief systems in modern societies are diverse, and include public opinion, educational system, laws, courts, professions, ideologies, regulatory structures, awards and prizes, certifications and accreditation bodies, governmental endorsement, and requirements.³⁹⁴ In turn, firms' institutional environment encompasses such dimensions as culture, societal pressures, and the current political agenda.³⁹⁵ The aim of institutions is to reduce uncertainty by creating order; for this reason, institutions are an old human concept. The evolution of institutions has proceeded incrementally and connects the past with the present and future. This development process assures order and predictability.³⁹⁶

According to the IT, institutions canalize actions of organizations through formal rules (regulative institutions), social norms of behavior (normative institutions), and taken-for-granted patterns of

³⁹¹ cf. Barley and Tolbert (1997).

³⁹² cf. DiMaggio and Powell (1983); Bluedorn, Johnson, Cartwright, and Barringer (1994); Getz (2002: 314); Hillman (2003: 459); Oliver (1997c); Scott (1987); Winther Nielsen (2014).

³⁹³ cf. Hofstede and Hofstede (2005); North (1991: 97).

³⁹⁴ cf. Scott (1987: 498).

³⁹⁵ cf. DiMaggio and Powell (1983); Oliver (1991b).

³⁹⁶ cf. North (1991: 97).

action (cognitive institutions).³⁹⁷ Professional norms and governmental regulations and laws (= institutional pressures) motivate organizations to respond similarly and thus in predictable ways.³⁹⁸

To understand the “compliance doctrine”, the development of organizations must be examined. DiMaggio and Powell (1983) suggest that structural change in organizations is not necessarily efficiency-driven, but instead a result of processes that make organizations more similar (bureaucratization). These processes are forced by an increasing influence of the state. DiMaggio and Powell (1983) identify three mechanisms through which institutional isomorphic change occurs: 1. coercive, 2. mimetic, and 3. normative isomorphism. *Coercive isomorphism* results from political influence and the legitimacy problem. Thus, organizational structure is shaped by responses to formal pressures. For example, firms that are listed on the stock exchange in Frankfurt are required to follow specific rules. *Mimetic isomorphism*, on the other hand, is a response to uncertainty and leads to an imitation of structures adopted in response to pressure.³⁹⁹ Finally, *normative isomorphism* is associated with professionalism on the individual level. Professionals in a particular field have enjoyed the same education and because of this tend to interpret situations in a similar way. The structure of the organization conforms to external established normative standards.⁴⁰⁰

Coercive isomorphism provides answers to the question of why firms engage in NS (legitimacy perspective). Based on IT, it results from formal and informal pressures exerted on organizations (here: firms) by other organizations upon which they are dependent (here: governmental institutions and the society seen as customers and constituents = nonmarket environment). For example, organizational changes can be effected by a direct response to a governmental mandate, such as adapting new pollution control technologies to comply with environmental regulations.

In summary, the existence of a legal framework affects many aspects of the structure and behavior of organizations. If a firm’s organization is in compliance (isomorph) with the expectations of the institution, it can obtain advantages from public policies.⁴⁰¹ Institutional environments reward

³⁹⁷ cf. Scott (2001).

³⁹⁸ cf. DiMaggio and Powell (1983); Meyer and Rowan (1977).

³⁹⁹ cf. Galaskiewicz (1989: 467).

⁴⁰⁰ cf. DiMaggio and Powell (1983).

⁴⁰¹ See above the example of the Norwegian firm in the EU. The organization is in compliance with the standards of the EU; as a result, the institutions grant access.

organizations not only for the quality and quantity of their output or efficiency, but also for the development of appropriate structures and procedures.⁴⁰² These rewards include increased legitimacy, resources and survival capabilities.⁴⁰³

The IT is not without criticism.⁴⁰⁴ Its major criticism is related to the mimetic behavior of organizations. According to IT, organizations will remain passive. Strategic behavior or exercising influence is not addressed in IT; furthermore, self-interest of the organizations also remains unconsidered.⁴⁰⁵ This explains why IT has difficulty explaining change.⁴⁰⁶ This drawback is addressed by Institutional Entrepreneurship (IE); a theory that has gained some attention in academia in the last years; even though no article in the literature review of this theses even mentioned it. In the footnote it will shortly be discussed what IE is about and why this approach has not been considered in the Driver Model.⁴⁰⁷ In summary, in this thesis' Driver Model, the drawbacks discussed here are mitigated by including further and even strategic approaches to the Driver Model; furthermore, institutional environments

⁴⁰² cf. Chess (2001: 181).

⁴⁰³ cf. DiMaggio and Powell (1983).

⁴⁰⁴ Find a summary at Oliver (1991b).

⁴⁰⁵ cf. Covaleski and Dirsmith (1988); Perrow (1985); Powell (1985).

⁴⁰⁶ cf. Christiansen and Rommetvedt (1999: 211).

⁴⁰⁷ Starting point for the development of the IE is the questions, how *"new organizational forms are created"* (Tracey, Phillips, and Jarvis (2011: 60)), which is seen as a problem within IT (e.g. Tracey et al. (2011: 60)). Aldrich (2012) defines IE as *"collective action by many people who jointly – via cooperation or competition – create conditions transforming institutions"* (Aldrich (2012: 1240)). IE sees *"policy development [as] an institutional process"* (Buhr (2012: 1566)). This approach builds on Scott (2008), who defines that *"institutions are comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life"* (Scott (2008: 48)). IE is somehow comparable to IT as it refers to values, defines *"as conceptions of the preferred or desirable"* (Scott (2008: 54)) and norms which *"specify how things should be done"* (Scott (2008: 55)). However, IT in contrast to IE focuses on stable environments and researched see problems within the system of IT how actors can then enact changes and following this, why actors then should engage in NS (cf. Greenwood and Suddaby (2006: 27)). IE tries to overcome the *"paradox of institutionally embedded agency"* (Leca and Naccache (2006: 628)) implying the development of a *"non-conflating institutional theory"* (Leca and Naccache (2006: 629)) and to bring *"back agency into the institutional framework"* (Leca and Naccache (2006: 629); e.g. Matthyssens, Vandenbempt, and van Bockhaven (2013)). In the Driver Model this dynamic component is already considered by applying other theories such as BTF, RDT or IGT/ST; therefore, the author has rejected to include IE. Furthermore, York et al. (2010) in their extensive literature review about IE see two *"largely divergent streams [within IE]: "sociology-based institutional theory and economics-based institutional economics"* (Pacheco, York, Dean, and Sarasvathy (2010: 974)), which could even contradict the implementing perspective of the Driver Model's approach. Mutch (2007) sees IE very skeptical being very general tending to *"describe a phenomenon under inspection rather than analyzing it, leaving assumptions [...] unexamined"* (Mutch (2007: 1123)). Further, he questions the perspective of IE focusing on an *"entrepreneur as an innovative person [...] effectively breaking existing institutions"* (Li, Feng, and Jiang (2006: 358)). In summary, IE offers interesting perspectives and shall be not out of discussion for a further development of the Driver Model; however, the existing stage of IE does not add major insight to the Driver Model and is, for this reason, not considered.

are not even “iron cages” permitting firms any ability for strategic choice, as DiMaggio and Powell (1983) comment in their paper.⁴⁰⁸

In addition, due to the great success of IT in studying macro-organizational phenomena, there is considerable risk that it might be used outside of its core purpose as well.⁴⁰⁹ Accordingly, Suddaby (2010) criticizes the fact that nowadays IT is taken to explain nearly anything. Organizations are interpreted as “*hypermuscular supermen, single handed in their effort to resist institutional pressure, transform organizational fields and alter institutional logics*”⁴¹⁰. Any change is interpreted as “institutional” and it seems that organizations are again seen as *prisoners of their institutional environment*, with only the ability to deal with that environment.⁴¹¹ Furthermore, Suddaby (2010) claims that organizational theorists should pay more attention to the role and function of corporate public affairs professionals.⁴¹² Influence is not unidirectional; instead, organizations exert effects on institutions through lobbying, petitioning, providing data, and as experts.⁴¹³

For this thesis’s Driver Model, most of this criticism does not apply as the IT is integrated in a set of other theories. For example, in the proposed framework, firms have the possibility of strategic choice, which is explained by the RDT. Ultimately, the framework would be useless without considering a bi-directional flow of power and information. Here, IT takes on an important role.

Even though IT has generated an impressive body of both theoretical as well as empirical work, it lacks any kind of explanation for strategic response of organizations to the processes in their institutional environment.⁴¹⁴ IT mainly focuses on conformity and stability; it is unable to describe endogenous processes that shift the balance of power.⁴¹⁵ However, one should not forget that IT provides significant insights into understanding how the institutional environment affects the structure and actions of an organization.⁴¹⁶ It focuses on the circumstances that hinder actors from optimizing their

⁴⁰⁸ cf. DiMaggio and Powell (1983).

⁴⁰⁹ cf. Suddaby (2010: 14). See Chapter 2.2.

⁴¹⁰ Suddaby (2010: 15).

⁴¹¹ cf. Suddaby (2010: 14 f.).

⁴¹² cf. Suddaby (2010: 14).

⁴¹³ cf. Dacin, Goodstein, and Scott (2002: 52).

⁴¹⁴ cf. Ingram and Simons (1995: 1466) with further references.

⁴¹⁵ cf. Levy and Egan (2003: 811).

⁴¹⁶ cf. Goodstein (1994: 350).

behavior to reach their goals. Firms are – according to the IT – not able to make every strategic choice because of social norms and the legislative influence that limits their independent actions. Because of the strength of the environmental influences – in the Driver Model the influences from the nonmarket environment – organizations seek to conform to these pressures to secure stability, legitimacy, and access to resources to assure long-term survival.⁴¹⁷

Political, social, and economic behavior cannot be understood without analyzing the relationship between actors and institutions.⁴¹⁸ IT explains why firms are politically active and how they choose their NS. When firms engage in NS, they can be assured that their own structures and processes benefit from public policy through obtaining formal and informal institutional resources, such as laws, subsidies, or legitimacy. Institutional resources are necessary to accomplish NS successfully. These resources are dependent on the political system and are also called political capital in the literature.⁴¹⁹ Especially scholars of NS discuss the importance of institutions.⁴²⁰ In the case of MNEs, different norms and respective strategies in every particular country have to be considered.⁴²¹

Finally, firms' political power might be retained longer than their economic power because the political system is more stable. Recent research confirms this presumption.⁴²² The theoretical explanation is that members of democratic societies are risk adverse and therefore build constraints for policy change that increases costs and difficulty.⁴²³ From a firm's perspective it is therefore useful to comply with the institutional environment.

The IT focuses on the direct impact of institutional rules, pressures, and sanctions on organizational structure.⁴²⁴ Institutional scholars propose that firms that comply with institutional pressures achieve stability, legitimacy, social support, and prestige.⁴²⁵ Even though institutionalization reduces short-term efficiency, it increases the chances for long-term survival.⁴²⁶ The long-term survival is related to

⁴¹⁷ cf. McKay (2001: 630).

⁴¹⁸ cf. Christiansen and Rommetvedt (1999: 201).

⁴¹⁹ cf. Getz (2002); Hillman and Zardkoohi (1999).

⁴²⁰ cf. Griffin and Dunn (2004); Getz (2002); Oliver (1991b); Salorio et al. (2005).

⁴²¹ cf. Hillman and Hitt (1999); Hillman and Keim (1995); McLaughlin et al. (1993); Meznar (2002: 331).

⁴²² For further results, see Bonardi et al. (2005: 403).

⁴²³ cf. Bonardi et al. (2005: 403).

⁴²⁴ cf. Greening and Gray (1994: 469).

⁴²⁵ cf. DiMaggio and Powell (1983); Meyer and Rowan (1977); Oliver (1990).

⁴²⁶ cf. Zucker (1987: 451); Zucker (1977).

the legitimacy of the organization. An organization that conforms to external expectations (e.g. laws, standards) is less likely to have its legitimacy questioned.⁴²⁷ However, the price for this “inclusion” is not just a loss in short-term efficiency; it is also a loss of discretion and control over one’s activities.⁴²⁸ Altogether, there are many ways to comply with the institutional environment besides following rules, laws, and regulations. In response to institutional pressures, an organization can for example co-opt the source of the pressure by persuading an institutional constituent to join it.⁴²⁹ In that case the organization not only benefits from the reputational effects but also from a direct information source. Following IT, power flows to those organizations with the greatest capacity to shape the underlying beliefs and values.⁴³⁰

The implications to this thesis are manifold. First and foremost, one has to consider the central role of governments. Governmental institutions play the central role when analyzing the political behavior of firms, because governments have special powers in regulations, law setting, and legitimacy.⁴³¹ Structured systems always provide both choice and constraint. Choice, which is more connected to RDT, allows firms to influence their environment; limits, and in turn mimetic behavior – which can be found in IT – create stability and reduce uncertainty.⁴³² Institutionalization implies stability and legitimacy, which implies approval. It brings stability while leaving room for change to be embedded in a social system.⁴³³ In this thesis, the IT explains how firms interact with the nonmarket and market institutions, ensuring appropriate organizational conformity for their own advantage.⁴³⁴ It explains why firms engage in NS, and especially how they do this, because IT explains how firms can legitimize their engagement in NS. It explains any kind of compliance with the political, legal, regulatory, and societal environments. It allows one to understand why firms choose to restrain their strategic choices and comply with the nonmarket environment in order to benefit from its advantages.⁴³⁵

⁴²⁷ cf. DiMaggio and Powell (1983).

⁴²⁸ cf. Oliver (1997c: 104).

⁴²⁹ cf. Oliver (1991b: 157).

⁴³⁰ cf. Oliver and Holzinger (2008: 511).

⁴³¹ cf. Weber et al. (1978).

⁴³² cf. Giddens (1986); Scott (2003: 133).

⁴³³ cf. Droege et al. (2011: 97, 100).

⁴³⁴ cf. Mckay (2001: 631).

⁴³⁵ cf. Ingram and Simons (1995: 1478).

Firms' political engagement in NS is enforced through changes in society and technology. (1) Topics such as sustainability, climate change, and health care are becoming increasingly important for society, and thus for politics and firms.⁴³⁶ (2) The rapid development of information technology and new opportunities for customers and interest groups to inform and be informed about the behavior of the political environment and firms all have an impact on firm's engagement in NS as well.

This section will examine MNEs in order to analyze the impact of these two developments. MNEs are under close supervision by customers and NGOs. Any infringement of a big company will immediately be reported in the media and on the internet. NGOs, the media, and interest groups can exert pressure on the institutional environment. The firm is forced to comply because otherwise it will suffer from campaigning against that environment. Examples of this behavior are Brent Spar 1995 (Shell)⁴³⁷ or the Apple-Electronic Product Environmental Assessment Tool (EPEAT) boycott 2012⁴³⁸. The Brent Spar case illustrates the mass media's role as gatekeeper. Here, the mass media manipulated the public opinion about this case, supporting Greenpeace without any constraint.⁴³⁹ On the other hand, Apple withdrew its products from the EPEAT registry on June 29th, 2012. As a reaction, the city of San Francisco declared that it would stop purchasing Apple products. Other Californian cities and customers followed this boycott. As an example of mimetic behavior, Apple put its products back on the list just a few days later. Compliance with the existing environmental set-up (having its products on the list) created a benefit for Apple (stopping the boycott). This behavior gives the firms stability and lowers uncertainty and risks.⁴⁴⁰

These examples highlight the central point of IT. Firms conform to external expectations because they are considered to be legitimate if they behave in a manner expected by society.⁴⁴¹ Furthermore, one has to consider that MNEs are not connected to only one country, and in turn to one single society and legal framework. They have transcended political boundaries in sales, supply chains, and production processes, and some of them have even higher annual turnovers than the GDP of entire nations.

⁴³⁶ cf. Keim and Hillman (2008: 52).

⁴³⁷ cf. Palazzo and Scherer (2006).

⁴³⁸ cf. EPEAT (2012).

⁴³⁹ cf. Palazzo and Scherer (2006: 83).

⁴⁴⁰ cf. Carly Schwartz (2012); Bob Mansfield (2012); EPEAT (2012).

⁴⁴¹ cf. Griffin and Dunn (2004: 197, 199).

Nowadays MNEs have to consider many institutional environments with occasionally contrary beliefs; they have the power to choose their production countries, but not their customers. Accordingly, any action in one country can also affect customers in other countries with different opinions. Conversely, Davis and Marquis (2005) see MNEs as states, with their employees as citizens.⁴⁴² Interpreting this view in terms of IT, MNEs set themselves up in institutional environments by strategically choosing their countries.

Summary of the Institutional Theory and the Concept of Legitimacy

- The IT originates from the research field of sociology.
- The first theoretical concept of a *resource-based perspective* was connected to the political environment (Fainsold (1940)) and not to the market environment as the RBV does.
- The concept of nonmarket resources, which is interpreted by the Driver Model as the “**RBV of the nonmarket environment**”, is a valuable contribution for research in the field of NS. It affords scholars the opportunity to analyze and understand internal firm drivers from a resource-driven perspective.
- The IT is closely related to the RBV and explains firms’ interactions with (non)-governmental institutions.
- Legitimacy has become one of the most critical business issues.
It represents a reaction of observers to the organization as they see it. Therefore, the concepts of pragmatic legitimacy and moral legitimacy answer the question of how a society reacts to an organization’s specific behavior.
 - Legal legitimacy is essential for firms as long as the legal rules are accepted by a society as such.
 - Organizational legitimacy is vital for organizations’ long-term survival.
- As in the IT, following the concept of legitimacy firms can obtain advantages from public policies by being compliant.

Summary:

Internal drivers can also be seen as the political resource base of a firm.

Legitimacy is the most important nonmarket resource to gain access to the NME.

The concept of legitimacy serves as link to the IT.

Synopsis 3: Summary of the Institutional Theory and the Concept of Legitimacy

⁴⁴² cf. Davis and Marquis (2005: 332).

3.3.2.2 Literature Review: Firm Size (Employment) and Origin of Firm (Ownership)

Having introduced the reference field of legitimacy and the basic theory for this section (IT), the literature will now be analyzed (see Chapter 1 Introduction and Section 3.1 Introduction and Methodology for the selection and analysis process) for insights regarding the legitimacy-related drivers of firms towards NS.

Driver 1: Firm Size (Employment)

In literature, examples for internal drivers of firms' engagement in NS can be found frequently. Getz (1997) alleges that firms engage in NS as a response to their own internal problems. She adds that researchers consider internal variables such as size, resources, profits, structure, and experience [and so on] to be ways to segregate more and less active firms.⁴⁴³

The first driver in the Driver Model is "firm size (employment)" from the legitimacy perspective. This relationship between firm's engagement in NS and the firm size (in employees) is based on the assumption that firms have more and better opportunities in the nonmarket environment if the firm earns legitimacy by **employing** people, providing needed goods, and educating employees.⁴⁴⁴ Furthermore, firm size may represent political (more stakeholders = more political power) and economic power (large firms are able to benefit more from public policies).⁴⁴⁵

Several empirical studies in the literature support the relationship between the driver firm size and firms' engagement in NS. Hillman (2003) and Rehbein and Schuler (1998) find empirical evidence that firms' engagement in NS increases with the number of employees.⁴⁴⁶ In another study, Bhuyan (2000) analyzes a sample of US food manufacturing firms and their strategic behavior towards NS. He finds that firms with more employees spend more money on NS.⁴⁴⁷ However, only one study (Hillman (2003))⁴⁴⁸ uses both a legitimacy approach – in general – and the IT – in particular – to explain firms'

⁴⁴³ cf. Getz (1997: 57 ff.).

⁴⁴⁴ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

⁴⁴⁵ cf. Bhuyan (2000); Boddewyn and Brewer (1994); Hansen and Mitchell (2000); Hart (2001); Hillman et al. (2004: 840); Hillman (2003); Hillman and Hitt (1999); Keim and Baysinger (1988); Masters and Keim (1985); Mezner and Nigh (1995); Salamon and Siegfried (1977: 1027); Schuler and Rehbein (1997); Schuler et al. (2002).

⁴⁴⁶ cf. Hillman (2003); Rehbein and Schuler (1998).

⁴⁴⁷ cf. Bhuyan (2000).

⁴⁴⁸ cf. Hillman (2003).

engagement in NS due to the variable firm size. In her article, Hillman (2003) refers to the article by Keim and Baysinger (1988)⁴⁴⁹ to introduce the variable “*number of employees*”⁴⁵⁰, because they see a direct relation between the number of employees and the firms’ ability to generate constituency support and leverage from nonmarket institutions.⁴⁵¹ Rehbein and Schuler (1998) do not use IT or a legitimacy approach. However, they regard “political receptivity” to explain firms’ engagement in NS in relation to employment.⁴⁵² Furthermore, MacHer and Mayo (2015) finds in their study that large firms have higher influence on public policy-making than smaller firms.⁴⁵³

Finally, in his Business and Politics article Unah (2003) is able to confirm a statistically significant relationship between the number of employees and firms’ engagement in litigation strategies.⁴⁵⁴ However, Unah (2003) uses a different concept from the research field of sociology, called Relationship Theory of Disputing, to explain firm behavior in the nonmarket environment.⁴⁵⁵ This theoretical approach cannot be generalized and is for that reason not useful to the present framework. To explain the relation between firm size and firms’ engagement in NS, Unah (2003) argues that employment and product range increase the visibility of a firm in the nonmarket environment. In the present framework, a higher visibility and especially the supply of needed and valuable goods⁴⁵⁶ broaden the legitimacy of a firm to engage in NS. Even though Unah (2003) did not use the IT or any legitimacy approach, his results can be integrated into this Driver Model using the reference field of legitimacy.⁴⁵⁷ (See Appendix A: Empirical Results from Literature – The Variable View.)

Driver 2: Origin of Firm (National Ownership)

Another internal driver for NS mentioned in the literature is ownership of the firm.⁴⁵⁸ The driver “origin of the firm (ownership)” is also related to the legitimacy approach. On the one hand, some scholars propose that foreign firms engage in NS more than their domestic competitors do (Hansen and

⁴⁴⁹ cf. Keim and Baysinger (1988).

⁴⁵⁰ cf. Hillman (2003: 465).

⁴⁵¹ cf. Keim and Baysinger (1988: 165 ff.).

⁴⁵² cf. Rehbein and Schuler (1998).

⁴⁵³ cf. MacHer and Mayo (2015).

⁴⁵⁴ cf. Unah (2003).

⁴⁵⁵ cf. Okhuysen and Bonardi (2011).

⁴⁵⁶ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

⁴⁵⁷ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

⁴⁵⁸ cf. Hansen and Mitchell (2000); Hillman (2003); Demil and Bensédine (2005).

Mitchell (2000) call this “*conventional wisdom*”⁴⁵⁹).⁴⁶⁰ On the other hand, for example, Hansen and Mitchell (2000) assume in their paper that the origin of the firm (or its owners) has different effects on several kinds of NS. They hypothesize that foreign firms will invest less in visible NS, such as political action committees (PAC) or charitable giving; but that no difference will be found between domestic and foreign firms regarding NS with a lower visibility, such as lobbying strategies.⁴⁶¹ The visibility of NS is an important factor for firms because NS always imply the danger of a negative reaction towards the firm from society or parts of it. Firms, in contrast to interest groups, do not need widely publicized successes; their interests regard the changes in their market and nonmarket environments. For this reason, firms generally prefer less visible NS.⁴⁶² Mitchell et al. (1997) recommend that firms “*adapt to the local political and economic environment*”⁴⁶³, which can clearly be connected to the legitimacy approach (especially organizational legitimacy)⁴⁶⁴ proposed in this thesis. It is assumed in this thesis that domestic firms have a higher compliance with the institutional environment and are therefore privileged to engage in NS because it is easier for them to enter the domestic nonmarket environment. They are “legitimized” to engage in NS due to their origin.⁴⁶⁵ Theoretical confirmations for this approach are discussed in the following.⁴⁶⁶

Empirical studies in the literature support Hansen and Mitchell’s (2000) approach as well as that of this thesis. For example, Mitchell et al. (1997) and Rehbein (1995) find empirical evidence that foreign-owned firms are less engaged in PAC compared to domestic firms.⁴⁶⁷ Rehbein (1995) discusses the cultural similarity of the domestic country of the firm and the country in which the firm starts to pursue NS. She finds that a higher similarity of the political systems results in a higher engagement in NS. On the other hand, cultural distance and foreign ownership open a lobbying gap.⁴⁶⁸

⁴⁵⁹ Hansen and Mitchell (2000: 893).

⁴⁶⁰ cf. Choate and Knopf (1990); Prestowitz (1989); Tolchin and Tolchin (1988).

⁴⁶¹ cf. Hansen and Mitchell (2000: 893).

⁴⁶² cf. Schattschneider (1960).

⁴⁶³ Mitchell et al. (1997a: 1107).

⁴⁶⁴ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

⁴⁶⁵ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

⁴⁶⁶ See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory and Chapter 3.3.1.2 Reference Field: Legitimacy.

⁴⁶⁷ cf. Mitchell et al. (1997a); Rehbein (1995).

⁴⁶⁸ cf. Rehbein (1995).

In their study from 2006, Bernhagen and Mitchell analyze the lobbying behavior in the European Union (EU) regarding the origin of firms. They find that even foreign firms with strong bonds to the market lobby more than domestic firms do (in the example of Norway), whereas firms without direct bonds to the market lobby less (Japan and USA).⁴⁶⁹ This thesis's approach seems to be slightly supported by the study regarding the non-European countries. Conversely, however, Norway is not part of the EU, even though Norway lobbies more than the domestic countries do (EU member states). The reason is that Norway is "legitimized" to lobby because it is a European country; its political culture highly complies with the culture of EU countries. On the other hand, not being a member of the EU, Norway has no political opportunities to influence the outcome of public policies (European Commission, European Parliament, European Council); to close this gap Norway needs to engage even more in private lobbying. Finally, Sadrieh and Annavarjula (2005) find evidence that foreign nationality of a firm has a negative impact on the intensity of lobbying.⁴⁷⁰

The literature review tends to confirm the present approach, which is that firms that are legitimized to engage in NS due to their origin (ownership) invest more in NS. However, different research streams can be found in the literature.

3.3.2.3 Propositions

After having introduced the IT and discussed the literature on legitimacy-related drivers, the proposition will be developed in this section. The IT provides the theoretical foundation⁴⁷¹ and the concept of legitimacy explains the relationship between the internal drivers (independent variable) and firms' engagement in NS (dependent variable) as a reference field⁴⁷², creating opportunities to undertake further studies.⁴⁷³ The first results from the literature review suggest that firms can benefit from public policies either by complying with institutional expectations or by catering to society's goals → if they are legitimized. Furthermore, both qualitative as well as empirical academic articles

⁴⁶⁹ cf. Bernhagen and Mitchell (2006).

⁴⁷⁰ cf. Sadrieh and Annavarjula (2005).

⁴⁷¹ See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

⁴⁷² See Chapter 3.3.1.2 Reference Field: Legitimacy.

⁴⁷³ See Chapter 4 The Driver Model in the real World – Results from a Field Investigation and Chapter 6.2 Towards an Empirical Approach.

published in the last decades support the existence of the drivers: firm size (employment) and origin of the firm (ownership).⁴⁷⁴ Therefore, the following can be proposed:⁴⁷⁵

- **Proposition 1: Firms' engagement in NS is higher if firms are in compliance with the institutional environment (origin of the firm) and cater to societal goals (employment).**

IT – concept of legitimacy

⁴⁷⁴ see Appendix A: Empirical Results from Literature – The Variable View

⁴⁷⁵ Due to the approach of the driver model, one proposition per theory is defined.

Summary of Section 3.3 (I): Legitimacy-related Internal Drivers

- In the nonmarket environment a firm's internal resources can be understood as the capability of that firm to handle processes, networks, or other soft competences with regard to the nonmarket environment.
- A firm's internal nonmarket resources, such as image and support by stakeholders, cannot – contrarily to market resources – be “owned” because they are external attributes to a firm. Nevertheless, firms can build internal structures to achieve these political resources in order to apply NS.
- Political resources are infinite in their characteristics, encompassing reason, facts, power, argument, persuasion, access, legitimacy, reputation, and diplomacy.
- Firms need to build their internal resources to gain access to the nonmarket environment.
- Access strategies are the basis from which to develop NS for firms.
- One strategy to gain access to the public policy shaping process is developed in the Concept of Legitimacy, which is closely related to IT.
- The Concept of Legitimacy in focus:
Theoretically, legitimacy is a sociological concept; it can be possessed insofar as the public regards the firm's behavior as “justified, appropriate or otherwise deserving”. Different approaches to legitimacy are possible:
 - a) The pragmatic approach focuses on self-interested calculations of the immediate audience.
 - b) The moral approach discusses the normative approval: whether an activity of an organization is *the right thing to do*.
 - c) Legal legitimacy depends on legal norms and, as in IT, with compliance.
 - d) Organizational legitimacy can be gained by conforming to prevailing (social) norms, practices, and beliefs of parts of the society.
- To appear organizationally legitimate, organizations' actions need to be “understandable” or “appropriate”: for example, a firm that follows contemporary laws and conventions of a society (product range, work and safety laws, and philanthropic activities) gains organizational legitimacy.

Conclusion:

Firms can gain benefits from public policies by gaining legitimacy and being compliant with the requirements of the (non)-governmental institutions.

3.3.3 Reputation-related Drivers: Internal Resources and Structure, Experience with Nonmarket Strategies

Following the concept of access, the second strategy for business firms to become involved in the public policy shaping process is through reputation. This process is discussed in detail in Sections 3.1 Introduction and Methodology, and 3.3.2 Legitimacy-related Drivers: Firm Size (Employment) and Origin of Firm (Ownership).

(1) The cornerstones of the concept of reputation are as follows. Reputation is “*perhaps the most important strategic resource*”⁴⁷⁶. Reputation is “*determined by the value of the actor’s previous efforts*”⁴⁷⁷. It is a “*general organizational attribute*”⁴⁷⁸, with respect to internal structures, resources, and experience.

In the next step creating the thesis’ model, a theory that is strong enough to explain the connection between reputation and the firm’s engagement in NS is picked from the 23 theories in the literature review conducted as part of this research project.⁴⁷⁹ The basics of this selection process are the same as they were for the legitimacy-related internal drivers; therefore, the following approaches need to be considered: IT, BTF, and RDT. The RBV is already considered in the reference field and the framework for the internal driver section.⁴⁸⁰ With regard to Section 3.3.2 Legitimacy-related Drivers: Firm Size (Employment) and Origin of Firm (Ownership) it is useful to select the BTF, as it focuses heavily on the decision-making process, reflecting the firms’ internal resources, structures, conventional practice and history.

(2) Some entries could be found in the database created as a part of this thesis with regard to the BTF and reputation-related variables. As discussed in the previous section, Hillman (2003) analyzes the relationship with a mix of IT and RBV; however, the BTF is not mentioned in the paper.⁴⁸¹ The paper by Schuler (1996) uses BTF to explain the firm’s engagement based on organizational structures.⁴⁸²

⁴⁷⁶ Flanagan and O’Shaughnessy (2005: 445); cf. Baron (1995); Flanagan and O’Shaughnessy (2005); Hall (1992); Tesler and Malone (2008).

⁴⁷⁷ Roberts and Dowling (2002: 1078).

⁴⁷⁸ Roberts and Dowling (2002: 1078).

⁴⁷⁹ See Chapter 2.3 Main Theories in the Research Field of Nonmarket Strategies.

⁴⁸⁰ See Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment.

⁴⁸¹ cf. Hillman (2003).

⁴⁸² cf. Schuler (1996).

Furthermore, in their studies about CPA, Masters and Keim (1985), Rehbein and Schuler (1998), and Schuler (1999) explain internal reputation-related resources using the BTF.⁴⁸³ For that reason, this section will use the BTF to explain the relationship between reputation-related internal drivers and a firm's determinants for using NS.

It is necessary to discuss whether the implementation of the BTF into the Driver Model has any negative impact on the explanation level of the present approach: this could be the case, if two theories exclude each other. In the case of the BTF the advantage is that this theory stems from the same research areas as this thesis and thus does not to be borrowed.⁴⁸⁴ Furthermore, the concept of the RBV (of the nonmarket environment) and the BTF have aligned explanatory patterns. Schuler (1999) applies the BTF to explain firms' involvement in CPA in a model together with drivers from the economic environment, which is comparable to the present approach.⁴⁸⁵ In addition, in the Cyert and March's (1963) founding analysis, internal resources (now RBV) are connected to internal decision-making.⁴⁸⁶ Therefore, there does not appear to be a problem in implementing the approach of the BTF into the Driver Model.

Another approach that could be found in several papers (e.g. Georgiou (2005), Lenway & Rehbein (1991), Schuler (1996))⁴⁸⁷ is the application of the Collective Action Theory (CA). In these papers, NS are seen as cost considerations: the larger a company is, the more that company can profit from NS. As the CA is related to market variables such as market concentration, this relationship will be discussed in the section on external drivers (see Section 3.4.2 External Drivers: Industry and Society).

3.3.3.1 *Theoretical Background: The Behavioral Theory of the Firm*

The BTF (or Corporate Political Behavioral Theory) is an approach to explain the decision-making process of companies. The theory belongs to the research field of management and is connected to Cyert and March, who elaborated the theory in their paper published in 1963.⁴⁸⁸

⁴⁸³ cf. Masters and Keim (1985); Rehbein and Schuler (1998); Schuler (1999).

⁴⁸⁴ See Chapter 2.2 The Concept of Borrowing Theories.

⁴⁸⁵ cf. Schuler (1996: 85 f.).

⁴⁸⁶ cf. Cyert and March (1963).

⁴⁸⁷ cf. Georgiou (2005); Lenway and Rehbein (1991); Schuler (1996).

⁴⁸⁸ cf. Băleanu (2007: 29). The Paper: Cyert and March (1963).

The development of BTF began earlier in the 1950s. Simon published an article in 1955 in the *Quarterly Journal of Economics* entitled “*a behavior model of rational choice*”. In this article he analyzes the assumption of the “*economic and rational man*”⁴⁸⁹ in traditional economic theory. This model draws on an economic environment of rational, well-informed, skilled, and organized players acting in a stable environment. Simon (1955) doubts this theory because – in his perspective – it describes a model world that cannot be found in reality. For this reason, he demands that theories describing the behavior of firms should not be erected on the foundation of traditional economic theory.⁴⁹⁰

This criticism can be interpreted as the starting point of the development of the BTF.⁴⁹¹ Because this perspective stands in clear contrast to (neo)classical theories, because here the firm is the basic unit, and not the market.⁴⁹²

Although Simon (1955) started the discussion, Cyert and March (1963) are the inventors of this new interpretation of firm reaction to external stimuli. In their study, they concentrate on large corporations in which property and management are obviously separated.⁴⁹³ The purpose of their theory is to determine the essential variables of the decision-making process in a company. They predicate that a firm’s structure and conventional practice influence the development of goals, the formation of expectations, and the execution of choices. External factors highlight a firm’s vulnerability in its market and nonmarket environments. The interpretation of these factors and the response to these stimuli depend – by contrast – on corporate attributes such as structure, routines, and resources.⁴⁹⁴

The question is how a firm’s resources affect its decision-making process. According to Cyert and March (1963), the behavior of a firm is “satisfactory”, because firms have to conduct their daily work internally and externally with limited resources and knowledge. This is because firms do not have unlimited resources: internally, firms are restricted by a lack of personnel resources in numbers and capabilities; externally, firms are for example restricted by a lack of market access and a lack of an

⁴⁸⁹ Simon (1955: 99).

⁴⁹⁰ cf. Simon (1955: 99). A further link could be given by the upper echelons theory see Hambrick (2007).

⁴⁹¹ cf. Băleanu (2007: 29).

⁴⁹² cf. Băleanu (2007: 30).

⁴⁹³ cf. Cyert and March (1963).

⁴⁹⁴ cf. Cyert and March (1963).

understanding of the market structures. In reality – contrarily to what is proposed by the theory of the economic man – the entrepreneur’s work is done by a hired top management. According to the BTF, these managers attempt to make rational and profit-maximizing decisions on behalf of their firm but fail for several reasons. Analyzing decision-making processes in firms, it is evident that there is a lack of adequate and reliable information as well as a lack of time to analyze the environment and to make decisions.⁴⁹⁵

At the individual level, managers suffer from needing skills. For that reason, they are not able to assess all possible alternatives to choose the best one under the given circumstances. Thus, managers are limited by their cognitive processes because they are subject to bounded rationality. On the organizational level, the firm fails to make optimal choices because of organizational constraints resulting from its restricted resource base. The consequence of this process is that firms tend to seek acceptable rather than optimal decisions. For these reasons, managers establish organizational structures to interpret the changes in the market and nonmarket environments to assist in critical decision-making. Therefore, firms’ decision-making processes reflect their internal resources and structures and their conventional practice and history.⁴⁹⁶

Transferred to the nonmarket environment, the BTF explains the motivation of the firm to become politically active in relation to its internal resources. Firms’ organizational factors, such as structure, routines, and resources, mediate the relationship between external signals and the level and form of NS chosen by the firm.⁴⁹⁷ For this reason, several scholars use firm characteristics as a filter to interpret the external stimuli in order to explain why a firm enters the public policy market. A number of firm characteristics, such as firm size and age, organizational structure (in particular the establishment of a GAD), and the firm’s experiences in the nonmarket environment, increase a firm’s ability and willingness to invest in NS.⁴⁹⁸ The antecedents of NS can therefore only be understood by knowing and understanding the structures that have shaped and continue to shape the firm’s decision-making behavior. For example, firms with an established structure, skilled personnel, and a positive reputation

⁴⁹⁵ cf. Gavetti, Greve, Levinthal, and Ocasio (2012).

⁴⁹⁶ cf. Cyert and March (1963); Getz (2002: 316).

⁴⁹⁷ cf. Rehbein and Schuler (1998: 2).

⁴⁹⁸ cf. Getz (2002: 316); Lenway and Rehbein (1991: 899); Meznar and Nigh (1995); Mitchell et al. (1997a); Rehbein and Schuler (1998: 2).

with regard to the nonmarket environment are more willing to engage in NS.⁴⁹⁹ In summary, the BTF is a “tool” to explain firms’ internal antecedents of engagement in NS.

Summary of the Behavioral Theory of the Firm and the Concept of Reputation

- The BTF originates from the research field of economics.
- This theory explains the essential variables of the decision-making process in a firm. According to the BTF, the structure and conventional practice of a firm influence that firm’s strategy, including NS.
- The concept of reputation has been developed as part of this thesis to link this theory to the Driver Model.
- In general, reputation is an intangible asset that provides sustainable competitive advantage in the market and nonmarket environments.
- Reputation is determined by the value of the firm’s previous efforts. At this point the link to BTF is obvious: the firm’s previous efforts related to the nonmarket environment (e.g. building reputation) influence the engagement level of firms in NS.
- In the long run, reputation is created by the interplay of image, expertise, and credibility.
 - Image is the perception of the general public whereas expertise mostly has effects in relation to professional nonmarket actors.
 - Credibility is the contact point to the overarching concept of legitimacy. To gain a positive long-term reputation, actors need to engage in consistent credibility transactions. (IT – benefits by being “in compliance” – concept of legitimacy.)
- Both the **concept of reputation** and **the BTF** explain how firms will engage in (nonmarket) strategies in the future based on their behavior in the past (structures and expertise).

Summary:

The reputation of a firm is the collective representation of its past actions. The BTF explains future engagement in NS with the organizational structure and routines of a firm. Both approaches connect the history of a firm to its expected future strategic engagement.

Synopsis 5: Summary of the Behavioral Theory of the Firm and the Concept of Reputation

⁴⁹⁹ cf. Cyert and March (1963); Rehbein and Schuler (1998); Schuler (1996); Schuler (1999).

3.3.3.2 *Literature Review: Internal Resources and Structure, Experience with Nonmarket Strategies*

Having introduced the reference field of reputation and the basic theory for this section (BTF), the literature will now be analyzed (see Chapter 1 Introduction and Section 3.1 Introduction and Methodology for the selection and analysis process) for insights regarding the reputation-related drivers of firms towards NS.

Driver 3: Internal Resources and Structure

The following paragraphs present the reputation-driven internal drivers that explain firms' engagement in NS. These drivers are closely intertwined: the internal resources and structures driver elucidates the existing political resource base of a company, while the experience with NS driver how firms have gained these resources.

Internal resources and structure are frequently discussed as firm resources in the nonmarket literature. Oliver and Holzinger (2008) assume that firm (and industry) characteristics play an important role in strategy formulation.⁵⁰⁰ Hillman et al. assume in their 2004 review that firms' antecedents of NS depend on specific firm factors, such as size and financial resources, among others.⁵⁰¹ The most important internal antecedent of NS for Hillman et al. (2004) is firm size, defined by sales, assets, or number of employees, because size can be seen as a proxy for resources.⁵⁰² The reason for this is that larger and resource-rich firms have more possibilities to engage in the nonmarket environment; they can, for example, choose more costly tactics, such as lobbying or PACs.⁵⁰³ Another explanation for why firms engage in NS is related to their resource base and experience in public policy; this is the topic of a study by Hillman (2003), who finds some statistical evidence for this relationship.⁵⁰⁴ Firms with an internal political resource base⁵⁰⁵ have the opportunity

⁵⁰⁰ cf. Oliver and Holzinger (2008).

⁵⁰¹ cf. Hillman et al. (2004: 840).

⁵⁰² cf. Bhuyan (2000); Boddewyn and Brewer (1994); Hansen and Mitchell (2000); Hart (2001); Hillman et al. (2004: 840); Hillman (2003); Hillman and Hitt (1999); Keim and Baysinger (1988); Masters and Keim (1985); Meznar and Nigh (1995); Schuler and Rehbein (1997); Schuler et al. (2002).

⁵⁰³ cf. Getz (1997: 60 f.); in a study by Drope (2008), 90 % of the lobbying was executed by the biggest firm. Drope and Hansen (2008).

⁵⁰⁴ cf. Hillman (2003).

⁵⁰⁵ See Chapter 2.1.3 Market & Nonmarket Resources and Public Goods.

to achieve access to nonmarket decision-makers and to build reputation⁵⁰⁶. Rehbein and Schuler (1998) find evidence that internal resources (here firm employees, profitability, and free cash flow) have an impact on the firms' level of engagement in NS. Their study's aim is to find evidence by applying the BTF.⁵⁰⁷

Furthermore, in an empirical study based on the BTF, Schuler (1999) finds significant evidence that firms engage in NS due to their internal structures. He demonstrates that, for example, the establishment of a firm's office in Washington, D.C., and organizational slack both have a significant effect on the firm's attitude towards its involvement in the nonmarket environment.⁵⁰⁸ Firms' resources, such as organizational slack, seem to drive firms towards NS. In their study titled *Corporate Public Affairs: Commitment, Resources, and Structure*, Griffin and Dunn (2004) refer to an article by Adams (1976), where he defines GAD as a "window into the organization for increasing transparency, legitimacy, and trust between the firm and its environment." He postulates that this "window" is used by firms to influence experts, politicians, and other actors in the nonmarket environment.⁵⁰⁹ Griffin and Dunn (2004) see GAD as "boundary spanning structures that link internal and external constituents"⁵¹⁰. Furthermore, in their conclusions they contribute a vital role to GAD as they address "broader organizational concerns such as enhancing transparency, reputation, trust, goodwill, and corporate citizenship"⁵¹¹. The studies by Lenway and Rehbein (1991), and Masters and Keim (1985), who apply the BTF, support this proposition.⁵¹²

Schuler et al. (2002) state that reputation is important in obtaining access to decision-makers in the nonmarket environment.⁵¹³ In the empirical part of their study, they could ("surprisingly"⁵¹⁴) not find empirical evidence for an effect of firms' resources (measured by free cash flow) on firms' NS engagement levels. However, this does not disprove the present approach. Schuler et al. (2002) offer a comprehensible explanation for this result. They refer to the argument made by Keim and Baysinger

⁵⁰⁶ See also Chapter 3.3.1.3 Reference Field: Reputation.

⁵⁰⁷ cf. Rehbein and Schuler (1998).

⁵⁰⁸ cf. Schuler (1999).

⁵⁰⁹ cf. Adams (1976).

⁵¹⁰ Griffin and Dunn (2004: 197).

⁵¹¹ Griffin and Dunn (2004: 215).

⁵¹² cf. Lenway and Rehbein (1991); Masters and Keim (1985).

⁵¹³ cf. Schuler et al. (2002: 662).

⁵¹⁴ Schuler et al. (2002: 668).

(1988) that political activities are integral to strategy for many firm and are not discretionary.⁵¹⁵ Thus, the “nonsignificant empirical result” originates from a new managerial understanding of NS; therefore, a relation between **discretionary resources** and firms’ engagement in NS could not further be found.⁵¹⁶ It is the opinion of the present author that there are statistical difficulties in measuring organizational slack in differentiating between integrated strategic resources and discretionary resources, which means that results should be analyzed and interpreted with greater caution.

Another variable in this study of Schuler et al. (2002) confirms the reputation approach: firm size. Even though Schuler et al. (2002) hypothesize that larger firms are more likely to combine political tactics, and they find empirical evidence, they theoretically undermine this relation (see the paragraph above) that it is easier for large firms to gain access.⁵¹⁷ Applying this thesis’s concept of reputation as a reference field to explain this driver, the empirical result regarding sales in this study of Schuler et al. (2002) confirms the internal resources and structure driver.⁵¹⁸

The internal driver “internal resources and structure” is confirmed by findings relating to 31 variables in the literature as an important antecedent to explain firms’ engagement in NS (see Appendix A: Empirical Results from Literature – The Variable View). Variables that explain internal resources are sales, profitability, assets, market share, human resources, revenue, free cash flow, and organizational size; variables explaining internal structures are GAD (the D.C. office example) and organizational environment.

Driver 4: Experience with Nonmarket Strategies

The second driver in this section is experience with NS, which means that experience with NS is a possible antecedent of firms’ engagement in the nonmarket environment. Several researchers allege that older firms are more likely to engage in NS because of their reputation and developed personal relationships between the firm and its (nonmarket) environment.⁵¹⁹ Therefore, reputation seems to

⁵¹⁵ cf. Keim and Baysinger (1988).

⁵¹⁶ cf. Schuler et al. (2002: 668).

⁵¹⁷ cf. Schuler et al. (2002).

⁵¹⁸ See also Chapter 3.3.1.3 Reference Field: Reputation.

⁵¹⁹ cf. Baron (1995); Boddewyn and Brewer (1994); Hart (2001); Hansen and Mitchell (2000); Hillman (2003); Hillman and Hitt (1999); Keim and Baysinger (1988); Luo (2001).

be an important political resource. For this reason, the concept of reputation serves as the reference field in this driver section (see Section 3.3.1.3 Reference Field: Reputation).

Schuler (1999) demonstrates that, for example, the firm's experience with interactions in the nonmarket environment in the past has a significant effect on the firm's attitude towards involvement in the nonmarket environment in the future.⁵²⁰ He criticizes "*existing economic models of corporate political action*" because, as he continues, they "*ignore the nuances of the organizational features of the firm*" and are thus "*both too simplistic and erroneous*"⁵²¹. He claims to develop models that consider organizational forces that "*affect how a company searches for, processes, and acts upon information pertaining to public policy issues*"⁵²². Therefore, he claims to consider the BTF to include an organizational perspective to explain firms' engagement in the nonmarket environment.⁵²³

Rehbein and Schuler (1998) apply the BTF to explain the relationship between firms' experience with NS and firms' engagement in NS. In the study, the authors criticize former research for not considering organizational variables. They emphasize that the public choice literature only provides insight into how external factors influence firms' decision process with regard to an engagement in the nonmarket environment.⁵²⁴ They assume that the firms' "*ultimate decision to engage in political activity depends on corporate attributes such as structure, routines, and resources*"⁵²⁵. This is a clear statement in favor of the BTF and the driver.⁵²⁶

In her paper published in 2003, Hillman finds a statistically significant relationship between the firm's experience with NS (in years) and the firm's level of participation in NS.⁵²⁷ She uses the variable "*number of years the firm has operated within the country*" as a "*proxy for credibility*"⁵²⁸. She discusses the problem of whether this variable is a measure for credibility and comes to the conclusion that "*it does signal the commitment of the firm to the host country operations and evidences repeat dealings*

⁵²⁰ cf. Schuler (1999).

⁵²¹ Schuler (1999: 93).

⁵²² Schuler (1999: 93).

⁵²³ cf. Schuler (1999: 93).

⁵²⁴ cf. Rehbein and Schuler (1998: B1 f.).

⁵²⁵ Rehbein and Schuler (1998: B2).

⁵²⁶ cf. Rehbein and Schuler (1998).

⁵²⁷ cf. Hillman (2003).

⁵²⁸ Hillman (2003: 466).

*within a society*⁵²⁹. She explains the relation that credibility is “*the most important characteristic in lobbying*”⁵³⁰. Credibility is a fundamental part of this thesis’s concept of reputation.⁵³¹

For Unah (2003), a firm’s past litigation experience is a corporate resource.⁵³² He could find empirical evidence that a firm’s engagement in NS (here litigation activity) is influenced by the firm’s last litigation experience. Without using the BTF or any reputation approach, Unah (2003) argues that a firm’s internal resources, such as experience with NS, are drivers for that firm’s engagement in NS. For him, past litigation experience has an effect on the firm’s internal structure and processes. Furthermore, especially in litigation strategies, reputation and credibility are important to successfully pursue this specific NS. Particularly in the US with a jury system, considerations for the reputation of a firm are important because the influence of non-lawyers on the outcome of juridical procedures should not be underestimated. The members of a jury oftentimes subconsciously prefer firms with a positive reputation.

Experience with NS is an actively chosen strategy by management. Consequently, the BTF can provide answers in this driver section. Altogether, five variables could be found in the literature review that confirm a positive relationship between firms’ engagement with NS and firms’ experience with NS in the past (see Appendix A: Empirical Results from Literature – The Variable View).

3.3.3.3 Propositions

After having introduced the BTF and discussed the literature on reputation-related drivers, the proposition will be developed in this section. Based on discussion of the BTF and the reference field (the concept of reputation) above, and the results from the literature review, there seems to be a connection between firms’ internal political resource base (independent variable) and firms’ engagement in NS in the past and the likelihood that they will engage in (further) NS (dependent variable). Therefore, the following is proposed:

⁵²⁹ Hillman (2003: 466).

⁵³⁰ Hillman (2003: 466).

⁵³¹ See also Chapter 3.3.1.3 Reference Field: Reputation.

⁵³² cf. Unah (2003: 71)

- **Proposition 2: Firms' internal resources and structures (political resources) as well as the firms' experience in dealing with the nonmarket environment determine firms' engagement in NS.**

BTF – concept of reputation

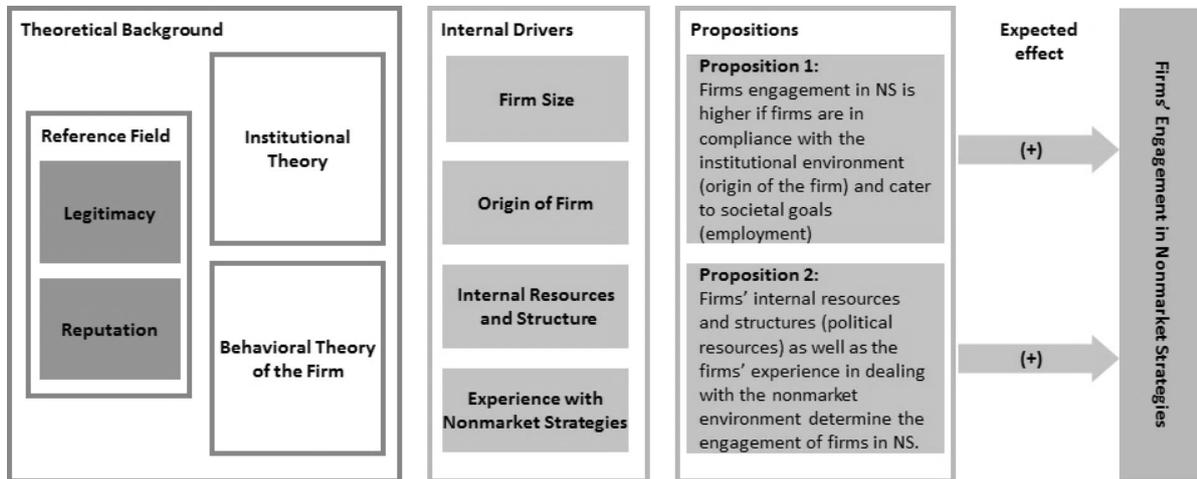


Figure 13: Internal Drivers

Summary of Section 3.3 (II): Reputation-related Internal Drivers

- The reputation-related drivers are closely intertwined:
 - The driver **internal resources and structures** refers to the existing political resource base of the company.
 - The driver **experience with NS** analyzes how firms have gained these resources.
- On the one hand, both drivers directly relate to the concept of reputation because internal structures and experiences in the nonmarket environment are tools to build reputation. Reputation, in turn allows access (concept of access) to the public policy shaping process.
- On the other hand, the **BTF** is a “tool” to explain firms’ internal antecedents of their future engagement in NS.
- In both approaches, firms use their internal resources not only to compete for customers but also to compete for reputational status. For that reason, reputation is a strategic asset that gives firms the opportunity to engage in NS and is linked to organizational performance.

Conclusion:

Firms’ internal resources (structure and experience) as well as the perception of specific audiences determine the firms’ level of engagement in NS.

3.4 External Drivers of Firms' Engagement in Nonmarket Strategies

The previous section discussed the internal antecedents of firms' engagement in NS; the present section will now focus on firms' external environment. External drivers push firms to engage in the nonmarket environment as well, but they focus on a different perspective: the external environment of firms. Altogether, five drivers explain firms' external antecedents for NS. The external drivers can be separated into two subgroups (see Figure 14): 1. institutions, and 2. industry and society. Institutional drivers have a direct link to the institutional environment, such as governmental institutions and their outcome (laws and regulations). Industry and societal drivers, on the other hand, focus on non-governmental environments. As explained in Section 3.2, there is no need for a reference field for the external drivers.

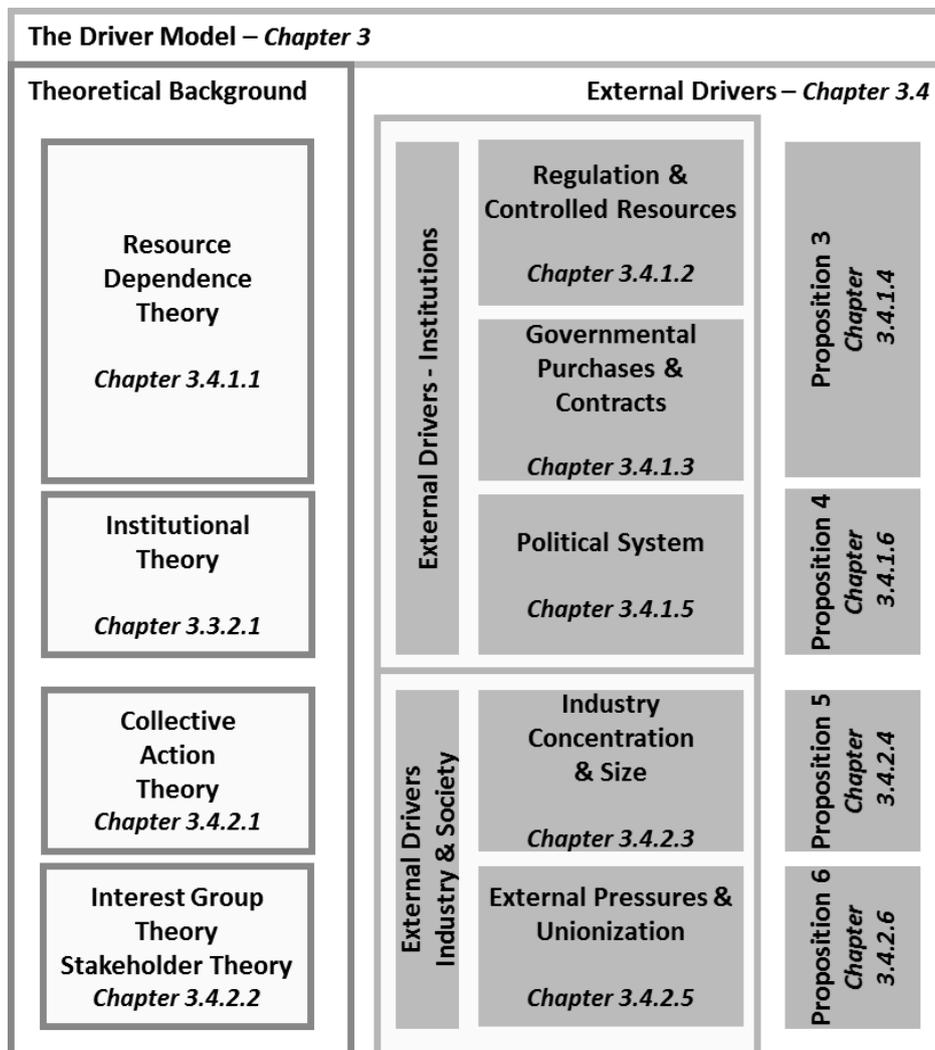


Figure 14: Structure of External Drivers

3.4.1 External Drivers: Institutions

To explain firms' external determinants of NS, the first part of this section focuses on the institutional (meaning government-related) drivers. The first task is to identify theories that explain the impact of governmental interference in the market and nonmarket environments on business firms' reactions to NS. To this end, this section applied the theory selection process explained above.

(1) The MBV of the nonmarket environment is certainly an explaining approach and serves as link to the field of strategic management (see Section 3.2 The Three Perspectives of the Driver Model Connected to the Research Field of Strategic Management). Here, the focus is on explaining the antecedents of firms' engagement in NS. After examining the 23 theories in the literature review more closely,⁵³³ the following approaches were selected based on the review's short descriptions⁵³⁴: Public Choice Theory, IT, Public Interest Theory, and RDT.

The focus of Public Choice Theory is on the efficiency of the political system: how industry conditions such as concentration or regulation affect the choice of a CPA.⁵³⁵ Shaffer (1995) analyzes this theory with regard to NS and finds a useful approach to analyze the relationship between the variables of votes, new laws, and regulations on the one hand, and money and other inducements on the other hand.⁵³⁶ As this theory aims at the *selection* of the CPA and not at whether a business firm simply engages in NS, it is however necessary to further investigate with the use of the literature review database whether this theory can be applied in the context of the Driver Model (2).

The next theory that is able to explain the relationship is the IT, which was analyzed in Section 3.3.2 Legitimacy-related Drivers: Firm Size (Employment) and Origin of Firm (Ownership). The IT can provide useful insight, especially into how the political system influences firms' engagement in NS.⁵³⁷

According to the Public Interest Theory, public policy is the outcome of the competition between interest groups; furthermore, business firms try to "undermine" democratic processes.⁵³⁸ Business

⁵³³ See Chapter 2.3 Main Theories in the Research Field of Nonmarket Strategies.

⁵³⁴ See Chapter 2.3 Main Theories in the Research Field of Nonmarket Strategies.

⁵³⁵ cf. Getz (2002: 310); Rehbein and Schuler (1998: 2); Sadrich and Varjulia (2002: 480 f.).

⁵³⁶ cf. Shaffer (1995: 495).

⁵³⁷ cf. Bouwen (2004b); Constantelos (2007); Hillman (2003); Rehbein and Schuler (1998).

⁵³⁸ cf. Clougherty (2003: 121); Lowi (1969).

firms are seen as collectives that act to secure their own interest.⁵³⁹ The collective perspective, in which all firms are treated as one,⁵⁴⁰ does not fit the Driver Model because, as described in the internal driver section (see Section 3.3), this model considers that firms have different political resources. Thus, the firms cannot all be affected in the same way. For this reason, the Public Interest Theory falls outside of the scope of the Driver Model.

Finally, this section analyzes how the RDT can explain the relationship between institutional drivers of business firms' engagement in NS. The RDT analyzes the relationship between organizations (firms) and institutions.⁵⁴¹ It focuses on the external environment: on needed resources of a firm, such as regulations or state-owned resources.⁵⁴² What is important for the understanding of this theory is that business firms are dependent on specific resources that only (in the present case) the institutions can provide. Therefore, this theory is considered to be important to the Driver Model.

(2) The following results could be unveiled from the literature review database with regard to the above-quoted theoretical approaches. Drope (2006) applies institutional approaches that can be transferred to IT and RDT to explain the dependence of firms on governmental institutions.⁵⁴³ Hart (2001) also applies an institutional approach to explain the behavior of firms with regard to governmentally controlled resources, as well as firms' behavior in compliance with the institutions.⁵⁴⁴ Hillman (2003) uses IT to explain the determinants of the use of NS by US MNEs.⁵⁴⁵ Ingram (1995) applies both IT and RDT to explain business firms' behavior based on actions in the institutional environment; he proposes a framework combining both theories.⁵⁴⁶ Meznar and Night (1995) apply RDT to develop testable hypotheses to explain the determinants of public affairs.⁵⁴⁷ Masters and Keim (1995) apply RDT to explain the determinants of business firms' participation in PAC.⁵⁴⁸ Mitchell et al. (1997) also use institutional approaches to explain the determinants of foreign and domestic firms in

⁵³⁹ cf. Epstein and Votaw (1978); Francis, Turk, and William (1983); Getz (1997).

⁵⁴⁰ cf. Oliver and Holzinger (2008: 948).

⁵⁴¹ cf. Getz (2002: 313); Hadani and Schuler (2013: 168); Kotter (1979); Pfeffer and Salancik G. R. (1978: 43); Walsh et al. (2006: 661).

⁵⁴² cf. Frooman (1999: 195).

⁵⁴³ cf. Drope and Hansen (2006: 3).

⁵⁴⁴ cf. Hart (2001: 1233 f.).

⁵⁴⁵ cf. Hillman (2003: 460).

⁵⁴⁶ cf. Ingram and Simons (1995).

⁵⁴⁷ cf. Meznar and Nigh (1995).

⁵⁴⁸ cf. Masters and Keim (1985).

CPS, which could be connected to the IT.⁵⁴⁹ Finally, Schuler (1999) refers to an “*institutional approach*”⁵⁵⁰ to explain why business firms engage in “political participation”⁵⁵¹. No entries could be found for Public Choice Theory; it therefore falls outside of the scope of the Driver Model.

Combining all of these references (2) and the consideration of the strength of the respective theories (1), it is assumed that it is useful to use both the IT and the RDT to explain institutionally related, external drivers. The next step is to analyze whether the combination of these two theories has a negative impact on the ability of the Driver Model to explain firms’ determinants for using NS. Both theories explain the complex interorganizational influences on firms in response to external pressures. In line with Suddaby (2010), theories are understood as tools. To be able to develop this thesis’s theoretical framework, theories need to be combined, or more precisely the same problems need to be viewed from different perspectives. As Suddaby (2010) states, scholars need to combine their tools. However, the combination of several tools always bears the danger of higher complexity and thereby a lack of understandability; nevertheless, as Baum and Rowley (2002) argue, multiple views are vital to scientific advancement and need not lead to fragmentation and a lack of consensus.

The RDT assumes that organizations are confronted by numerous incompatible demands from a variety of external actors. IT addresses both institutional and task or technical pressures. However, a combination of both theories is useful to understanding the behavior of firms in the nonmarket and market environments. As Sherer and Lee argue in their AMJ article published in 2002, an integration of both theories enables scholars to understand how the interplay of these competitive and institutional processes explains institutional change. Applying RDT, scholars illustrate how resource scarcity leads organizations to innovate with the aim of acquiring alternative resources. On the other hand, they apply IT to explain the advantages of higher levels of legitimacy and its early adoption (first mover advantage).⁵⁵² Griffin and Dunn (2004) assume that the combinations of the theories facilitates

⁵⁴⁹ cf. Mitchell et al. (1997a).

⁵⁵⁰ Schuler (1999: 83).

⁵⁵¹ Schuler (1999: 83).

⁵⁵² cf. Sherer and Lee (2002: 102).

the understanding of how “*internal resources and structures shape the boundary-spanning activities of PA departments*”⁵⁵³.

Based on the insights from the literature, it could be seen as common practice to combine IT and the RDT in one framework. For this reason, both theories are applied to the Driver Model.

3.4.1.1 *Theoretical Background: The Resource Dependence Theory*

The RDT originates from the research field of sociology. It analyzes the relationships of organizations or institutions that depend on each other and suggests that this dependence affects the relationship in a predictable way.⁵⁵⁴ Blau and Emersen (1962) were the first to study the concept of dependencies and its implications. The authors (Power Dependence Theory) postulated that the power of actor A over actor B was equal to the dependence of B on A.⁵⁵⁵ This approach is closely related to the work of Pfeffer and Salancik (1978), who introduced the RDT in their book “*The External Control of Organizations. A Resource Dependence Theory*”⁵⁵⁶, which was republished but “*unrevised*” in 2003.⁵⁵⁷ RDT shares many similarities with the RBV⁵⁵⁸ and some scholars (e.g. Knyphausen-Aufseß (1997), Medcof (2001)) argue that the RDT and RBV should be combined.⁵⁵⁹

Dependence exists if the behavior of particular external organizations (external stakeholders⁵⁶⁰) affects a firm’s organization or effectiveness. For this reason, all organizations find themselves dependent on some elements in their external market and nonmarket environments.⁵⁶¹ The needed resources can consist of any kind of organizational needs, such as land, labor, capital, information, or services, and even regulations, laws, and other public policies. The dependence is caused by the control of an external element over some resources that the organization needs, and therefore encompasses all kinds of tangible and intangible resources.⁵⁶²

⁵⁵³ Griffin and Dunn (2004: 197).

⁵⁵⁴ cf. Getz (2002: 313); Kotter (1979); Pfeffer and Salancik G. R. (1978: 43); Walsh et al. (2006: 661).

⁵⁵⁵ cf. Blau (1986); Emerson (1962: 32 ff.).

⁵⁵⁶ cf. Pfeffer and Salancik G. R. (1978).

⁵⁵⁷ cf. Nienhüser (2008: 10).

⁵⁵⁸ cf. Barney (1991).

⁵⁵⁹ cf. Nienhüser (2008: 17); Medcof (2001); Knyphausen-Aufseß (1997).

⁵⁶⁰ cf. Frooman (1999: 195).

⁵⁶¹ cf. Gordon and Hafer (2007).

⁵⁶² cf. Kotter (1979: 87).

The problem in the resource gaining process is the dependence of organizations on their environment while the environment, in contrast, is not dependent on the organization.⁵⁶³ This statement about the dependences of organizations by Pfeffer and Salancik (1978) has to be carefully considered because the influence of the institutional environment on organizations was, according to McKay (2001), widely overlooked by the authors of the theory. Nowadays, the institutional environment is dependent on firms as well, with long reaching implications on the negotiation process.⁵⁶⁴ An example is that of hearings where firms' professionals answer questions from politicians and give input on the public policy shaping process.

The RDT claims to be able to explain how organizational structures emerge. It assumes that organizations that control critical resources possess power; then, in turn, the allocation of power influences the behavior and in the long run the structure of organizations.⁵⁶⁵ The behavior of organizations can – according to the RDT – be explained depending on their particular dependency situation.⁵⁶⁶ To understand an organization one has to understand the context of the reason for its behavior: the market and nonmarket environments, respectively.⁵⁶⁷ For this reason, the RDT is an important factor in explaining the antecedents of NS.

Dependency on critical resources does not always influence the organizations' behavior in a direct way. Instead, it makes certain assumptions about the actors in the organization and their bonds to the environment. This means in practice that managers are confronted by uncertainty and try to reduce or avoid it. Furthermore, they are boundedly rational, which means that the actors are limited in formulating and solving complex problems.⁵⁶⁸ The more highly an organization is dependent on external resources, the more it is uncertain of the environment and the more it tries to reduce this uncertainty.⁵⁶⁹

⁵⁶³ cf. Pfeffer and Salancik G. R. (1978: 3).

⁵⁶⁴ cf. McKay (2001: 629). In the Study of McKay the government responded and changed the environment. McKay (2001: 649).

⁵⁶⁵ cf. Nemat, Bhatti, Maqsal, Mansoor, and Naveed (2010: 114); Nienhüser (2008: 10).

⁵⁶⁶ cf. Nienhüser (2008).

⁵⁶⁷ cf. Pfeffer and Salancik (2003: 1, 35).

⁵⁶⁸ cf. Pfeffer and Salancik (2003: 1, 67); Simon (1957: 198).

⁵⁶⁹ cf. Nienhüser (2008: 14).

Dependence varies based on the importance of the resource for the organization; this means that success in the acquisition of scarce resources indicates power.⁵⁷⁰ Some dependencies can be important enough to threaten the long-term survival of the organization.⁵⁷¹ At this point, the RDT is connected to the Interest Group Theory (IGT), because it (the RDT) analyzes the structure of the firms' sourcing network.⁵⁷² To understand organizational behavior one must first clarify which resources are critical. *"Criticality measures the ability of the organizations to continue functioning in the absence of the resource or in the absence of the market for the output."*⁵⁷³

To operationalize the level of dependence, Frooman (1999) assumes that resource dependence exists if (1) there are only a few suppliers (concentration); (2) the resource is easy to control; (3) the resource is non-mobile, (4) the resource is impossible or difficult to substitute; and finally (5) the resource is essential for the firm.⁵⁷⁴ The degree of dependence is defined by the importance of the particular resource and the opportunities and arising costs related to substituting it. Furthermore, to understand organizations' response to external pressures one has to distinguish between market-induced and government-induced (or nonmarket-induced) resource scarcities.⁵⁷⁵

Dependence is always unwanted because it reduces a firm's strategic and tactical options in any situation and can even endanger its existence.⁵⁷⁶ For this reason, firms try to manage their external dependences to reduce uncertainty and risk.⁵⁷⁷ As a result, external resource dependence affects the behavior of an organization.⁵⁷⁸ An opportunity for organizations to lessen their dependency is to increase their power by cultivating alternative sources of the needed resources.⁵⁷⁹ On the other hand, organizations that face resource scarcity are more competitive in acquiring resources and more innovative in finding alternative resources.⁵⁸⁰ One example to reduce uncertainty is through mergers:

⁵⁷⁰ cf. Blau (1986); Provan, Beyer, and Kruytbosch (1980: 202).

⁵⁷¹ cf. Kotter (1979: 132).

⁵⁷² See Chapter 3.4.2.2 Theoretical Background: The Interest Group Theory/ Stakeholder Theory, Pajunen (2006: 1263).

⁵⁷³ Pfeffer and Salancik (2003: 46).

⁵⁷⁴ cf. Frooman (1999: 195).

⁵⁷⁵ cf. Mckay (2001: 652).

⁵⁷⁶ cf. Casciaro and Piskorski (2005: 167); Pfeffer and Salancik G. R. (1978); Thompson (1967: 30 f.).

⁵⁷⁷ cf. Kotter (1979: 87).

⁵⁷⁸ cf. Frooman (1999); Kotter (1979).

⁵⁷⁹ cf. Emerson (1962).

⁵⁸⁰ cf. Sherer and Lee (2002: 103).

Pfeffer (1972) shows in his paper that mergers occur more often in industries that are highly dependent on critical resources.⁵⁸¹

In contrast to the IT⁵⁸², resource dependence theorists have elaborated the “*negotiated environment*”⁵⁸³ of organizations, assuming that organizations are able to negotiate with their relations. Following this approach, managers have the opportunity to make **strategic choices** within given constraints.⁵⁸⁴ Therefore, the RDT argues against the efficiency orientation of other approaches in economics, because in RDT much of an organization’s structure and its opportunities to act in its environment are related to its position in exchange networks and the power imbalances.⁵⁸⁵ Organizations have many opportunities to manage their dependencies; an important one is to influence the environment through the usage of NS.⁵⁸⁶ By doing this, organizations not only adapt to their more or less dynamic environment; they create it. An intuitive example is that of MNEs: it is not imaginable that these organizations, whose turnovers exceed entire countries’ GDPs, are purely adapting to their environment.⁵⁸⁷ Firms manage their dependencies actively and seek closer relationships to improve exchange, commitment, and legitimacy.⁵⁸⁸

To receive support in their environment, organizations need legitimacy.⁵⁸⁹ Pfeffer and Salancik (2003) see the purpose of management not only in maximizing profits, but also as a function to legitimize and make decisions.⁵⁹⁰ One example can be found in a study by Hillman et al. in 2007. They show that the likelihood of female representation on boards is higher in larger organizations, in industries with more female employment, and in organizations with more linkages to organizations with more females in boards.⁵⁹¹ The empirical results can be interpreted as follows: the larger the female employment base

⁵⁸¹ cf. Pfeffer (1972).

⁵⁸² See also 3.3.2.1 Theoretical Background: The Institutional Theory.

⁵⁸³ Pfeffer and Salancik G. R. (1978: 143).

⁵⁸⁴ cf. Greening and Gray (1994: 469); Jawahar and Mclaughlin (2001: 401); Oliver (1991b: 154).

⁵⁸⁵ cf. Pfeffer and Salancik G. R. (1978).

⁵⁸⁶ cf. Pfeffer and Salancik G. R. (1978).

⁵⁸⁷ cf. Nienhüser (2008: 29).

⁵⁸⁸ cf. Fink, Edelman, Hatten, and James (2006: 500).

⁵⁸⁹ cf. Levine and White (1961); Pfeffer and Salancik G. R. (1978: 194).

⁵⁹⁰ cf. Pfeffer and Salancik (2003: 18 f.).

⁵⁹¹ cf. Hillman, Shropshire, and Cannella, JR. (2007).

is, and the more linkages to organizations with females in the top management there are, the higher the need for legitimacy is through establishing higher female representation.⁵⁹²

In the field of public policy, the RDT suggests that firms that are highly dependent on the government are more likely to engage in NS. A high degree of dependence exists if the government is an important customer (e.g. defense contracts), controls resources needed by the firm (e.g. licenses, patents), or imposes profound regulations (e.g. environmental restrictions).⁵⁹³ If a firm is for example dependent on favorable regulations, subsidies, trade, and patent protection or sales, RDT assumes that it will be more politically active than if it were less dependent.⁵⁹⁴ Opportunities such as international trade possibilities are resources in this case as well, and should also be considered.⁵⁹⁵

The biggest task for companies is the uncertainty induced by dependence. Accordingly, the major goal of NS is to reduce the uncertainty and the likelihood that dependence will have negative effects on the firm. The reduction of the firm's dependence on the government can be considered as the ultimate goal, but it is hard to achieve in an environment set and controlled by governmental actions and institutions such as it is nowadays.⁵⁹⁶

RDT not only provides hints as to why and when firms engage in public policy shaping; it also explains how. Kotter (1979) illustrates several ways to establish favorable relationships with those on which the firm is dependent – if possible – with alternative sources. Examples are investments in public relations and advertisements, or recruiting individuals from the external environment to establish personal bonds. If this is not possible for the firm (especially in relation to the state and its institutions), Kotter (1979) suggests engaging in lobbying strategies to influence legislation and regulation.⁵⁹⁷

Overall, according to RDT organizations strive to obtain power, maintain autonomy, and reduce uncertainty in the context of external pressures and demands.⁵⁹⁸ The essence of RDT can be

⁵⁹² cf. Nienhüser (2008: 21).

⁵⁹³ cf. Hansen and Mitchell (2000); Hart (2001); Hillman et al. (2004); Schuler (1999); Schuler et al. (2002).

⁵⁹⁴ cf. Baron (1997b: 150); Schuler and Rehbein (1997: 120 ff.).

⁵⁹⁵ cf. Baron (1997b: 149).

⁵⁹⁶ cf. Bouwen (2002); Getz (2002); Hillman et al. (2004); Oliver and Holzinger (2008); Schuler (1999); Zhilong Tian and Xinming Deng (2007).

⁵⁹⁷ cf. Kotter (1979: 89).

⁵⁹⁸ cf. Mckay (2001: 629).

summarized as follows: managers actively manage the critical resources of an organization to reduce uncertainty and dependence.⁵⁹⁹

RDT is also used to identify major stakeholders. Pajunen (2006) developed a theory to identify key stakeholders using RDT. Firstly, a firm's dependencies on its primary stakeholders are evaluated using RDT. Then, a combination of the stakeholders' network position and resource dependence-based powers identifies the important stakeholders for the firm.⁶⁰⁰

In general, the identification of stakeholders is closely connected to RDT because stakeholders have the resources that are needed by a firm and control them; the firm, which is embedded in a network of different stakeholders, needs these resources to survive.⁶⁰¹ Resources can be divided into market and nonmarket assets. The RDT is able to explain the relative importance of primary stakeholders.⁶⁰² The biggest connection point between RDT and IGT is closely connected to practice. In their study published in 1999, Agle et al. find that managers pay attention to those stakeholders who possess power.⁶⁰³ However, ST is still needed because RTD is only able to identify the primary stakeholders. Especially interest groups are part of the secondary stakeholder group because they do not have a direct influence on the survival of the firm. Clarkson (1995) defines secondary stakeholders as those who influence or are influenced by the firm but do not engage in any transactions with and are not essential for the survival of the firm. Examples are the media and interest groups.⁶⁰⁴

⁵⁹⁹ cf. Griffin and Dunn (2004: 198).

⁶⁰⁰ cf. Pajunen (2006: 1264).

⁶⁰¹ cf. Clarkson (1995: 106); Granovetter (1985: 488 ff.); Jawahar and Mclaughlin (2001: 405); Oliver (1991b); Pajunen (2006: 1261 ff.); Pfeffer and Salancik G. R. (1978). See also Chapter 3.4.2.2 Theoretical Background: The Interest Group Theory/ Stakeholder Theory.

⁶⁰² cf. Jawahar and Mclaughlin (2001: 401); Pajunen (2006: 1261); Parmar, Freeman, Harrison, Wicks, Purnell, and Colle (2010: 418).

⁶⁰³ cf. Agle, Mitchell, and Sonnenfeld (1999).

⁶⁰⁴ cf. Clarkson (1995: 107).

Summary of the Resource Dependence Theory

- The RDT originates from the research field of sociology.
- The RDT analyzes the relationship among organizations or institutions that depend on each other, and suggests that this dependence affects the relationship in a predictable way.
- In contrast to IT, according to the RDT organizations are able to negotiate their environment.
- The RDT assumes that organizations that control critical resources possess power. In the next step the allocation of power influences the behavior and in the long run the structure of the organization.
- Dependence is always unwanted because it reduces the strategic and tactical options of a firm in any situation, and can even endanger its existence. Therefore, firms apply NS to reduce this risk.
- In the field of public policy, the RDT suggests that firms that are highly dependent on the government are more likely to engage in NS.
- RDT not only provides hints as to **why** and **when** firms engage in public policy shaping; it also explains **how**.

Summary:

In an environment of resource dependency, firms can actively manage their sourcing strategies (strategic choice).

According to the RDT, organizations strive to obtain power, maintain autonomy, and reduce uncertainty in the context of external pressures and demand.

Therefore, managers actively manage critical resources to reduce uncertainty and

3.4.1.2 Literature Review: Regulation and Controlled Resources

Driver 5: Level of Regulation and Controlled Resources

The level of regulation is an important driver for engagement in NS. Masters and Keim (1985) find that firms in heavily regulated industries (transportation, energy, and communication) are more likely to have a PAC than firms in less regulated industries.⁶⁰⁵ They use the RDT because this theory suggests “that political action is encouraged by an institution’s dependence on government”⁶⁰⁶. This, in their point of view, is an interesting perspective beside the economists’ perspective focusing only on cost-benefit considerations.⁶⁰⁷ However, even though the organizational approach (RDT) seems to be the right approach to explain this relation, it is difficult to test it due to data limitations. Any “nonpecuniary motives for institutional political participation may be extremely difficult to capture”⁶⁰⁸ as the authors admit. This might be the reason why only this one study uses this approach. Nevertheless, Masters and Keim (1985) support the present approach and emphasize that governmental regulations, particularly in the long run, are more important than e.g. governmental purchases.

In his study published in 2008, Kim employs the SCP framework to estimate both (1) the impact of “environmental and structural forces”⁶⁰⁹ on the firm, and (2) the returns to lobbying.⁶¹⁰ The variable “regulated industry” is used to describe the industry structure and has a statistically significant characteristic that confirms the relation between regulation and a firm’s higher level of engagement in NS.⁶¹¹ Unfortunately, Kim (2008) only briefly discusses a possible theoretical background for this relation, using rent-seeking and collective action approaches, and neglecting any strategic approach.⁶¹²

Another kind of “regulation” is discussed by Drope and Hansen (2006): court decisions. Court decisions can also be seen as regulations, because they “regulate” the interactions of actors in the market environment. In this case, the court “regulates” the market environment by judgment. Drope and Hansen (2006) find evidence for a relationship between the number of court cases and firms’

⁶⁰⁵ cf. Masters and Keim (1985).

⁶⁰⁶ Masters and Keim (1985: 1160 f.).

⁶⁰⁷ cf. Masters and Keim (1985: 1160).

⁶⁰⁸ Masters and Keim (1985: 1161).

⁶⁰⁹ Jin-Hyuk Kim (2008: 1).

⁶¹⁰ cf. Jin-Hyuk Kim (2008).

⁶¹¹ cf. Jin-Hyuk Kim (2008: 11).

⁶¹² cf. Jin-Hyuk Kim (2008: 11).

engagement in lobbying.⁶¹³ In their empirical study about the antecedents of corporate PAC contributions, Grier et al. (1994) find that firms in highly regulated industries tend to spend more money than firms in less regulated industries do.⁶¹⁴ Furthermore, in his analysis of high-tech PACs between 1977 and 1996, Hart (2001) could find a positive statistically significant correlation between regulation, and PAC formulation and size.⁶¹⁵ In their study published in 2014 Holburn and Vanden Bergh analyzed the impact behavior of utilities companies in the US before announcing a merger or acquisitions. As an approval from politics is necessary in this regulated industry to perform a merger or acquisitions, the authors expected an impact on the firm's NS involvement in advance. In their empirical study they find that utilities increase their campaign contributions by about 14 % in the year before announcing an M&A proposal, which proves this approach.⁶¹⁶ For further results see Appendix: Appendix A: Empirical Results from Literature – The Variable View.

Firms in a regulated environment need governmental permission to obtain access to needed resources. From an organizational theorist's perspective, firms' dependence on governmentally controlled resources encourages firms to engage in NS.⁶¹⁷ Weidenbaum (2005) analyzes that the government is a powerful regulator and subsidizer of private business;⁶¹⁸ to benefit from these public policies or to prevent harmful regulation, firms are forced to participate in the nonmarket environment. Thus, dependence on resources that are controlled by the government or other actors can also be seen as a predictor of firms' involvement in the nonmarket environment.

The most important resource controlled by governments is market access.⁶¹⁹ Mitchel et al. (1997) find a significant correlation between PAC contribution and pollution expenditures.⁶²⁰ The controlled resource in this case is the environment. The firm needs the permission to pollute; but pollution is under control of the state. Another example that confirms this driver is from an AMJ study by Meznar and Night (1995). They show in their study that firms that provide necessary goods (in contrast to

⁶¹³ cf. Drope and Hansen (2006).

⁶¹⁴ cf. Grier et al. (1994).

⁶¹⁵ cf. Hart (2001).

⁶¹⁶ cf. Holburn and Vanden Bergh (2014).

⁶¹⁷ cf. Pfeffer and Salancik G. R. (1978).

⁶¹⁸ cf. Weidenbaum (2005: 21).

⁶¹⁹ See Chapter 3.3.1.1 The Concept of Access – the Basis for the internal Reference Fields.

⁶²⁰ cf. Mitchell et al. (1997a).

luxury goods) have more political power.⁶²¹ In his study, Fleisher (1993) follows another approach. He analyzes the voting behavior on the floor of the House of Representatives and the impact of PAC contributions. He finds that defense contractors are compared to other contractors who are more dependent on the resource tax money. For that reason, defense contractors are more active in NS. Further, Fleisher (1993) finds evidence that the PAC contributions have an impact on the voting behavior.⁶²² For more results, see Appendix A: Empirical Results from Literature – The Variable View.

3.4.1.3 Literature Review: Governmental Purchases and Contracts

Driver 6: Governmental Purchases and Contracts

Governments are not only regulators and lawmakers; they are also important customers. For this reason, the second driver in this subsection is governmental purchases and contracts. Especially in some industries (e.g. military or security), governmental purchases are of the utmost importance for companies and their long-term survival.⁶²³ Some of the firms are dependent on governmental policies or purchases. Therefore, they need to engage in NS.⁶²⁴ Schuler et al. confirm this relationship (governmental contracts – engagement in the nonmarket environment) in their study from 2002.⁶²⁵ Based on the RDT, they state that *“firms relying heavily upon governmental contracts are more active political players than those that do not”*⁶²⁶. In his Business and Politics study from 2000, Tripathi examines the political activities of US defense contractors and finds a statistically significant relationship between the defense budget/dependence on defense contracts and PAC contributions.⁶²⁷ Drope and Hansen (2006) confirm this relationship and find a statistically significant relation between governmental procurement and both lobbying decision and expenditure.⁶²⁸ In their study they differentiate between the engagement on two levels: (1) on a collective level, and (2) on a private level. In the case of pursuing NS to secure the firm’s private governmental contracts, the authors analyze

⁶²¹ cf. Meznar and Nigh (1995).

⁶²² cf. Fleisher (1993).

⁶²³ cf. Hansen and Mitchell (2000); Hart (2001); Mitchell, Agle, and Wood (1997b); Schuler et al. (2002); Schuler (1999).

⁶²⁴ cf. Hillman and Hitt (1999: 829).

⁶²⁵ cf. Schuler et al. (2002).

⁶²⁶ Schuler et al. (2002: 669).

⁶²⁷ cf. Tripathi (2000).

⁶²⁸ cf. Drope and Hansen (2006).

narrow and strategic considerations of the single firm, which is in line with this thesis's approach (RDT).⁶²⁹

3.4.1.4 *Propositions*

After having introduced the RDT and discussed the literature on institutions-related drivers, the proposition will be developed in this section. Based on the discussion of the RDT and the results from the literature review, there seems to be a connection between firms' dependence on governmental resources and purchases (independent variable) and firms' engagement in NS (dependent variable). Furthermore, governmental or private regulations (independent variable) also have an impact on firms' engagement in the nonmarket environment (dependent variable). However, regulations can be understood as a resource needed by firms. The explaining theory of the discussed relation is the RDT.

Accordingly, the following is proposed:

- **Proposition 3: The dependence on resources (e.g. regulations and governmental purchases) determines the engagement of firms in NS.**

RDT

3.4.1.5 *Literature Review: Political System*

Driver 7: Political System

Another driver is related to the political system in which firms are embedded. There are institutional differences across countries. The socio-political environment affects firms in different and sometimes crucial ways. Firms in modern democracies always act embedded in a legal and socio-political framework, and are therefore limited in their opportunities. Political systems, norms, and traditions differ even across democratic societies, e.g. between Europe and the US; following this, firms have different opportunities to influence the policy shaping process. NS give firms possibilities to alter their nonmarket environment and therefore to broaden their economic opportunities.⁶³⁰

⁶²⁹ cf. Drope and Hansen (2006).

⁶³⁰ cf. Baron (1995); Bouwen (2004b).

Hillman (2003) applies the IT as a theoretical foundation for her study. In this study, she analyzes the influence of the institutional context (corporatist vs. pluralist countries) on the NS firms choose.⁶³¹ Not only the results of this study but also the justification (IT) support this thesis's theoretical approach. In particular, Hillman finds evidence that the political system has an impact on firms' engagement in NS.⁶³²

Hillman and Keim (1995) find that the business-government relationship depends on the formal and informal institutions of a country.⁶³³ Coen (1997) shows in his study that the European treaties have an effect on the lobbying behavior of MNEs, and can therefore be seen as drivers for NS within the Driver Model.⁶³⁴ For further results see Appendix A: Empirical Results from Literature – The Variable View.

3.4.1.6 Propositions

After having discussed the literature on political systems-related drivers, the proposition will be developed in this section. Firms need to pursue different NS in different political systems. The IT provides insight into why firms need to adapt their NS to the socio-political environment. The relationship between the driver of political system (independent variable), such as for example pluralist vs. corporatist countries, and firms' engagement in NS (dependent variable) can be explained with the IT.⁶³⁵ Accordingly, the following is proposed:

- **Proposition 4: The socio-political environment (political system) of a firm determines the kind and level of its engagement in NS.**⁶³⁶

IT

⁶³¹ cf. Hillman (2003).

⁶³² cf. Hillman (2003).

⁶³³ cf. Hillman and Keim (1995); Hillman and Hitt (1999); Hillman (2003).

⁶³⁴ cf. Coen (1997); Coen (1998).

⁶³⁵ See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

⁶³⁶ Even though not pursuing a NS is also a NS (cf. Baron (1995)).

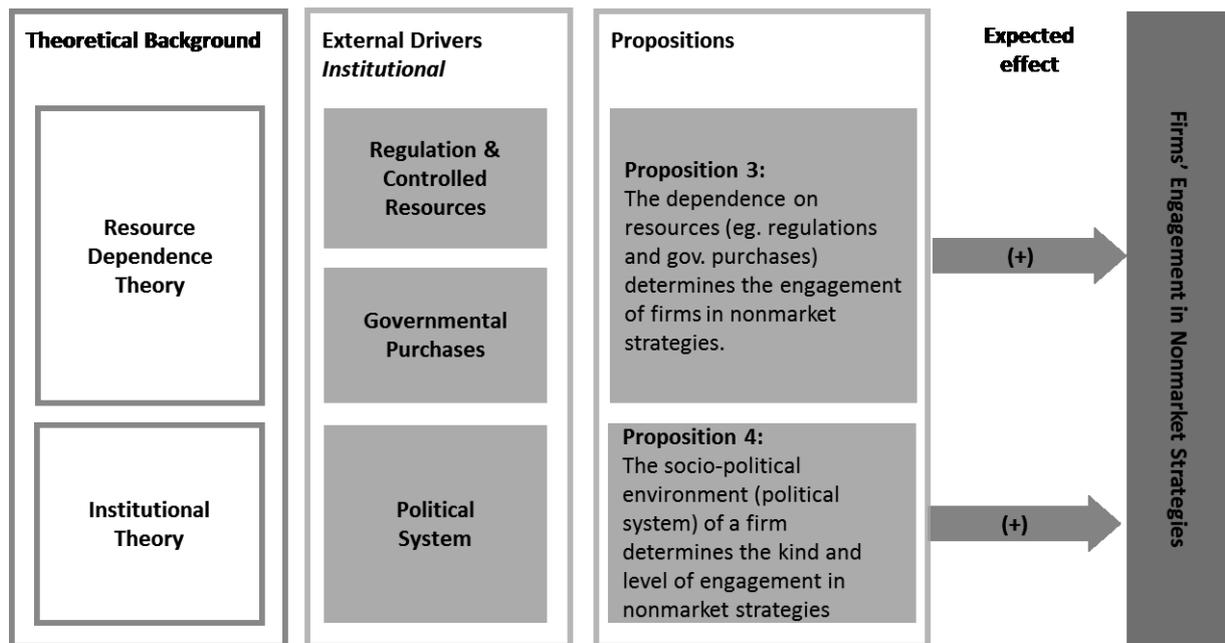


Figure 15: External, Institutional Drivers

3.4.2 External Drivers: Industry and Society

In this second section about firms' antecedents for engaging in NS, the focus is on the non-government-related, so-called industrial and societal drivers. To choose the right theories, the selection process explained above has been used.

(1) From the 23 theories in the literature review,⁶³⁷ the following approaches have been selected based on their short descriptions⁶³⁸: the Collective Action Theory, Stakeholder Theory, Interest Group Theory, and Social Movement Theory.

The Collective Action Theory (CAT) focuses on the voluntary provision of collective goods and the free-rider problem.⁶³⁹ In the Driver Model, collective goods are connected to public policies; as these are in general non-excludable, they refer to public goods and lead to the free-rider problem (see Section 2.1.3 Market & Nonmarket Resources and Public Goods). Examples of public goods are trade barriers

⁶³⁷ See Chapter 2.3 Main Theories in the Research Field of Nonmarket Strategies.

⁶³⁸ See Chapter 2.3 Main Theories in the Research Field of Nonmarket Strategies.

⁶³⁹ cf. Olson (1965).

and laws.⁶⁴⁰ As for the free-rider problem,⁶⁴¹ CAT can provide a good explanation with regard to industry concertation whether or not firms invest in NS.

The Stakeholder Theory (ST) in the nonmarket environment explains how firms react to pressures from several interest groups.⁶⁴² For this reason, it has been seen as the dominant theory in NS.⁶⁴³ Here it should not be forgotten that ST *“encompasses both economic and social aspects”*⁶⁴⁴ and therefore builds a bridge from the market environment to the nonmarket environment. From a first analysis, ST can provide useful insights for use in the Driver Model.

Related to the ST, the Interest Group Theory (IGT), a theory from the area of political science, explains the firm’s motives to enter the nonmarket environment.⁶⁴⁵ Further, the Social Movement Theory explains how movements without direct access to the institutional resources form to gain influence on public policies.⁶⁴⁶ These theories, combined with ST, are able to have a high level of explanatory strength with regard to the Driver Model, especially with their focus on the nonmarket environment.

(2) In the next step, the entries in the literature review database are analyzed to find evidence of the usage of the selected theories. Drope and Hansen (2006, 2008, 2009) apply CA to explain the influence of firm and industry variables on firms’ engagement in NS.⁶⁴⁷ Grier et al. (1994) use CA to explain the antecedents of CPA.⁶⁴⁸ Furthermore, Rehbein and Schuler (1998) and Schuler (1996, 2002) apply CA to explain firms’ engagement in NS. Therefore, CA has been selected for further considerations.

Oliver and Holzinger (2008) apply ST to build a dynamic capabilities framework to explain NS.⁶⁴⁹ Further, Mahon et al. (2004) use approaches from stakeholder management to explain NS.⁶⁵⁰ Finally, Pajunen (2006) uses approaches from ST as well as from RDT to explain the long-term survival of firms

⁶⁴⁰ cf. Hillman and Zardkoohi (1999: 70).

⁶⁴¹ cf. Olson (1965).

⁶⁴² cf. Bonardi et al. (2005: 399); Frooman (1999); Mitchell et al. (1997b); Oliver and Holzinger (2008).

⁶⁴³ cf. Freeman (2004: 236).

⁶⁴⁴ Parmar et al. (2010: 419).

⁶⁴⁵ cf. Getz (2002: 308).

⁶⁴⁶ cf. Whetten et al. (2009: 554).

⁶⁴⁷ cf. Drope and Hansen (2006); Drope and Hansen (2008); Drope and Hansen (2009).

⁶⁴⁸ cf. Grier et al. (1994).

⁶⁴⁹ cf. Oliver and Holzinger (2008).

⁶⁵⁰ cf. Mahon et al. (2004).

with regard to their embedded environment.⁶⁵¹ Due to this presence in the database, ST has also been selected.

In the last step, possible interfering dependencies of the applied theories within the Driver Model need to be analyzed. ST is seen as a major theory in the area of NS.⁶⁵² ST is frequently used together with RDT and IT in models to explain firm's engagement in NS, such as in the work of Oliver and Holzinger (2008), Parmar et al. (2010), Pajunen (2006), and Jawahar (2001).⁶⁵³ This is reasonable as all theories are connected to the nonmarket environment and explain the interaction of firms, institutions, and interest groups. All three theories consider a different perspective without overlap. Thus, there does not appear to be any reason not to add ST to the Driver Model.

CA and its free-rider problem constitutes another perspective to the Driver Model as well; however, the application of firm size (1) related to IT with regard to jobs and the firm's contribution to society (employment), and (2) firm size related to CA with regard to the free-rider problem and cost considerations need to be clearly differentiated (in the Driver Model, as an internal vs. external driver). In the literature, several models implement CA into a broader picture, such as Oliver (2008), Rehbein and Schuler (1998), and Schuler (1996).⁶⁵⁴ The integration of ST and CA into the present model is seen as unproblematic and is therefore applied.

3.4.2.1 *Theoretical Background: The Collective Action Theory*

The Collective Action Theory (CAT) originates from the research field of sociology/political science and describes the effects of the voluntary provision of collective goods by private actors.⁶⁵⁵ Collective/public goods have the properties of non-excludability and non-exhaustibility. For this reason, a single firm is not able to enjoy exclusive benefits from these goods.⁶⁵⁶ This thesis analyzes the behavior of firms in the nonmarket environment. The nonmarket environment is shaped by public

⁶⁵¹ cf. Pajunen (2006).

⁶⁵² cf. Freeman (2004: 236).

⁶⁵³ cf. Oliver and Holzinger (2008); Parmar et al. (2010); Pajunen (2006); Jawahar and Mclaughlin (2001).

⁶⁵⁴ cf. Oliver and Holzinger (2008); Rehbein and Schuler (1998); Schuler (1996).

⁶⁵⁵ cf. Olson (1965).

⁶⁵⁶ cf. Ostrom and Ostrom (1978); Schuler (1996: 723).

policies, which can in most cases be defined as public goods.⁶⁵⁷ Examples are trade barriers, laws, and standard settings, or any kind of regulation that affects the industry as a whole.⁶⁵⁸

Olson (1965) argues that individual actors in large groups would act as free riders with regard to these public goods if there were no possibility for sanctioning.⁶⁵⁹ In this case, those actors would benefit from the public goods without having devoted resources to the establishment of the public policy. Therefore, small firms have strong incentives to freeride, whereas large firms in concentrated industries will be politically active.⁶⁶⁰ However, the risk of freeriding for one or several firms decreases with the concentration of the industry because the value of the public good to every member is high enough to bear the costs of its establishment. Furthermore, the risk of opportunistic behavior decreases with the (decreasing) number of actors in an industry, because the outcome of the collective action becomes more dependent on each actor's participation. For this reason, the more firms are able to minimize the free-rider problem, the more firms can benefit from collective goods.⁶⁶¹ Therefore, the provision of collective goods is more likely in small and more precisely concentrated – or in Olson's words "privileged" – industries⁶⁶².

The transfer of the results of the CAT to the field of NS makes it possible to explain why some firms are politically active while others are not. Firm size and industry concentration seem to be predictors of the level of companies' involvement in the public policy market. The assumptions of the CAT further suggest that NS are less costly in small, concentrated industries because of the lower likelihood of freeriding. According to the borrowed CAT, preconditions for a firm to engage in NS are low costs and easy organization of the efforts in the nonmarket environment.⁶⁶³ Such costs arise foremost from the collective action problem, i.e. due to freeriders. Thus, effective political activity requires concerted action.⁶⁶⁴

⁶⁵⁷ See Chapter 2.1.3 Market & Nonmarket Resources and Public Goods.

⁶⁵⁸ cf. Hillman and Zardkoohi (1999: 70).

⁶⁵⁹ cf. Olson (1965).

⁶⁶⁰ cf. Schuler (1996: 724).

⁶⁶¹ cf. Olson (1965); Stigler (1974).

⁶⁶² cf. Olson (1965).

⁶⁶³ cf. Drope and Hansen (2009: 304); Ozer and Lee (2009: 2).

⁶⁶⁴ cf. Damania, Fredriksson, and Osang (2004: 279); Grier et al. (1994: 911).

In summary, the prominent premise of the CAT is that the incentive to engage in NS is always determined by its **expected private net benefit**. In Olson's (1965) framework, the returns from a collective good to a firm increase with the firm size. In a heterogeneous industry the largest companies will expect to gain the most from the public policy. Following the premise that it is costly to become involved in the nonmarket environment, it is only worthwhile for large firms to invest in NS. This is because only they will receive sufficiently high economic returns from the public policy in order to justify their investment.⁶⁶⁵

In the nonmarket environment, firms try to benefit from public policies to strengthen their own competitive position. The public policies are – in general – public goods; therefore, the whole industry is affected by the policies' outcome. The establishment of collective goods costs money; applied to the nonmarket environment, this means that if a group of firms forces the government to implement new public policies, for example, then the outcome of this NS can be viewed as a collective good as well. This is because the outcome of the public policy, evoked by the NS, affects all members of the industry. In this case, it does not matter how many firms engage in the NS: one firm can be enough, and all other firms can act as freeriders. Nevertheless, even if firms cannot enjoy exclusive benefits, the benefits may be shared differently across firms as the strength of the impact of a new policy is firm-specific. Not only the size of the company is important in benefiting from public goods: the composition of the firm's market and nonmarket resources is also important in profiting from the public good.⁶⁶⁶

CAT describes not only the behavior of firms, but also the behavior of associations and other interest groups. Transferring the result of the theory to this environment, one would predict that smaller and more focused groups have an organizational advantage over large and diverse groups. Alexander et al. (2009) present empirically evidence to this end.⁶⁶⁷

⁶⁶⁵ cf. Olson (1965); Ozer and Lee (2009); Schuler (1996). This assumption is considered in the "*adaptive model*". Here, industry and firm characteristics are used simultaneously to predict which firms will engage in Political Strategies. Beside the industry concentration, the market strength of the firm is a predictor of its investment in Political Strategies, anticipating a disproportionate higher share of the public policies' benefits. (cf. Drope and Hansen (2008); Masters and Keim (1985); Rehbein and Schuler (1998); Salamon and Siegfried (1977); Yoffie (1987)).

⁶⁶⁶ cf. Mitnick (1993); Schuler (1996); see also Stigler (1974) for the concept of "quasi-public goods".

⁶⁶⁷ cf. Alexander, Mazza, and Scholz (2009: 406.)

Finally, another effect has to be considered that forces large companies to engage in NS. In transition processes in the economy, large firms in particular are confronted with high restructuring or downsizing costs. To avoid or postpone these investments, large firms' motivation to engage in NS is above average.⁶⁶⁸ This effect should not be confused with the effects defined by the CAT.

Summary of the Collective Action Theory

- The CAT originates from the research field of sociology/political science.
- Collective/public goods have the properties of non-excludability and non-exhaustibility. Thus, a single firm is not able to enjoy exclusive benefits from these goods.
- Due to this set-up, individual actors (e.g. small firms) would act as freeriders on these public goods if there was no possibility for sanctioning.
- The risk of opportunistic behavior decreases with the (decreasing) number of actors in an industry, because the outcome of the collective action becomes more dependent on each actor's participation.
- The provision of collective goods is therefore more likely in small and concentrated "privileged" industries.
- The transfer of the results of the CAT to the field of NS makes it possible to explain **why some firms are politically active while others are not**.
- It should be noted that in transition processes, large firms in particular are confronted with high downsizing cost. The following engagement in NS should not be confused with the effects defined by the CAT.

Summary:

The CAT describes the effects of the voluntary provision of collective goods by private actors (e.g. firms or interest groups).

The CAT explains why firms are politically active and others are not due to industry concentration and firm size to mitigate freeriding.

The incentive for firms to engage in NS is always determined by its expected private net benefit (cost considerations).

Synopsis 8: Summary of the Collective Action Theory

⁶⁶⁸ cf. Schuler (1996: 734).

3.4.2.2 Theoretical Background: The Interest Group Theory/ Stakeholder Theory

For the purpose of this thesis, the Interest Group Theory and the ST are jointly discussed to explain the behavior of stakeholders in the nonmarket environment. In order to shape their NS, it is of high importance that firms have an understanding of how (interest) groups and interests arise, develop, and interact in the nonmarket environment. For this reason, the two theories are integrated to identify the important stakeholders and to consider moral aspects in the nonmarket environment.⁶⁶⁹

The Interest Group Theory (IGT) is one of the dominant approaches used to understand the engagement of firms in the nonmarket environment. It originates from the research field of political science and can therefore directly be applied to answer this thesis's research questions regarding the nonmarket environment. The IGT assumes that there are different opinions, views, and goals in every society.⁶⁷⁰ This means that no concept of public interest can be found in the public policy process independent of the aggregation of individual interests, because individuals enter markets to advocate their political proposal driven by their individual interests.⁶⁷¹ As Schumpeter (1942) states, "*there is no such thing as a uniquely determined common good that all people could agree on [...]*"⁶⁷².

All these opinions, views, and goals are interpreted as interests in the context of the IGT if they have a direct or indirect connection to the public policy market.⁶⁷³ These interests encompass values, objectives, attitudes, and preferences. The IGT suggests that the democratic public policy shaping process is an attempt to reach a compromise between the goals of competing interest groups.⁶⁷⁴ The competition among the interest groups to achieve impact on public policies determines the existing equilibrium structure of public policies (laws, taxes, subsidies).⁶⁷⁵ Any change of the political equilibrium, for example through an additional pressure by new interest groups or a new government

⁶⁶⁹ See Freeman (2004: 236). He proposes to use stakeholder theory to build an overarching framework and to integrate agency theory, transaction cost theory, human relationship and ethics and the environment. I chose the interest group theory because it is more specialized to the nonmarket environment. See as well Jones (1995) Jones (1995).

⁶⁷⁰ cf. Dahl (1956); Schattschneider (1960).

⁶⁷¹ cf. Bonardi et al. (2005: 398).

⁶⁷² Schumpeter (1942: 251).

⁶⁷³ cf. Berger (2001).

⁶⁷⁴ cf. Dahl (1956); Schattschneider (1960).

⁶⁷⁵ cf. Becker (1983: 372).

after elections, can change the system and its outcome (who participates in the public policies shaping process).⁶⁷⁶

For this reason, firms engage in NS because other groups with different or even contrasting views may engage as well. Firms and interest groups need to engage in NS because if they avoid participating in the process, their interests can (because of absence) and (following that) will not be considered. Presence and activity of opponent interest groups can hence be seen as a predictor of firms' involvement in the nonmarket environment. This is underlined by Becker's (1983) assumption that actual political choices are determined by the efforts of individuals and groups trying to bolster their own interests.⁶⁷⁷

Political influence is not static or fixed; therefore, firms have the opportunity to change public policies through NS. In general, firms can both benefit and suffer from the low interest of the majority of the population in politics and the political system. This low interest can be justified by the minor effect of specific political outcomes on an individual.⁶⁷⁸ For example: environmental laws have a limited short-term effect on customers through higher costs, and a – mostly unforeseeable – long-term effect on the environment. Especially in the shaping phase of a new law, the outcome is still uncertain; resulting in two different behaviors that are observable in society. Firstly, the majority is not interested. Secondly, due to a missing certainty about the outcome of the new policy, ideologies and stereotypes often determine the public discussion. In this environment, interest groups and firms have the opportunity to strengthen their political influence. Therefore, firms have to monitor the behavior of interest groups and movements in the society to shape, develop, and decide upon their usage of NS.

The interests or demands of individuals with regard to public policies are organized into various aggregation mechanisms and represented by interest groups, associations, and parties that take part in the public policy process.⁶⁷⁹ Altogether, these actors can be described as stakeholders because they are defined as any *“group or individual who can affect or is affected by the achievement of the firm's*

⁶⁷⁶ cf. Becker (1983: 371).

⁶⁷⁷ cf. Becker (1983: 371).

⁶⁷⁸ cf. Becker (1983: 392).

⁶⁷⁹ cf. Bonardi et al. (2005: 399).

*objectives*⁶⁸⁰. For this reason, firm have to consider a wide range of stakeholders when they analyze their nonmarket environment and monitor possible effects/shifts through interest group pressure on the public policy process.⁶⁸¹

ST offers insights regarding the effect of external pressures from groups from another perspective. The theory's purpose is to enable managers to understand their stakeholders in order to manage them strategically. ST highlights the importance of issues from the nonmarket environment to any firm as key factors that motivate firms – transferred to the area of the present research – to engage in NS.⁶⁸² The importance of a political issue to a constituent can be described as the dependence of the constituent on the stakeholder.⁶⁸³ In this vein, ST examines the direct and indirect pressure on firms from the media, public opinion, consumers, advocacy groups, employees, shareholders, and the government.⁶⁸⁴ Accordingly, all groups and individuals who can affect the organization must be taken into consideration by the management in its strategic decision-making.

However, resources are scare. For this reason, it is not possible to consider all groups and individuals who can affect the organization. Therefore, managers, in particular while pursuing NS, need an approach that analyzes stakeholder importance and salience, and that can explain to whom and to which issues managers need to pay attention.⁶⁸⁵ Friedman and Miles (2002) propose three reasons why some stakeholders have more influence than others: (1) differences in the structural nature of the stakeholder-firm relationship, (2) existing contractual forms, and (3) support by the institutional environment.⁶⁸⁶

⁶⁸⁰ Freeman (1984: 46).

⁶⁸¹ cf. Barnett (2006: 1764); Oliver and Holzinger (2008: 499). Another opportunity is the social movement theory. The social movement theory studies the activities of citizens collectivizing to produce societal change. Examples are peace and civil rights movements, or protests. (cf. Benford and Snow (2000: 614 ff.)) In contrast to many scholars in political sociology who see social movements as relatively powerless outsiders, lacking direct access to the needed institutional resources to deploy the societal change, I consider these interests as important stakeholders with cognizable impact on firms. (cf. Whetten et al. (2009: 554)) Even if social movements are powerless in the public policy shaping process, they still might be able to harm the reputation of a firm which has important implications for their success in the nonmarket environment (see Chapter 3.3.1.3 Reference Field: Reputation).

⁶⁸² cf. Mitchell et al. (1997b).

⁶⁸³ cf. Oliver and Holzinger (2008: 499).

⁶⁸⁴ cf. Oliver and Holzinger (2008: 499).

⁶⁸⁵ cf. Gabel and Scott (2011: 92).

⁶⁸⁶ cf. Friedman and Miles (2002: 16).

Mitchel et al. (1997) suggest a framework to identify stakeholders using the following attributes: 1. the stakeholder's power to influence the firm, 2. the legitimacy of the stakeholder's relationship with the firm, and finally 3. the urgency of the stakeholder's claim on the firm.⁶⁸⁷ Thus, there is a tool with which to determine to whom managers should pay attention; however, a tool with which to prioritize the manifold stakeholder relationships is missing. Mitchel et al. (1997) suggest a solution, arguing in their so-called *Theory of Stakeholder Salience* that managers have to pay "certain kinds of attention to certain kinds of stakeholders" to "achieve certain ends"^{688, 689}.

The concept of legitimacy is important for understanding ST⁶⁹⁰, and is a central point in the Driver Model as well.⁶⁹¹ With regard to the stakeholder model by Mitchel et al. (1997), stakeholders have to be legitimate from a firm's perspective. Freeman (1984)⁶⁹² and Ackoff (1974) view stakeholders as legitimate if they have any kind of effect on the firm or if they are needed by the firm in order to exist.⁶⁹³

In summary, the ST emphasizes the importance of social and political issues for any given company engaging in NS and provides solutions and approaches.⁶⁹⁴ Freeman (2004) introduces six basic arguments with regard to why firms should manage their stakeholders. The following four are important in the context of NS:⁶⁹⁵

- (1) No matter what the firm stands for, it has to take into account the (potential) effects of its actions on others and vice versa.
- (2) For this reason, the firm must understand the stakeholders.
- (3) It is important to answer the question of what the firm stands for.

⁶⁸⁷ cf. Mitchell et al. (1997b). Criticism about the problem: separating power and legitimacy see at Pajunen (2006: 1262).

⁶⁸⁸ Mitchell et al. (1997b: 855).

⁶⁸⁹ See an example what could happen if primary stakeholders become dissatisfied and withdraw from the firm's system. In 1991 Dow Corning was not able to keep its customers and public interest groups satisfied with the safety of one of its products. Dow Corning lost its leading position in breast implants and finally left this market (cf. Clarkson (1995: 106)).

⁶⁹⁰ See for example: cf. Freeman (2004: 236); Mitchell et al. (1997b); Pajunen (2006: 1262); Parmar et al. (2010: 411); Reed (1999: 471).

⁶⁹¹ See Chapter 3.3.1.2 Reference Field: Legitimacy.

⁶⁹² Freeman (1984: 46).

⁶⁹³ cf. Dunham, Freeman, and Liedtka (2006: 25).

⁶⁹⁴ cf. Bonardi et al. (2005: 399); Frooman (1999); Mitchell et al. (1997b); Oliver and Holzinger (2008).

⁶⁹⁵ cf. Freeman (2004: 231).

(4) Stakeholder interests have to be balanced out over time.

Investments in a stable stakeholder relationship are necessary if a firm wants to engage in the nonmarket environment. Values such as legitimacy and reputation of the firm are – especially in the long run – important to be successful in NS.⁶⁹⁶ Furthermore, Mahon et al. (2004) indicate that “*stakeholder management can be understood as a part of the firm’s nonmarket strategy*”⁶⁹⁷ which aims to balance the claims of external interest groups and other organizations interacting with the firm.⁶⁹⁸ The ST teaches managers that they are responsible for the effects of their actions. Specifically, they are responsible to those interest groups and other actors that they can affect. This responsibility is derived from the impossibility of states in practice to meet the exacting demands of legitimacy.⁶⁹⁹ Businesses do not only have to consider their direct stakeholders; they also have to consider their indirect stakeholders insofar as these can affect the direct or definitional stakeholders.⁷⁰⁰

The IGT is a testable theory to identify those interest groups that are able to organize collective action in such a way that their wealth increases (demanders); on the other hand, the suppliers have to lose wealth.⁷⁰¹ Thus, the IGT offers firms the possibility to recognize those interest groups that can affect the firms’ resource base and strategic opportunities.

IGT has several implications with regard to the concept of NS: being the dominant approach in NS it provides hints about when firms should engage in the nonmarket environment. To quote Aristotle, all actors act politically; for this reason, even counteractive behavior is needed.

⁶⁹⁶ cf. Freeman (2004: 234). See also 3.3.1.2 Reference Field: Legitimacy and 3.3.1.3 Reference Field: Reputation.

⁶⁹⁷ Mahon et al. (2004: 173).

⁶⁹⁸ cf. Mahon et al. (2004: 173).

⁶⁹⁹ cf. Reed (1999: 472).

⁷⁰⁰ cf. Agle, Donaldson, Freeman, Jensen, Mitchell, and Wood (2008: 164); Reed (1999: 453).

⁷⁰¹ cf. Tollison (2001: 456).

Summary of the Interest Group Theory/ Stakeholder Theory

- The **IGT** originates from the research field of political science.
- The competition among interest groups to achieve impact on public policies determines the existing equilibrium structure of public policies (laws, taxes, subsidies).
- The interests or demands of individuals with regard to public policies are organized through various aggregation mechanisms and are represented by interest groups, associations, and parties who take part in the public policy shaping process and thereby affect the environment of firms.
- The IGT is a testable theory to recognize those interest groups that are able to organize collective action (due to cost considerations – see CAT).
- It is of high importance that firms have an understanding of how (interest) groups and interests arise, develop, and interact in the nonmarket environment to shape their NS.
- For this reason, ST from the research field of management has been integrated into the IGT to identify the important stakeholders. In contrast to the LCM theory, discussed in the next section, here the focus of the analysis is on the actors and not the issue.
- The **ST** examines the direct and indirect pressure on firms from the media, public opinion, consumers, advocacy groups, employees, shareholders, and the government. All of these groups must be taken into consideration by management when making strategic decisions about NS. Stakeholder salience is a concept used to determine the most important stakeholders.
- The concept of **legitimacy** is important for understanding ST. Values such as legitimacy and reputation of the firm are – especially in the long run – important to be successful in NS.
- Stakeholder management can be understood as a part of the firm's NS.
- IGT has several implications regarding the concept of NS: being the dominant approach in NS, it provides hints about when firms should engage in the nonmarket environment.

Summary:

The democratic public policy process is an attempt to reach compromise between the competing goals of a multitude of interest groups/stakeholders.

The outcome of a public policy shaping process can be seen as a compromise of diverse interests.

The (expected) behavior of external interest groups explains the motives of firms to engage in PA.

3.4.2.3 Literature Review: Industry Concentration and Size

Driver 8: Industry Concentration and Size

Public policies are collective goods.⁷⁰² Firms apply NS to benefit from these collective goods. Accordingly, industry concentration and firm size seem to be drivers for firms' engagement in NS. Getz focuses in her study from 1997 on industry characteristics to explain NS. She argues that size and homogeneity of an industry influence the likelihood of firms becoming involved in the nonmarket environment.⁷⁰³ Other studies confirm Getz's (1997) approach: firms in small industries are more likely to overcome the free-rider problem; whereas firms in highly regulated industries need to engage in NS because of their dependences. The CAT is an often-used theory to explain firm behavior in the nonmarket environment. Therefore, firm size and concentration seem to be important variables to explain firms' investment in NS which is a useful insight for the Driver Model.⁷⁰⁴

Furthermore, highly concentrated industries tend to speak with "one voice"; therefore, firms in concentrated industries are expected to be more likely to engage in the nonmarket environment because it is easier for them to gain access to legislators.⁷⁰⁵ Finally, cost should be considered in this part of the Driver Model. In a business environment, cost-benefit considerations are important for firms and can therefore lead managers to engage in the public policy shaping process or, conversely, to refrain from doing so. Firms trade off their own costs of political involvement vs. their expected benefits from the new public policy, and consider the political behavior of other actors (freeriding or political involvement). This consideration is the constituent part of the CAT.⁷⁰⁶

Drope and Hansen demonstrate in their study from 2008 that firm size (resources) has a significant impact on lobbying.⁷⁰⁷ Rehbein and Schuler (1998) find evidence for the relationship between market concentration and firms' involvement in NS.⁷⁰⁸ In his AMJ article from 1996, Schuler finds a statistically significant relationship between market share (firm size) and trade petitions/congressional

⁷⁰² See Chapter 2.1.3 Market and Nonmarket Resources and Public Goods.

⁷⁰³ cf. Getz (1997: 61 f.); Masters and Keim (1985).

⁷⁰⁴ cf. Getz (1997); Bhuyan (2000); Drope and Hansen (2009: 311); Grier et al. (1994); Hillman (2003); Olson (1965); Schuler (2002); Schuler (1999); Schuler (1996); Zhilong Tian and Xinming Deng (2007).

⁷⁰⁵ cf. Zhilong Tian and Xinming Deng (2007).

⁷⁰⁶ See Chapter 3.4.2.1 Theoretical Background: The Collective Action Theory.

⁷⁰⁷ cf. Drope and Hansen (2008).

⁷⁰⁸ cf. Rehbein and Schuler (1998).

testimony.⁷⁰⁹ However, not all studies confirm the approach of CAT: for instance, Lenway and Rehbein (1991) analyze the behavior of firms in industries with several firms with regard to the free-rider problem. Contrarily to what is predicted by the CA, in their findings firms in an industry with a large number of firms more likely invest in NS even though freeriding would be possible. Therefore, the basis from this thesis's variable analyses is somewhat unclear with regard to the free-rider problem; further research is needed. Further variables from the literature can be consulted in Appendix A: Empirical Results from Literature – The Variable View.

3.4.2.4 *Propositions*

After having introduced the CAT and discussed the literature on industry-related drivers, the proposition will be developed in this section. The CAT⁷¹⁰ analyzes the structure of the industry and the relation of costs and benefits of a possible involvement in the nonmarket environment. Based on the literature and the results of the theoretical background, industry concentration and firm size (independent variable) seem to be drivers of firms' engagement in NS (dependent variable).

Accordingly, the following is proposed:

- **Proposition 5: The concentration of the industry and cost-benefit considerations related to firm size determine firms' involvement in NS.**

CAT

3.4.2.5 *Literature Review: External Pressures and Unionization*

Driver 9: Unionization

Another driver that can affect firms' behavior with regard to NS is unionization.⁷¹¹ Unions are homogenous interest groups with numerous members and well-established networks in the political environment, and thus have political power. Furthermore, they are involved in the negotiations of collective labor agreements, which have a significant impact on companies' economic situation. Masters and Keim (1985) find a statistically significant relationship between a higher degree of

⁷⁰⁹ cf. Schuler (1996).

⁷¹⁰ See Chapter 3.4.2.1 Theoretical Background: The Collective Action Theory.

⁷¹¹ cf. Schuler (1999: 88).

unionization in firms' primary industry and a higher engagement in NS (here PAC activity).⁷¹² Rehbein and Schuler (1998) confirm the driver and show a significant relationship between unionization and firms' involvement in NS.⁷¹³

Unah (2003) finds evidence that firms with organized labor (unions) have a higher corporate litigation activity.⁷¹⁴ As a theoretical basis to explain this relationship, two approaches are presented: the pluralist theory (unions speak on behalf of the workers) and the relationship theory from sociology. The variable organizational labor is defined as a constraint in Unah's (2003) model because it limits the "flexibility of management's decisional choices".⁷¹⁵ Here, unions increase the likelihood that a company will engage in litigation strategies.⁷¹⁶ This behavior can also be explained by the presently proposed theoretical approach: in this specific case, the flexibility of the management is constrained by the unions to react with internal management approaches e.g. through massive lay-offs in response to a crisis; but as a "compromise", both the management and the unions agree on litigation strategies as an external management approach in the nonmarket environment.

Driver 9: Pressure from Interest Groups/Competitors

Apart from industry concentration and unionization, further external drivers for firms' involvement in the nonmarket environment can be found in the literature, including a wide range of environmental variables, such as interest groups, ideologies, public policies, and institutions, that are thought to influence firm behavior. For example, Getz (1997) postulates that firms compete with interest groups for favorable politics and therefore use NS either to maintain or to change the nonmarket environment.⁷¹⁷

In their AMJ article, Ingram and Simons (1995) explain firms' reactions in the nonmarket environment as reactions from institutional pressures, as explained by IT.⁷¹⁸ The strong focus on institutional approaches is related to the topic of their study: "work-family issues". However, the results regarding

⁷¹² cf. Masters and Keim (1985).

⁷¹³ cf. Rehbein and Schuler (1998).

⁷¹⁴ cf. Unah (2003). Further results see in the Appendix.

⁷¹⁵ cf. Unah (2003: 74).

⁷¹⁶ cf. Unah (2003: 87).

⁷¹⁷ cf. Getz (1997: 62.); Masters and Keim (1985).

⁷¹⁸ cf. Ingram and Simons (1995).

the countervailing pressures relate to Pfeffer and Salancik's (1978)⁷¹⁹ concept of countervailing power, and therefore have a strong focus on institutional aspects. To bring this study into the Driver Model, a higher generalizability must be achieved. In the case of work-family issues, Ingram and Simons (1995) find evidence that the "*power of constituents*" can "*influence organizations*"⁷²⁰ in their strategic response. The power of constituents in their study is covered by the external pressure approach in the present Driver Model; furthermore, in the study the firms' reactions to these external pressures (dependent variable) are grouped into four categories: organizational acquiescence, compromise, avoidance, and defiance. The study shows dependencies between external pressures and firms' reactions, but these are not explicitly reactions in the nonmarket environment. As a result, Ingram and Simons's (1995) study does not fully fit the Driver Model; nevertheless, it generally supports the model's approach.

Drope and Hansen (2006) suggest that the activity of others is a predictor of why firms engage in NS (countervailing pressures).⁷²¹ They propose a "*countervailing pressure theory*"⁷²² that predicts a positive relationship between firms that face countervailing pressures from environmental and citizens' groups, and their NS engagement levels.⁷²³ This theoretical approach is in line with the present theoretical approach, as here firms' behavior is influenced by (even expected) behavior of external actors.⁷²⁴ This approach refers to the voice strategy as an important part of the access strategies.⁷²⁵

Finally, ideological changes in society can also be drivers for firms' involvement in the nonmarket environment. Issues such as sustainability, climate change, and healthcare force governments to change laws and regulations.⁷²⁶ Rehbein (1995), for example, finds evidence that legislature debate (dummy variable to indicate whether an industry is currently involved in some type of public policy debate) has an impact on PAC contributions.⁷²⁷ In an environment of legislature debate, pressure from interest groups is likely. In their AMJ article, Schuler et al. (2002) find evidence that political rivalry in

⁷¹⁹ cf. Pfeffer and Salancik G. R. (1978).

⁷²⁰ Ingram and Simons (1995: 1479).

⁷²¹ cf. Drope and Hansen (2006).

⁷²² Drope and Hansen (2006: 11).

⁷²³ cf. Drope and Hansen (2006).

⁷²⁴ See Chapter 3.4.2.2 Theoretical Background: The Interest Group Theory/ Stakeholder Theory.

⁷²⁵ See Chapter 3.3.1.1 The Concept of Access – the Basis for the internal Reference Fields.

⁷²⁶ cf. Keim and Hillman (2008: 52); Lord (2000: 287).

⁷²⁷ cf. Rehbein (1995).

an industry has a positive impact on the other firms' engagement in NS.⁷²⁸ For more variables found in the literature, see Appendix A: Empirical Results from Literature – The Variable View.

3.4.2.6 *Propositions*

After having introduced the IGT/ST and discussed the literature on society-related drivers, the proposition will be developed in this section. The IGT/ST⁷²⁹ can explain the relationship between external pressures and firms' engagement in NS. Based on this theoretical model and the results from the literature review, even possible external pressures (independent variable) can force firms into engagement in the nonmarket environment (dependent variable).⁷³⁰ Accordingly, the following is proposed:

- **Proposition 6: The (expected) behavior of actors in the same environment is a predictor of firms' engagement in NS.**

IGT/ST

Finally, Figure 16 presented all external drivers with their propositions, their connecting theory, and their empirical variables.

⁷²⁸ cf. Schuler et al. (2002).

⁷²⁹ Together with the institutional theory see Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

⁷³⁰ Firms engage in (preventive) public policy shaping because others (opponent or allied groups) in the market and nonmarket environment may engage in NS, too. The mere possibility that other actors could engage in the nonmarket environment in the aspiration for beneficial policies forces firms to engage in "counter-reactions." This kind of firm behavior is described in the interest group theory/stakeholder theory. Following Frooman (1999), external organizations can be seen as external stakeholders and are therefore considered by the stakeholder theory. (cf. Frooman (1999: 195).) Concurrent with interest group theory, the presumed activity of others cannot only explain why and when firms engage in NS but also who engages in NS. The activity of others in the industry (competitors) or connected to the industry (e.g. interest groups) is a predictor of who is involved in the nonmarket environment.

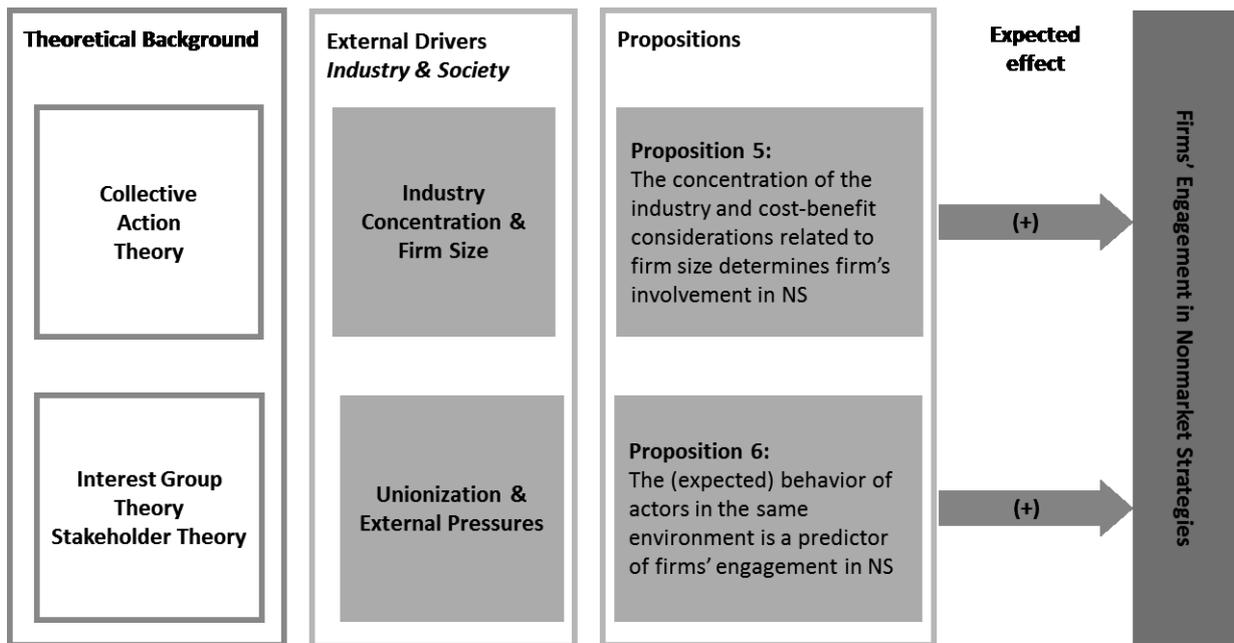


Figure 16: External, Institutional, and Societal Drivers

Summary of Section 3.4: External Drivers

- Two clusters of external drivers force firms into NS:
 - Institutional drivers such as the political system, governmental purchases, institutional regulations, and controlled resources;
 - Industry-related and societal drivers such as the concentration of an industry in concurrence with firm size and external societal pressures.
- **The RDT** explains how firms strategically manage their resource dependency by using NS.
- **The IT** explains the impact of the political system on firms' engagement in NS.
- **The Collective Action Theory** explains in which industry set-ups firms engage in NS.
- Finally, to explain firms' reactions to external pressures (e.g. unionization, interest groups pressure) a combination of the **IGT** and the **ST** has been applied.
- The conducted literature review supports external drivers as important for firms' involvement in NS.

Conclusion:

The structural set-up of and changes to the external environment of a firm determine the firm's level of engagement in NS.

3.5 Issue-related Drivers of Firms' Engagement in Nonmarket Strategies

This final section on the development of the Driver Model discusses the issue-related perspective. The aim is to emphasize two areas. (1) The first is the development process of a public policy. Laws and regulations do not appear at once. In a democratic system, the decision-making process can sometimes take years, which enables firms to heavily influence this process. (2) The second is how do firms react if their environment changes quickly (crisis).

The selection process was conducted, as explained previously, in two steps. However, with an examination of the 23 theories of the literature review (see Section 2.3 Main Theories in the Research Field of Nonmarket Strategies) it is obvious that the Life Cycle Model of public policy management (LCM) should be chosen, as this theory was developed solely to explain the relationship between the phase in the public policy shaping process and firm's behavior. Furthermore, to explain the firm's reaction to a rapidly changing environment, the BTF has been chosen (also see Section 3.3.2 Legitimacy-related Drivers: Firm Size (Employment) and Origin of Firm (Ownership)). However, this time the focus is on the reaction of the organization to "*external stimuli*"⁷³¹. The BTF provides hints as to how firms "*interpret*"⁷³² these signals with regard to whether or not to engage in NS.⁷³³ In the literature, only a few studies support these approaches; these are presented in the following subsection. Nevertheless, these approaches were considered for implementation into the Driver Model.

Finally, it is important to determine whether the integration of the new theories to the Driver Model might have inherent drawbacks on the explanatory power of the model. The LCM focuses on a completely new aspect; therefore, a distortion of other theories is not likely. The second application of the BTF (crisis) should further not be problematic to the model, as it simply adds a more dynamic view compared to the static analysis of the internal and external drivers. Therefore, the two theories are, for the time being, integrated into the Driver Model.

⁷³¹ Getz (2002: 316).

⁷³² Getz (2002: 317).

⁷³³ cf. Băleanu (2007: 29); Getz (2002: 317).

3.5.1 Theoretical Background: The Life Cycle Model of Public Policy Management (LCM)

The LCM stems from the research field of political science and should not be confused with the Life Cycle Theory from business management.⁷³⁴ The LCM explains the development of public policies over time. Every policy moves through different stages outside and inside different governmental institutions.⁷³⁵ In contrast to the theories discussed above, the LCM does not have to be adapted for the purpose of this thesis because it was developed for the nonmarket environment.



Figure 17: Stages of the LCM

In general, the first step in the LCM is the public opinion formation, where issues become salient (see Figure 17). In these early phases the actors cannot only influence the topic, they can also try to control the salience and the priority setting of the issue. Therefore, it is important for a firm to become involved in the policy shaping process as soon as possible. In the second step, the political issue is formulated in legislative and executive institutions. Finally, in the third phase, the policy is implemented by regulatory and juridical institutions. The LCM offers advice in relation to **when** a firm should engage in NS (time), **which player** in the nonmarket environment the firm should target, and **which strategy** the firm should choose (depending on the phase and the target). The core of the theory explains that the opportunities for firms to influence a public policy decrease while moving through the life cycle; this means that the firm loses any impact on the issue after a certain time. Ullmann (1985) names it “*issue plasticity*”, which prevails in the early stages but decreases rapidly.⁷³⁶

The LCM should not be interpreted in a static or nonrecurring manner. To illustrate this, an example of a firm that suffers from a given regulation follows. According to the LCM, the political process of this example is situated in phase 3, giving the firm only the opportunity to pursue a litigation strategy.

⁷³⁴ The life cycle model from business management describes the life cycle of a product. See Chandler (1962).

⁷³⁵ cf. Vanden Berg and Holburn (2007: 2 f.).

⁷³⁶ cf. Bonardi et al. (2005: 407); Hillman and Hitt (1999: 835); Taminiau and Wilts (2006: 126); Ullmann (1985: 165); Vanden Berg and Holburn (2007: 2).

However, if the litigation strategy seems to be unsuccessfully, it can be more useful to start a new life cycle to change the regulation. The LCM should – for that reason – be seen as a dynamic and iterative process.⁷³⁷ This means that regulations are never fixed in a democratic system; they can and need to be adapted to changes in the environment over time.

Therefore, the LCM can be enriched with additional strategic dimensions. As mentioned in the example, not only the content of the life cycle can be influenced: NS can also affect the process. One opportunity is to influence the legislation, for example through campaign contributions for elections. A shift of the majority in the parliament can affect a shift in the regulatory regime afterwards. The LCM process then starts again.⁷³⁸

Nevertheless, the LCM should not be overrated in explaining the behavior of firms in regulated industries. In practice, changes in regulations often originate from the regulation agencies themselves and not from legislative institutions. Another problem with regard to the LCM theory consists of not seeing the full set of possible NS.⁷³⁹ This is not a real problem in the Driver Model, however, because – for this reason – it combines several theories to understand the behavior of firms in the nonmarket environment. Every theory only needs to elucidate a part of the whole problem.

⁷³⁷ cf. Vanden Berg and Holburn (2007: 7).

⁷³⁸ cf. Ullmann (1985: 146).

⁷³⁹ cf. Vanden Berg and Holburn (2007: 3).

Summary of the Life Cycle Model of the Public Policy Management (LCM)

- The LCM stems from the research field of political science and should not be confused with the Life Cycle Theory from business management.
- The LCM aims to explain when a firm should engage in NS (time), which player in the nonmarket environment the firm should target, and which strategy the firm should choose (depending on the phase and the target).
- The core of the theory explains that the opportunities for firms to influence a public policy decrease while moving through the life cycle; this means that the firm loses any impact on the issue after a certain time.
- According to the LCM theory, every policy moves through different stages outside and inside different governmental institutions:
 - Stage 1: Opinion formation
 - Stage 2: Policy formulation
 - Stage 3: Implementation
- Therefore, it is important for a firm to become involved in the policy shaping process as soon as possible.

Summary:

Issues such as a crisis or the changing stages in the public policy shaping process have an impact on the level of firms' engagement in NS.

Due to the importance of the dynamics in the socio-political environment, the issue-related driver has been integrated into the Driver Model.

Synopsis 11: Summary of the Life Cycle Model of the Public Policy Management (LCM)

3.5.2 Theoretical Background: The Behavioral Theory of the Firm

See above Section 3.3.3.1 Theoretical Background: The BTF.

3.5.3 Literature Review

The last driver subsection in the Driver Model relates to issue-related drivers. Public issues and their characteristics affect firms' level of engagement in NS. Getz (1997) assumes that firms are more politically active for salient issues because salient issues lead to institutional action, which can affect the firm. Furthermore, the salience to the interest groups and other actors in the nonmarket environment is also a determinant of firms' engagement in NS.⁷⁴⁰ Especially simple and highly salient issues lead to a great impact of the society on decision-makers regarding the political environment.⁷⁴¹ Bonardi et al. (2005) argue that firms decide to become politically active depending on the attractiveness of the political market.⁷⁴² Several issues are supposed to have an influence on the attractiveness of a political market: a change of government, changes in the expectations of society, and economic crisis. Mahon and McGowan (1998) describe issues as "*initial elements in the supply chain of political and social action*"⁷⁴³. As an example, they add that when Union Carbide's plant burst in India, this led to a big discussion about safety issues and forced changes in the regulatory environment.⁷⁴⁴ Thus, an issue/crisis can generally be viewed as a trigger for firms' action in the market and nonmarket environments.

Some may argue that the phases of public policy as well as some of the variables in the issue-related section are external drivers, and that there is no need for issue-related drivers. This objective is in line with Freeman's (2004) criticism. He claims that issues are the wrong unit of analysis, because it is not issues but organizations and individuals that behave. Issues emerge through the interaction and behavior of stakeholders, and not from themselves.⁷⁴⁵ It is even possible in the Driver Model to explain all issue-related drivers using internal and external drivers. However, issue-related drivers have been integrated as their own aspect in the framework to emphasize the importance of the dynamic

⁷⁴⁰ cf. Getz (1997: 62 f.).

⁷⁴¹ cf. Osborn and Chin (2006: 8).

⁷⁴² cf. Bonardi et al. (2005: 397).

⁷⁴³ Mahon and McGowan (1998: 403).

⁷⁴⁴ cf. Mahon and McGowan (1998: 403).

⁷⁴⁵ cf. Freeman (2004: 231).

component in the nonmarket environment with all its implications for firms. Finally, even Ansoff (1980) assigned strategic issues an important impact for enterprises to meet their goals.⁷⁴⁶ For these reasons, issue-related drivers are part of the Driver Model.

If a public policy reaches another level in the public policy shaping process, firms interpret this as a trigger to start engaging in the nonmarket environment. This is confirmed in a study by Vanden Berg and Holburn (2007). In their *Business and Politics* article, they analyze how accounting firms shifted their campaign contributions between the U.S. House and Senate as a response to the threat of new regulations in the 1990s. In this example, the issue is “threat of new regulation”, which could harm the business model of the accounting industry. The authors find evidence that firms shifted their NS to the “pivotal institutions”.⁷⁴⁷ In their *AMJ* article, Greening and Gray (1994) find evidence that a crisis forces firms to engage in NS (resource commitment).⁷⁴⁸ Goldstein and Lenway (1989) support this approach, in analyzing the effect of declining profits (independent variable) on the usage of International Trade Commission (ITC) escape clause decisions (dependent variable).⁷⁴⁹ Another driver in this issue-related section is uncertainty, which can force firms into transactions in the nonmarket environment. Meznar and Nigh (1995) find that firms are more likely to engage in public affairs activities in a complex and turbulent environment.⁷⁵⁰ Further result from empirical studies in the literature can be found in the appendix.

3.5.4 Propositions

After having introduced the LCM and BTF and discussed the literature on issue-related drivers, the proposition will be developed in this section. In this section, two different propositions are made. The first explains how the phase of a public policy (independent variable) influences the firms’ engagement in NS (dependent variable). The LCM provides theoretical explanations that are examined in the literature.

⁷⁴⁶ cf. Ansoff (1980: 133). In his definition Ansoff (1980) encompasses opportunities and threats from the external environment of a firm as well as from internal weaknesses.

⁷⁴⁷ cf. Vanden Berg and Holburn (2007).

⁷⁴⁸ cf. Greening and Gray (1994).

⁷⁴⁹ cf. Goldstein and Lenway (1989).

⁷⁵⁰ cf. Meznar and Nigh (1995).

Accordingly, the following is proposed:

- **Proposition 7: The phase of a public policy in the political life cycle determines the likelihood and the kind of NS chosen by firms.**

LCM

The second driver in this issue-related section is related to a crisis situation. The BTF⁷⁵¹ not only explains why (internal and external driver) but also when a firm reacts (dependent variable) to external stimuli (independent variable), because it examines a firm’s internal decision-making process regarding its resource base and its past experience with nonmarket behavior. A change in the external environment hence leads to a change in firms’ behavior and can furthermore alter the internal organizational structure. Accordingly, the following is proposed:

- **Proposition 8: Changes in the environment (external stimuli) and in the internal resource base (GAD, experience) determine when firms engage in the nonmarket environment (crisis).**

BTF

Finally, the results of the issue-related drivers section are presented in Figure 18: Issue-related Drivers.

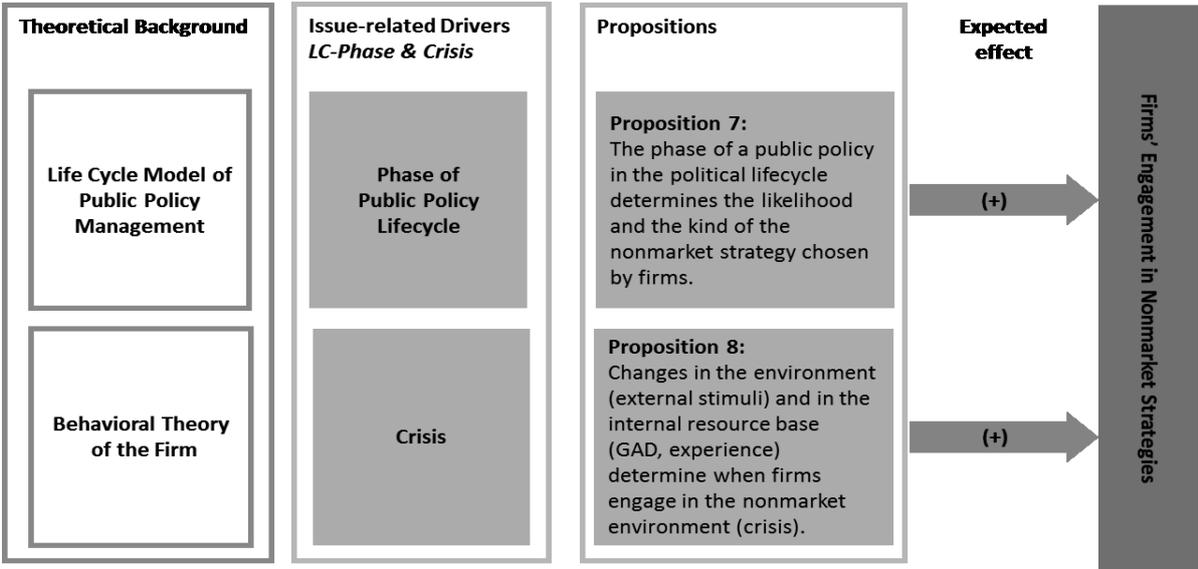


Figure 18: Issue-related Drivers

⁷⁵¹ See Chapter 3.3.3.1 Theoretical Background: The Behavioral Theory of the Firm.

Summary of Section 3.5: Issue-related Drivers

- Two drivers were identified in the section on issue-related drivers:
 - Crisis: explained with the BTF; and
 - Phase of Public Policy Life Cycle: explained with the LCM.
- The first driver refers to how firms react to changes in the external and internal environments. To distinguish this driver from the other drivers, here the focus is on changes in the respective environments (e.g. loss of key employees or changes in the legal system).
- The second driver refers to how firms interact with the political environment due to political initiatives.
- Several issues are supposed to have an influence on the attractiveness of a political market: a change of government, changes in the expectations of society, and economic crisis. All of these issues are initial elements in the supply chain of political and social action and force firms to engage in NS.
- In general firms are more politically active for more salient issues; therefore, issue-related drivers change daily.
- Due to the importance of strategic issues for firms' survival, the issue-related drivers have been integrated into the Driver Model in spite of the criticism that it is not issues but organizations and individuals that behave.

Conclusion:

The most important aspects to understand firms' engagement in political strategies are changes in the socio-political environment to which firms need to react.

Issue-related drivers in the Driver Model explain how and when firms react to triggers from firms' external environments.

4 The Driver Model in the Real World –

Results from a Field Investigation

4.1 Methodology

Chapter 3 developed eight propositions based on a theory selection process, a literature review, and a database of 143 variables from 42 empirical studies that explain the determinants of business firms' NS. This chapter challenges the propositions using nearly 30 interviews with representatives from GADs (lobbyists) from US and European firms and associations, and representatives from the nonmarket environment (governmental staff). This challenging process was designed based on the interview study design by Yin (2003)⁷⁵², as testing propositions using interviews is widely accepted and has provided the field of strategic management with “ground-breaking” insights.⁷⁵³ However, it should be noted that this chapter does not test the propositions, but only challenges them in order to further consolidate the Driver Model before an approach is developed for an empirical investigation (see Section 6.2). Furthermore, the interviews are used to add a US-EU comparative perspective to the model with regard to research question 2 (see Chapter 1).

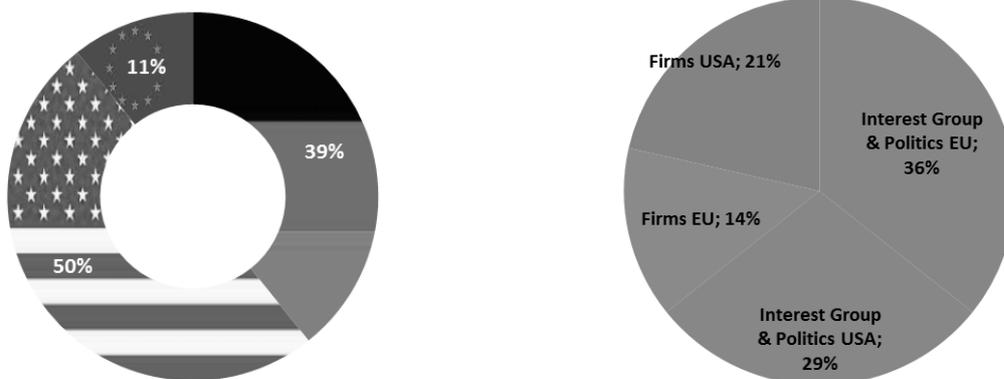


Figure 19: Split of Interviews (Countries and Areas)

Accordingly, due to the delicate field of research of NS, limitations in the publishing process have to be considered. Apart from some exceptions, publishing all information on a firm or name basis was

⁷⁵² cf. Yin (2003); Yin stated that the interview study is the method of preference if the researcher focuses on a “contemporary phenomenon” and aims to answer “how or why questions” (cf. Yin (2003: 1).) Case studies give the scholar the opportunity “to retain the holistic and meaningful characteristics of real-life event” (cf. Yin (2003: 2).) They are a reliable way to “test theories and develop explanations” for incidents in reality (cf. Dryer (2007: 288)).

⁷⁵³ cf. Eisenhardt and Graebner (2007: 26); Eisenhardt (1989: 542); Gibbert, Ruigrok, and Wicki (2008: 1465). And the references to the “ground-breaking insights” e.g. Chandler (1962); Burgelman (1983).

not allowed. As a result, this chapter presents aggregated data and provides examples from practice without mentioning the name of the company, politician, or interest group. Nevertheless, the qualitative study will provide further insight into how firms manage to acclimate to new environments, especially comparing Europe to the U.S.

Interviews have been rated as a *“highly efficient way to gather rich, empirical data”*⁷⁵⁴. This approach was applied for this reason. In order to verify the understandability and suitability of the interview guidelines, the questionnaire was tested in one test interview prior to data collection. Subsequently, 28 semi-structured interviews were conducted from November 2011 through May 2012, from August 2012 through November 2012, and in 2015. Overlapping data collection and data analysis phases afforded the opportunity to include new ideas and improvements in the questionnaire.⁷⁵⁵ During the interviews, notes were taken. For reasons of confidentiality it was not possible to record the interviews; however, the notes offer useful insights into the content and the flow of the interviews.⁷⁵⁶

The sample that was interviewed encompassed managers in GADs, interest group representatives, members of governmental committees, top-level bureaucrats, and politicians (see Figure 19). The firms in the sample were global players with turnovers of more than \$50b as well as smaller companies. 50% of the interviewees had a European working background, while the other 50% worked in the US (see Figure 19: Split of Interviews (Countries and Areas)). Some of the study participants worked for firms in their domestic market; others worked “abroad”. For the purpose of this work, the sample was separated into four subgroups based on the working location of the interviewees instead of on the domestic country of their firms/associations. The division was as follows: firm representatives based in the US (subgroup 1) and based in Europe (subgroup 2), and interest groups and politicians based in the US (subgroup 3) and based in Europe (subgroup 4) (cf. Figure 18: Split of Interviews (Countries and Areas)). In contrast to most of the previous studies in the literature, political decision-makers were also interviewed. This made it possible to integrate the perspective of the public policy decision-makers into the analysis. Furthermore, this approach also afforded the opportunity to question the

⁷⁵⁴ Eisenhardt and Graebner (2007: 28).

⁷⁵⁵ cf. Bruns, JR. (1989: 161); Eisenhardt (1989: 539).

⁷⁵⁶ Further, I guaranteed the participants of the study their anonymity by non-disclosure of names, firms and issues.

success of the lobbyists' efforts. For example, the lobbyists were asked how they gained access to decision-makers in the nonmarket environment. To analyze these efforts (and to present advice to practitioners), the decision-makers were asked whether these approaches were valuable in practice.

To validate the interview transcripts, all quotes were verified by the respective interviewees. Furthermore, other data collection methods, such as archival data, have been added to enable a deeper insight.⁷⁵⁷ To assure internal validity of the results, a clear framework was developed. The Driver Model and its concepts provide a clear and provable framework. The findings were cross-verified by applying theory triangulation through conducting interviews with two different groups (firm and associations of lobbyists/politicians).⁷⁵⁸ To achieve construct validity, the transcripts and drafts were reviewed by the informants and also by a non-co-authoring academic, who also offered insights for the study.⁷⁵⁹ The external validity and generalizability of the Driver Model were achieved by conducting the interview study in several environments: Europe, with a strong focus on Germany, and the US.⁷⁶⁰ Finally, to verify reliability, the entire study was reviewed by two non-co-authoring scholars. This included the review of interview protocols, secondary data, and drafts.⁷⁶¹ Even though these proof concepts from interview research were generally adapted, the interviews were not conducted to test the Driver Model; they were conducted to challenge its propositions.

4.2 Insights

This section presents the insights obtained from the interviews with regard to the Driver Model's propositions. It is of central interest to understand the circumstances (internal, external and issue/crisis) under which firms engage in NS. Therefore, this section presents each proposition, its theoretical background, and the insights gained from the interviews.⁷⁶²

⁷⁵⁷ cf. Eisenhardt and Graebner (2007: 28); Eisenhardt (1989: 539).

⁷⁵⁸ Yin (2003: 97 ff.).

⁷⁵⁹ cf. Yin (2003: 35 f.).

⁷⁶⁰ cf. Yin (2003: 37).

⁷⁶¹ cf. Yin (2003: 37ff.).

⁷⁶² Find the quotes from the interview study in quotation marks.

Firms' engagement in NS is higher if firms are in compliance with the institutional environment (origin of the firm) and cater to societal goals (employment). (Proposition 1)

The first proposition relates to the impact of firms' legitimacy, resulting from their origin and size with regard to employment, on the firms' level of engagement in NS. As discussed above⁷⁶³, firm size represents both political and economic power⁷⁶⁴. Firm size with regard to employment is a proxy for firms' legitimacy to engage in NS because large firms employ many citizens, pay significant amounts of taxes, educate more employees, and create further jobs.⁷⁶⁵

To explain this behavior, the concept of legitimacy was introduced to the Driver Model.⁷⁶⁶ This approach postulates that firms enjoy legitimacy if they contribute to society's goals, such as employment, investments, education, and the supply of needed goods (organizational legitimacy⁷⁶⁷), as well as by following laws, regulations, and customs (legal legitimacy⁷⁶⁸). For this reason, firms' actions need to be *"desirable, proper, or appropriate within some socially constructed system"*.⁷⁶⁹

This approach leads to the IT. According to the IT in its adaptation to the nonmarket environment⁷⁷⁰, it is expected that firms that are in compliance with the expectations of the institution/its environment can obtain advantages from public policies. For that reason, firms that are legitimate due to their behavior engage in NS.

The interviewees named a number of means with which to build legitimacy in different countries: by "providing jobs", "educating employees", "making investments", "following rules and standards", offering "needed solutions and products", and finally by being "part of the society". A manager (subgroup 1: firms in the US) emphasized the kind of employment: "only 10 jobs in a future technology can be more important than hundreds of jobs in a dying industry". This is an interesting point to be considered in further empirical research (kind of employment); this aspect was asked again in Europe

⁷⁶³ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁶⁴ cf. Bhuyan (2000); Boddewyn and Brewer (1994); Hansen and Mitchell (2000); Hart (2001); Hillman et al. (2004: 840); Hillman (2003); Hillman and Hitt (1999); Keim and Baysinger (1988); Masters and Keim (1985); Meznar and Nigh (1995); Salamon and Siegfried (1977: 1027); Schuler and Rehbein (1997); Schuler et al. (2002).

⁷⁶⁵ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁶⁶ See Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁶⁷ cf. Bigelow and Stone (1995: 183); Demil and Bensédine (2005: 59); Meyer and Rowan (1977); Powell (1985); Zucker (1987).

⁷⁶⁸ cf. Fallon, JR. (2005).

⁷⁶⁹ Suchman (1995b: 574).

⁷⁷⁰ See also Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

(see below). Another lobbyist indicated that legitimacy can be used as an access and influence strategy. Especially in the US⁷⁷¹, with powerful members of parliament and a system of direct election, firms can ask for help if they “employ a large amount of voters”.

The European interest groups (subgroup 4) focused on the employment base of their member firms (e.g. European car industry). Furthermore, they emphasized the provision of necessary goods, such as infrastructure, to build legitimacy as an antecedent to engaging in NS (pragmatic and moral legitimacy).⁷⁷² Due to the feedback of their American colleague, representatives from European firms were asked how important the kind (future vs. dying industry) of employment was to gaining legitimacy. In their first reaction, they all agreed that future jobs are more important; however, as further questions were asked (e.g. funding of mining jobs in Germany for decades or partly state-owned car manufacturers in France), an interesting discussion started. It appears that lobbyists take over the planning horizon of politicians and think in terms of legislative periods, which reduces the planning horizon to the next legislative period, and further that they implement the popular opinion. Jobs are important in future industry if society or the political majority see them as the future. A useful example is the solar industry in Germany, which was seen as the future with a high focus of politics; however, it nearly completely died. Even jobs in “dying industries”, however, are still seen as important if a majority of those jobs are still available in the time of the next election. These insights need to be implemented in further research.

Members of governmental staff were also about the legitimacy concept. They confirmed legitimacy as an important construct. One interviewee from the staff of the US president presented a remarkable example due to access strategies: if “there is something at stake”, such as jobs, investments, or other national goals, managers are heard. The governmental and political representatives were also challenged with the topic of future industries; the answers were quite comparable to those provided by the lobbyists.

(2) The second important driver related to Proposition 1 is origin of the firm (ownership). In line with the concept of legitimacy and the IT, the Driver Model proposes that domestic firms engage in NS more

⁷⁷¹ See below: Political System – Proposition 4.

⁷⁷² See Chapter 3.3.1.2 Reference Field: Legitimacy.

than their non-domestic competitors do.⁷⁷³ It is supposed that domestic firms are to a higher degree in compliance with the domestic nonmarket environment and that they possess a higher organizational legitimacy.⁷⁷⁴ Due to their presumably easier access to public policy, decision-makers are expected to be more involved in the nonmarket environment.

Managers in Europe (subgroup 2) emphasized the importance of the origin of a firm. A lobbyist of a European energy company stated that “ownership is closely connected to the visibility of a firm – being domestic makes it easier to engage in NS”. In America, ownership does not seem to be as important: a member of an interest group in the US (subgroup 3) explained, “origin of a firm is not that important [...] – it is jobs that count” (jobs = legitimacy). This is a clear example for pragmatic legitimacy – it is only the outcome that counts (here jobs).⁷⁷⁵ Still, it is “important to adapt to the environment”. Interviewees from German firms that were active in the US (subgroup 1) emphasized that they “act like an American company” while doing business in the US. They added that the only way to succeed in a foreign country is by adapting to the rules and the culture of that country. In summary, it is important to understand the country and its culture and live it. Or, in the words of the bishop of Milan Aurelius Ambrosius, “si fueris Rōmae, Rōmānō vīvitō mōre; si fueris alibī, vīvitō sicut ibi”⁷⁷⁶: “when in Rome, do as the Romans do”. This completes the discussion of the concept of legitimacy and the IT:⁷⁷⁷ firms that expect benefits through compliance with the institutional environment gain legitimacy and engage in NS.

As this discussion has shown, Proposition 1 is in general supported by the interviews as a useful approach.⁷⁷⁸ However, the relationship between the firm’s engagement in NS and their compliance with the institutional environment is not as easy as the propositions suggest, because the institutional environment can sometimes change as frequently as with every election; firms therefore need to adjust to this. Furthermore, societal goals, such as employment, are manifold in their interpretation.

⁷⁷³ See also Chapter 3.3.2.1 Theoretical Background: The Institutional Theory and Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁷⁴ See Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁷⁵ See Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁷⁶ If you were in Rome, live in the Roman way; if you are elsewhere, live as they do there.

⁷⁷⁷ See also Chapter 3.3.2.1 Theoretical Background: The Institutional Theory and Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁷⁸ Please consider the limitations due to the interviews and see also Chapter 6.1 Limitations and Further Research.

The kind of employment is seen in different ways by different interest groups: e.g. jobs in the fracking industry cater to the goal of a higher employment level; however, several groups see these jobs as not being beneficial to society. Nevertheless, firm size with regard to employment is an antecedent of firm's engagement in NS, but control variables need to be considered. Furthermore, origin of the firm is confirmed inasmuch as domestic firms do have advantages in pursuing NS because they are "domestic" to the socio-political environment and usually have more access opportunities (higher legitimacy). However, non-domestic firms can compensate for this disadvantage by adapting to the new environment and with firm size ("something on stake").

Firms' internal resources and structures (political resources) and firms' experience in dealing with the nonmarket environment determine firms' engagement in NS. (Proposition 2)

The second proposition regards the internal resources and structure of firms and the firms' past experience with NS. This approach is confirmed by prevailing opinion in literature: specific firm factors such as size⁷⁷⁹ and financial resources are antecedents of NS.⁷⁸⁰ Furthermore, scholars attribute experienced firms a higher engagement level in the nonmarket environment due to their reputation and personal networks between the firms and their environment.⁷⁸¹

The concept of reputation⁷⁸² provides strong support for this causal relation. As explained in the section above, reputation is comprised of three drivers: image, expertise, and credibility. The following paragraphs present the results of the interviews. No noteworthy differences between the four subgroups were perceived; therefore, the following section does not distinguish between them.

Image: The first element of reputation is image. Image, in contrast to long-term oriented reputation, focuses on the general public's short-term perception of a firm or product.⁷⁸³ Firms' image-related activities mentioned in the interviews included sponsorships, marketing campaigns, and charities

⁷⁷⁹ In contrast to propositions 1 (legitimacy), here firm size is a proxy for internal resources/organizational slack.

⁷⁸⁰ cf. (Bhuyan (2000); Boddewyn and Brewer (1994); Hansen and Mitchell (2000); Hart (2001); Hillman et al. (2004: 840); Hillman (2003); Hillman and Hitt (1999); Keim and Baysinger (1988); Masters and Keim (1985); Meznar and Nigh (1995); Schuler and Rehbein (1997); Schuler et al. (2002)).

⁷⁸¹ cf. Baron (1995); Boddewyn and Brewer (1994); Hart (2001); Hansen and Mitchell (2000); Hillman (2003); Hillman and Hitt (1999); Keim and Baysinger (1988); Luo (2001).

⁷⁸² See also Chapter 3.3.1.3 Reference Field: Reputation.

⁷⁸³ cf. Dahan (2005a: 44).

(being “part of the society”), as well as investments in education (especially in the US on the municipal levels), in employees, and in the firms’ equipment. Companies expected to gain long-term reputation and legitimacy from image-building initiatives. Nevertheless, as all interviewees indicated, image-building activities are costly, and therefore firms with more resources engage in NS.

In addition, image-building initiatives are not without risk: responses of parts of the audience are sometimes impossible to anticipate. Some firms regret their image-building activities in retrospect. A vivid example is the “Klartext Initiative” (cleartext initiative) of a German insurance company. After a scandal, the firm started an image campaign. Customers were allowed to ask questions about any topic, and the company promised to answer and publish all of these questions. In the end, the final report was censored, and the scandals were not even a big topic in the report. When newspapers criticized the company for this behavior, the firm responded with interim injunctions.⁷⁸⁴ This reaction further destroyed the company’s image for the general public. This example was discussed in the sessions and complex and dynamic responses were obtained. Interviewees relied heavily on external consultants or highly experienced employees. Thus, experience but also network are antecedents for firm engagement in NS.

Expertise: “Technical expertise is the key” was an expression frequently recorded in the interviews with regard to taking part in the public policy shaping process. The results of the interviews show that all actors (try to) increase their reputation through the following activities: “providing technical expertise”, “giving reliable information”, “giving solutions for political problems”, “helping to set standards and laws”, and explaining the outcome of policies to the market. Many interviewees in all four subgroups confirmed that expertise is “the best strategy to gain access to nonmarket decision makers”. Buying strategies (assigning professional lobbyists) are important access factors; however, “buying only open doors – access has to come from the expertise side”.

The large majority of the interviewees acknowledged expertise as one of the most important factors in the nonmarket environment. Although it seems beneficial for any firm to invest in expertise, it is still a long-term goal. Firms need internal resources to be able to build expertise (e.g. qualified personnel, knowledge, networks); furthermore, internal structures such as a GAD must be implemented in the

⁷⁸⁴ cf. Lindekamp (2012).

firms' internal structure as well. At this point, however, it should be noted that most of the interviewed participants earned their money by being employed in these specialized departments. Another important factor is time (experience): managers need time to build networks, to communicate with actors in the nonmarket environment, to present their firm as a valuable member in committees and hearings, and to have enough opportunities to demonstrate their abilities. However, the majority of interviewees indicated that this time to build networks and to gain reputation "is scarce", and "more pressure" is put on them to execute NS with short preparation.

Another opportunity to enhance a firm's reputation is to provide quality products or services, as the firm representatives in particular highlighted. A firm can gain a positive reputation by developing and producing high-caliber products, such as cars, machines, or trusted services. German firms and in particular German manufacturers enjoy a special reputation advantage with regard to experience: due to the high standard of German products over the last decades, "Made in Germany" strongly supports an expertise-related reputation.

Credibility: The credibility approach is closely related to the experience of a firm. The interviewees emphasized the "seriousness of a firm" and "continuity in engagement in the nonmarket environment". They further confirmed the findings in the literature that experienced firms can rely on larger networks to gain access to policy decision-makers. However, to sustain these interactions in the nonmarket environment, specific nonmarket resources are needed.

When engaging in these activities, it is important to always be "honest, reliable and competent", because "credibility is crucial". "Honesty in providing information" and to "stick to what you have said before" are also of high importance when engaging in NS. Only "one piece of wrong information can destroy the firm's reputation for years", and can thus exclude a firm from negotiations in the public policy shaping process. These results fit Mahon and Wartick's (2003) definition of credibility. They assume that firms trying to gain a reputation of credibility need to engage in *consistent credibility*

transactions.⁷⁸⁵ In summary, the interviews support Proposition 2 and the drivers: internal resources and structure, and experience with NS.⁷⁸⁶ Therefore, no changes have to be made to the Driver Model.

The dependence on resources (e.g. regulations and governmental purchases) determines firms' engagement in NS. (Proposition 3)

This proposition relates to firms' institutional external environment. In the literature, the dependence on resources controlled by the government and the degree of industry regulation are seen as antecedents of firms' engagement in NS.⁷⁸⁷ The independent variables include regulated industries, pollution regulation, federal agency interactions, and controlled resources.⁷⁸⁸

This kind of firm behavior can be explained by the RDT. The RDT proposes that in an environment of resource dependence (here: regulation, or governmental purchases) firms will actively manage their "sourcing" strategies. In the case of governmental purchases and contracts, firms utilize NS (especially lobbying strategies) to secure governmental contracts.⁷⁸⁹

For example, a manager from a large German company confirmed in an interview that governmental regulation and especially the public discussion about new regulations are strong incentives for firms to engage in NS and to further integrate NS in their general strategy. A manager in the US gave the example of the Obama administration, which, not only in response to the financial and economic crises, constantly increases the regulatory level. For this reason, he contested that "Nonmarket Strategies are needed to mitigate the effects for firms to secure long-term survival". One interviewee was a lobbyist for an environmental group, and therefore oftentimes an instigator of new regulations. He even worked with firms to implement new regulations, and saw this collaboration as a relatively new NS approach of firms.

⁷⁸⁵ cf. Mahon and Wartick (2003: 27 ff.).

⁷⁸⁶ Please consider the limitations due to the interviews and see also Chapter 6.1 Limitations and Further Research.

⁷⁸⁷ cf. Grier et al. (1994); Masters and Keim (1985); Mitchell et al. (1997a).

⁷⁸⁸ cf. Burris (2001); Drope and Hansen (2006); Grier et al. (1994); Jin-Hyuk Kim (2008); Masters and Keim (1985); Mitchell et al. (1997a); Drope and Hansen (2009); Hart (2001); Figueiredo and Silverman (2006); Fleisher (1993); Ingram and Simons (1995); Meznar and Nigh (1995); Mitchell et al. (1997a).

⁷⁸⁹ See also 3.4.1.1 Theoretical Background: The Resource Dependence Theory.

Another important driver related to Proposition 3 is governmental purchases and contracts. Scholars attribute high impact of this driver in terms of firms' long-term survival, especially in industries such as infrastructure and defense.⁷⁹⁰ A lobbyist from a European defense company saw firms' dependence on governmental contracts as a (main) driver for firms' engagement in NS. He added that nowadays "in an environment of shrinking governmental defense budgets", a higher market pressure forces firms to engage in NS even more to "secure their piece of the pie". Managers in America (subgroup 1) emphasized governmental investments in infrastructure projects as drivers for firms to engage in NS. In addition, a manager of an American defense firm confirmed the statement of his European colleague that a higher pressure in the defense and aerospace industries forces firms to engage in NS. He added that the results of this higher pressure could easily be seen for everyone, in the form of a more liberal export policy of the US with regard to military technology.

As has been demonstrated in this section, Proposition 3 is confirmed by the interviews.⁷⁹¹ Further research should more closely examine what kind of regulations and contracts are important for firms and how firms apply specific NS for specific kinds of regulations. A further analysis should also investigate how firms work together.

The socio-political environment (political system) of a firm determines the kind and level of its engagement in NS. (Proposition 4)

Firms act embedded in a socio-political environment.⁷⁹² For this reason,⁷⁹² the characteristics of the socio-political environment are crucial for the opportunities of firms to pursue NS. In general, business-government relationships are shaped by the formal and informal institutions of a country.⁷⁹³ What is most important for firms that intend to pursue NS is their adaptation to the particular socio-political environment.⁷⁹⁴ This is in line with IT.⁷⁹⁵ According to IT adapted to the nonmarket environment⁷⁹⁶,

⁷⁹⁰ cf. Hansen and Mitchell (2000); Hart (2001); Mitchell et al. (1997b); Schuler et al. (2002); Schuler (1999).

⁷⁹¹ Please consider the limitations due to the interviews and see also Chapter 6.1 Limitations and Further Research.

⁷⁹² cf. Baron (1995: 47).

⁷⁹³ cf. Hillman and Keim (1995); Hillman and Hitt (1999); Hillman (2003).

⁷⁹⁴ See also above: origin of the firm (ownership) – Proposition 1.

⁷⁹⁵ See also Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

⁷⁹⁶ IT adapted to the nonmarket environment see also Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

firms that are compliant with the expectations of their socio-political environment can obtain advantages from public policies.

Lobbyists from European companies (in the EU) focused on the opportunities in several political systems to pursue NS. A Brussels lobbyist supported this proposition by saying that the “multi-layer system of the EU gives firms the opportunity to use access strategies on different levels” (European level, country level, and, especially in Germany, state level). Compared to the European socio-political environment, which restricts lobbying, managers in America saw the North American system as “more open – with more access points”, which gives firms more opportunities to engage in NS. Further, they consider the American system to be more professional: “lobbying is big business in the US and part of the game”. This was confirmed by the European lobbyists and politicians. Following this, both support the Driver Model’s proposition that the characteristics of firms’ socio-political environment determine the firms’ engagement in NS in both level and kind.

Furthermore, representatives of interest groups and politicians emphasized the effects of different political systems on firms’ engagement in NS. A German politician explained that it is “of high importance to understand the political system and culture” in order to engage in NS. He added that Germany follows a “top-down approach with a powerful administration”. For this reason, it is useful for firms to connect to top bureaucrats in governmental departments when pursuing NS. To lobby members of the parliament, especially in the Merkel Administration, is “less useful”.

Representatives in the US emphasized the importance of firms’ commitment to social tasks. This is possible due to the different understanding of what kinds of social tasks a government has to provide. While Europeans understand the state as a “helping state”, in the US a majority of citizens are convinced that most social tasks may be in the responsibility of private initiatives. Therefore, larger firms in the US engage in social tasks, such as foundations, scholarship programs, and educational trainings. This means that the type of governmental system offers firms further access points to decision-makers in the nonmarket environment. Furthermore, if firms behave as expected from the

environment (IT), it is easier for them to successfully pursue NS.⁷⁹⁷ A good understanding of the political culture is shown in a case (below).

Case: This behavior can be explained using the example of the American affiliate of Siemens. Siemens USA employs approximately 60,000 people in the US, and is active in every single American state. Every year, the Siemens Foundation invests \$7m in educational initiatives in the areas of science, technology, engineering, and mathematics. Another and typical US-engagement is the Siemens Caring Hands Program. It “mobilizes employees to donate their time and talents to worthy causes to carry out Siemens' commitment to impact the communities in which we live and work through volunteerism”. Further, Siemens has invested \$25bn in the US for business operations. The Siemens answers campaign is a prime example of how to build image and reputation; this campaign aims to provide Siemens solutions to challenges of today's society.⁷⁹⁸ Finally, the comparison of the corporate responsibility section of the Siemens webpage for the US and for Germany shows how Siemens adapts to the culture of the respective country. As describe above, in the US Siemens focuses on social engagement by the firm and its employees on a municipal level, notably in education. In Germany, on the other hand, services such as education are widely organized by the state and are free; the state has a significantly higher budget compared to the US. Instead, other issues dominate the view of social responsibility in German society. For that reason, Siemens Germany focuses on sustainability and environmental engagement in its domestic market.⁷⁹⁹

As this section has illustrated, Proposition 4 is widely supported by the interviews conducted in this study.⁸⁰⁰ The political system as a driver for firms' engagement in level of NS and, based on the interviews especially in the kind of NS, should be further analyzed. Based on the insights gained from the interviews, political systems should be clustered (e.g. corporatist vs. pluralist) and the particular kind of NS should be defined to analyze this relationship between a country cluster and applied NS by firms.

⁷⁹⁷ See Chapter 3.3.1.2 Reference Field: Legitimacy.

⁷⁹⁸ cf. Siemens USA (2012).

⁷⁹⁹ cf. Siemens Deutschland (2012).

⁸⁰⁰ Please consider the limitations due to the interviews and see also Chapter 6.1 Limitations and Further Research.

The concentration of the industry and cost-benefit considerations related to firm size determine firm's involvement in NS. (Proposition 5)

The fifth proposition regards the behavior of firms in relation to their external non-institutional environment, i.e. industry and society. According to the prevailing opinion in the literature, larger firms in more homogenous industries tend to be more engaged in NS compared to smaller firms, especially in less concentrated industries.⁸⁰¹ Two effects explain this firm behavior: (1) the free-rider effect: CAT assumes that there is less freeriding in more highly concentrated industries; and (2) cost considerations: the larger the firm is, the higher the net returns from a public policy will be compared to the efforts made to establish that policy.

It was not possible to support this proposition with the interviews, as only nine interviews were undertaken with firm representatives. Representatives of larger and smaller firms were asked, but as they did not disclose their spending a comparison was not possible. Nevertheless, some quotes from interviewees support the proposition with regard to cash for clunkers law (helping large firms in the car industry), the American car industry bail out, and the bank bailouts in Europe (only for so-called system-relevant companies).

The secondary literature explains campaigns in patent law, and especially in the pharmaceutical industry. Most registered lobbyists in Washington, D.C. work for firms in the pharmaceutical industry.⁸⁰² The pharmaceutical industry is highly concentrated; therefore, freeriding is negligible. In addition, it is useful for large companies in this industry to engage in costly NS due to cost-benefit considerations, because even the smallest changes in the legal environment can evoke large shifts in firms' cost structure and even endanger their long-term survival. This is in line with the Driver Model's proposition. A large empirical analysis would be particularly useful in this instance to find further evidence in support of this proposition.

⁸⁰¹ cf. Getz (1997: 61 f.); Masters and Keim (1985).

⁸⁰² cf. Open Secrets (2012).

The (expected) behavior of actors in the same environment is a predictor of firms' engagement in NS.
(Proposition 6)

A firm (even in a monopoly situation) is always only one of many actors in the market/nonmarket environment. Therefore, firms need to analyze and react to external pressures. In the nonmarket environment, firms also compete with other companies from different industries and interest groups for favorable policies and to this end use NS either to maintain or to change the nonmarket environment. Scholars assume that the power of unions and other external pressures influence the level of firms' engagement in NS.

To explain this behavior, two theories are combined – the IGT and the ST – and the result is adapted to the nonmarket environment.⁸⁰³ The basic assumption of this (combined and borrowed) theory is that the democratic public policy process is an attempt to reach compromise between the conflicting goals of a multitude of interest groups/stakeholders.⁸⁰⁴

The interviewees in the present study supported Proposition 6, but hesitated to provide solid examples. A lobbyist for a German global player working in Washington, D.C. explained that his company plans its spending for the GAD in alignment with the expenditures of its biggest American competitor. Thus, a competitor's increasing GAD budget can be interpreted as an external pressure because an increasing engagement in NS can be expected in the future. A representative of a European company confirmed this approach with three big domestic players in one industry; however, no one knows which of these players started the race.

Furthermore, both lobbyists stated that it is not only the behavior of competitors and the political environment that are main concerns for GADs. A firm also has to recognize movements in society to adapt to trends and to possibly engage in countervailing NS. Especially image campaigns are drafted with regard to the opinion of the majority of society; for MNEs, in this analysis represented by one interviewee, this means that extra campaigns are drafted for particular countries. Another representative of a European firm stated that after an election with changes in the government, the internal set-up of GAD is adapted: for example, "ambassadors", meaning retired politicians, are

⁸⁰³ See also Chapter 3.4.2.2 Theoretical Background: The Interest Group Theory/ Stakeholder Theory.

⁸⁰⁴ cf. Dahl (1956); Lowi (1969); Schattschneider (1960).

employed to achieve access again. One representative disproved the proposition slightly by stating that, “our company does not run after our competitor’s approaches”, however, as he continued, they certainly “have an eye on it”.

Some interviewees explained that the communication with unions is highly important; particularly before and during restructuring processes and in mergers and acquisitions negotiations. Even though unions in the US are not as powerful as their European counterparts, they can nevertheless significantly disrupt internal processes and destroy firms’ image in the long run. The representative of the environmental group confirmed this approach by saying, “we serve more and more as consultants for firms on how to react to changes”.

As this section illustrates, Proposition 6 is supported by the interviews.⁸⁰⁵ However, in a next step, the action mechanisms need to be analyzed in more detail to understand underlying patterns. Are there differences in how companies react in the US vs. Europe? Are different NS chosen depending on whether a firm is reacting to a competitor or to an interest group?

The phase of a public policy in the political life cycle determines the likelihood and the kind of NS chosen by firms. (Proposition 7)

Public policies go through a life cycle from opinion formation to policy formation and ultimately implementation.⁸⁰⁶ Depending on the stage, firms adjust their engagement level and their NS. From a theoretical perspective, the LCM explains this behavior.⁸⁰⁷ Life cycles in the nonmarket environment are difficult to analyze because they are not visible to outsiders. Even for insiders they are difficult to comprehend due to the complex decision-making processes involved in politics. It is therefore understandable that there is still little empirical literature on this topic.⁸⁰⁸

The interviewees explained that the right timing and the selection of the right targets are among the most difficult but also the most important tasks for any lobbyist. All of them supported Proposition 7

⁸⁰⁵ Please consider the limitations due to the interviews and see also Chapter 6.1 Limitations and Further Research.

⁸⁰⁶ See also Chapter 3.5.1 Theoretical Background: The Life Cycle Model of Public Policy Management (LCM).

⁸⁰⁷ See above.

⁸⁰⁸ cf. Greening and Gray (1994); Vanden Berg and Holburn (2007).

and the LCM. They emphasized that a good lobbyist engages in the early phases of the life cycle, which is in line with the LCM. One German politician confirmed this approach by saying, “If you start your lobbying initiative in the hearing phase of a law; then you’re a really a bad lobbyist”. Therefore, the phase of the public policy life cycle determines firms’ engagement in NS.⁸⁰⁹

Changes in the environment (external stimuli) and in the internal resource base (GAD, experience) determine when firms engage in the nonmarket environment (crisis). (Proposition 8)

The second proposition of the driver issue particularly relates to crisis situations rooted in changes in firms’ external environment. Another aspect captured in this subsection is changes in the firms’ internal resource base. Although some scholars argue that issue is not the right unit to analyze⁸¹⁰, this driver was retained in the Driver Model. The BTF provides a good theoretical contribution to explain this behavior.⁸¹¹

Managers in Germany (subgroup 2) for example emphasized energy transition and global warming issues as starting points for NS. The Euro crisis and Basel III are also important drivers, especially for banks and insurance companies. In the US, lobbyists emphasized the change of government as an important event to engage in NS. However, most interviewees simply saw changes in the external environment as external drivers, and changes in their internal political resource base (e.g. their own change into another company) as internal drivers. For this reason, and due to the scarce results from the literature review, this driver and the related proposition were dropped from the Driver Model. The analysis in this field should be done in the sections of internal and external drivers.

⁸⁰⁹ Please consider the limitations due to the interviews and see also Chapter 6.1 Limitations and Further Research.

⁸¹⁰ cf. Freeman (2004: 231).

⁸¹¹ See also Chapter 3.3.3.1 Theoretical Background: The Behavioral Theory of the Firm.

The Model

Finally, this section presents the Driver Model, implementing the insights from the interviews in Figure 20. The left side depicts the reference fields that connect the model to the research field of strategic management with regard to the internal drivers. Based on this, two theories were selected to explain the relationship. In the next step, based on a literature review, four internal drivers were developed. Finally, after the interviews, 10 drivers in the three groups (internal drivers, external drivers and issue) were defined. To explain the external drivers, four theories were selected from the literature review. Then, based on the literature review and the variables from empirical studies, five external drivers were defined. Finally, two theories were selected to explain the issue-related drivers, and two drivers were deducted from the literature. The application of these two drivers was still in discussion, and after the interviews one was deleted.⁸¹²

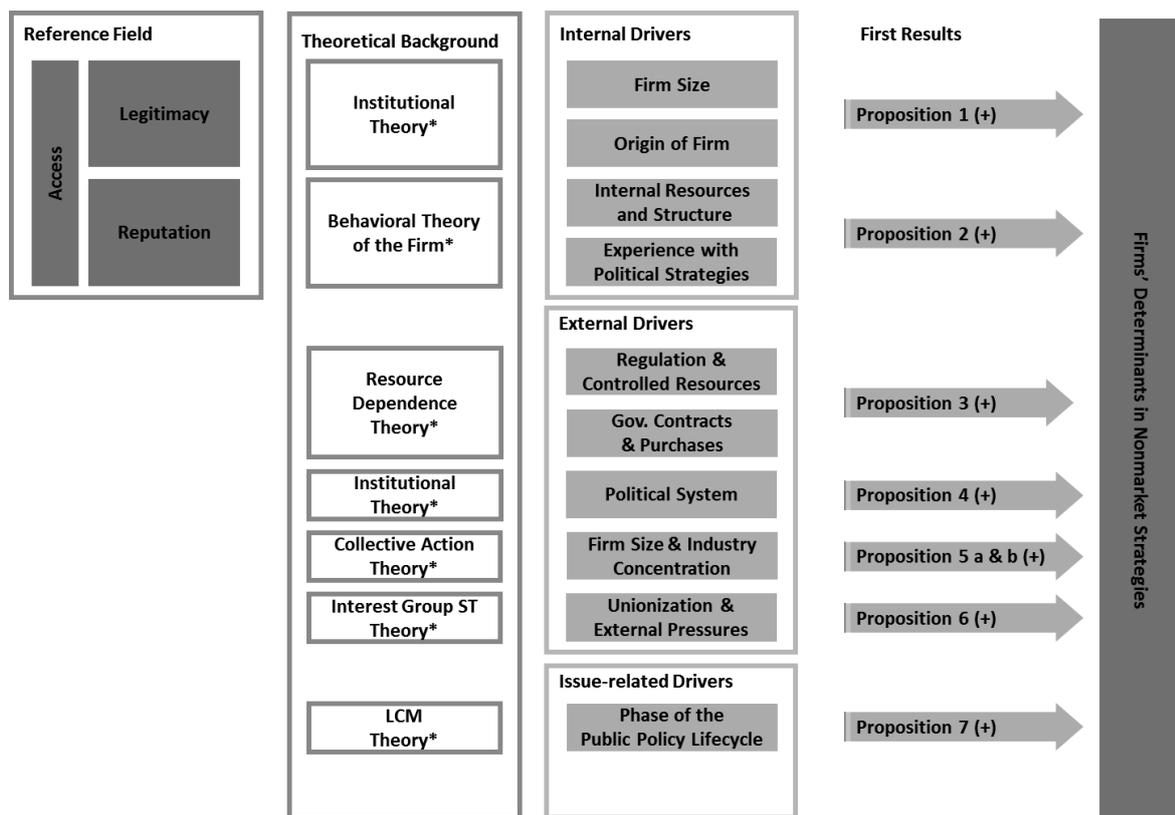


Figure 20: The Driver Model

⁸¹² Please consider the limitations due to the interviews and see also Chapter 6.1 Limitations and Further Research.

Summary of Chapters 3 & 4: Antecedents of Nonmarket Strategies – the Driver Model

- To understand NS, why and when firms engage in the public policy shaping process must be determined.
- The Driver Model is separated into three driver sub-sections: internal drivers, external drivers, and issue-related drivers.
- The internal drivers can – from a theoretical point of view – be understood as the “RBV of the nonmarket environment”: adapting the RBV approach to the socio-political (nonmarket) environment.
- The basis for this approach is that firms are enabled by their internal resources to obtain access to the public policy shaping process.
- The reference fields serve as coupling points between the basic theories and the RBV of the nonmarket environment, explaining the concept of access (to the nonmarket environment). The concept of access is rooted in the concepts of legitimacy and Reputation.
- The external drivers explain how the environment of firms (competitors, nonmarket environment) influences the willingness of firms to engage in NS.
- These drivers are separated into two subgroups: 1. institutions and 2. industry and society.
- Finally, the third driver section explains how issues in a firm’s environment (e.g. a policy shift) influence the level of firms’ involvement in the public policy shaping process.
- All drivers in the model were defined using results from the literature. The drivers were – in general – supported by the results from the literature (variables).
- Given that the evidence for the theoretical foundation of the Driver Model is based on the analysis of 42 studies, it is only initial; therefore, propositions have been developed.
- Furthermore, 28 interviews were conducted to support the theoretically based approach of the Driver Model.
- In general, the interviews support the propositions of the Driver Model.
- All analyses considered, the Driver Model can be seen as a useful explanation of the determinants of firms’ engagement in NS. However, the issue-related drivers were removed from the Driver Model as it is organizations (firms) and not issues that behave. Further research is needed.

Conclusion:

As an encompassing approach to explain the antecedents of firms’ engagement in NS, the Driver Model can be seen as supported by theoretical reasoning and results from the literature and interviews.

5 Discussion and Implications

5.1 Discussion

The main objective of this thesis was to develop a theoretically well-founded model to explain firms' engagement in NS in the US and in Europe. As a result of the literature review and the 28 interviews that were conducted, a relationship between internal and external drivers and firms' engagement in NS was supported. This model can be seen as the first step in building an overarching framework to explain firm behavior in the nonmarket environment, which researchers have demanded for a long time.⁸¹³

While hundreds of academic articles have been published in this field of research, an encompassing model is yet to be accepted. Research in this field is still highly fragmented, with encompassing approaches existing but aiming in different directions. The Driver Model aims to mitigate this drawback. In addition, 86% of the empirical studies in this thesis's literature review analyze firms' behavior in the nonmarket environment in the US. Results from Europe are scarce. For this reason, interviews were conducted on both sides of the Atlantic Ocean to determine possible differences for the Driver Model.⁸¹⁴ However, it must be noted that these interviews cannot and were not designed to substitute an encompassing empirical analysis.⁸¹⁵

In the following, the results of this thesis will be discussed. Two aspects will be examined. (1) This section will analyze whether the Driver Model is a step forward in developing an overarching framework to explain the determinants of firms' engagement in NS. Within this section, the topic of the issue-related drivers will be revisited.⁸¹⁶ (2) Finally, the results of the interviews will be discussed with regard to the model.

5.1.1 The Overarching Framework: A Step Forward for Research?

Researchers have (long) called for an overarching framework to explain firms' behavior in the nonmarket environment.⁸¹⁷ However, whether this would truly be useful, advance research, and allow

⁸¹³ cf. Meznar (2002: 331).

⁸¹⁴ See Chapter 4.2 Insights.

⁸¹⁵ See Chapter 6.2 Towards an Empirical Approach.

⁸¹⁶ See Chapter 3.5 Issue-related Drivers of Firms' Engagement in Nonmarket Strategies.

⁸¹⁷ cf. Meznar (2002: 331).

the field to gain deeper insights into firms' behavior in the nonmarket environment remains to be seen. This section discusses what needs to be considered in building an encompassing framework. It further discusses existing approaches in the literature and compares them to the Driver Model. The section then concludes with an evaluation of the model.

First, the reasons for the present lack of an accepted overarching framework should be discussed. The precondition for such a framework would be that all researchers in the field would accept one framework. However, especially in this field of research, scholars come from various disciplines with their own – sometimes incompatible – theoretical perspectives. In addition, the community of scholars *“is comprised by a number of individuals”*⁸¹⁸ following their own paths and driven by individual goals. As a consequence, the result is not a “clear” framework to which all research can contribute, but a *“muddied”*⁸¹⁹ mix of vocabularies and definitions developed from various disciplines.⁸²⁰ Some scholars see this muddied mix is as an advantage because it creates the opportunity to develop and use additional *“valuable variables”*.⁸²¹

However, only an overarching framework that could disprove all these drawbacks mentioned above would be accepted and widely used. Therefore, the Driver Model needs to offer a solid and consistent framework, on the one hand to keep focus on the research questions, and on the other hand, it needs to allow space to integrate several research streams to be able to consider new developments.

Firstly, it is important to define which perspectives should be incorporated into such a framework. Based on the research of Getz (1997)⁸²², an overarching framework should encompass the following perspectives:

- Who (which firms) engage(s) in NS?
- How is this pursued? Which NS do firms choose?
- Why and, closely related to this, where and when do firms engage in the nonmarket environment?
- And finally, what are the characteristics of firms and other actors that engage in NS?

⁸¹⁸ Hillman (2002: 357).

⁸¹⁹ Coen and Grant (2006a).

⁸²⁰ cf. Droege et al. (2011).

⁸²¹ cf. Bassioni, Price, and Hassan (2005: 495).

⁸²² cf. Getz (1997: 53 f.).

Only when these perspectives are addressed can the framework be seen as overarching, and will it be able to both explain firm behavior as well as advise managers on how to engage in the nonmarket environment.⁸²³ However, further perspectives from the literature will be considered, too.

A new framework needs to include the impact of the firm's organization on its opportunities to engage in NS. Schuler (1999) for example criticizes the existing models in the literature for ignoring important relations regarding the political resource base of firms in particular.⁸²⁴ This approach is closely connected to the RBV from the research field of competitive strategy ("*...as affected by organizational structures, routines, and resources...*"⁸²⁵); in the Driver Model it is considered in the reference fields.⁸²⁶ Furthermore, in a new framework the government needs to be integrated as "*sixth force*"⁸²⁷ because nonmarket policies are not exogenous constraints, since firms and other actors in the nonmarket environment can play an active role in shaping public policies.⁸²⁸ In addition, environmental variables need to be considered, including unionization, concentration, culture, public opinion, and media coverage.⁸²⁹ Furthermore, as all actors in the nonmarket environment are humans, every framework needs to consider Aristotle's statement: "*man is a political human*".⁸³⁰ Altogether, an overarching framework needs to consider multiple views on multiple levels.⁸³¹ The Driver Model is able to answer some of the questions; these answers are summarized in the table below (Table 2: Questions Answered by the Driver Model). For each perspective, it at least provides a starting point; however, more work

⁸²³ In a study from 1997, Getz analyzed how these questions could be answered using theories from social science; cf. Getz (1997: 53 f.).

⁸²⁴ cf. Schuler (1999); "*We think that the existing economic models of corporate political action that ignore the nuances of the organizational features of the firm are both too simplistic and erroneous. A more realistic model recognizes that managers strive to make profit-seeking solutions in the political arena as affected by organizational structures, routines, and resources. The understanding of corporate political action must embrace a concern for the organizational forces that affect how a company searches for, processes, and acts upon information pertaining to public policy issues.*"; Schuler (1999: 93).

⁸²⁵ Schuler (1999: 93).

⁸²⁶ cf. Dahan (2005a). See also Chapter 2.1 Definitions. "*A seminal paper by Birger Wemerfelt (1984) has paved the way for an influential stream of research into strategic management, now known as the resource-based view (RBV) of the firm. At first, the resource-based approach was very much focused on internal resources. However, in the 1990s, several authors started to broaden the range of resources considered by looking at external aspects such as corporate or brand reputation (Fombrun and Shanley, 1990), stakeholder trust (Barney and Hansen, 1994) or regulation. This last area is less widely accepted as a resource, but authors such as Maijor and Van Witteloostuijn (1996), Boddewyn (2000) and, much more briefly, Kay (1993) or Bensedrine and Demil (1996) suggest that a given state of regulation can be regarded as a strategic asset.*"; Dahan (2005a: 43).

⁸²⁷ Baron (1995: 57).

⁸²⁸ cf. Baron (1995).

⁸²⁹ cf. Dahan (2005c); Getz (1997: 60).

⁸³⁰ Aristotle, Barker, and Stalley (1998).

⁸³¹ cf. Hillman (2002); Sadrich and Varjulia (2002).

remains to be done in order to reach an encompassing framework. Considering these results, the Driver Model could serve as a starting point for further research.

Table 2: Questions Answered by the Driver Model

Internal resources and capabilities of a firm	Internal drivers in the reference fields of legitimacy and reputation – the RBV of the nonmarket environment
The sixth force	External – institutional drivers
How is this pursued? And which NS do firms choose?	Concept of access Legitimacy, Reputation, Voice, and Bypassing/buying (only a starting point is discussed)
Why engage in NS?	The ultimate goal is securing long-term survival of the firm. Therefore, all drivers need to be considered. (The output is missing in the model)
When to engage in NS?	Issue-related driver. Also related to internal resources and external drivers in the case of changes. (Further analyses needed)
Where to engage in NS?	Concept of access
Who (which firms) engage(s) in NS?	Driver Model

The main reason that previously developed frameworks are not used in general by other researchers is that often they do not build on accepted theories. The missing link to existing and established theories makes it difficult for research to build on these frameworks. Levy and Egan (2003) allege that *“existing literature on corporate political strategy (CPS) does not account well for the multiple forms of industry responses to social pressures [...]”*⁸³². They continue by saying that, *“Managerialist discussions of CPS have been relatively atheoretical, providing a more empirical and descriptive framework somewhat disengaged from broader streams of social theory”*⁸³³. Other researchers, such as Droege et al. (2011), Palazzo and Scherer (2006), and Walsh et al. (2006), confirm this major drawback of existing frameworks related to the nonmarket environment.⁸³⁴ The advantage of the Driver Model lies in its strict application of accepted theories from several fields of research. If the investigation of this model is continued with deeper analyses of the theories, this drawback of the literature could be further mitigated.⁸³⁵

⁸³² Levy and Egan (2003: 804).

⁸³³ Levy and Egan (2003: 804).

⁸³⁴ cf. Droege et al. (2011); Palazzo and Scherer (2006); Walsh et al. (2006).

⁸³⁵ See Chapter 3.1 Introduction and Methodology. Models without a link to the theoretical approaches of my review: Baumgartner, Gray, and Lowery (2009); Beaulieu and Magee (2004); Bhuyan (2000); Bombardini (2008); Burris (2001); Figueiredo and Silverman (2006); Fleisher (1993); Hansen and Mitchell (2000); Hart (2001); Mitchell et al. (1997a); Rehbein (1995); Sadrieh and Annavarjula (2005); Tripathi (2000).

Another drawback to developing an overarching framework is that the major theories in strategic management have been developed without considering the nonmarket environment⁸³⁶; NS have been treated as “*separated subjects in the academic literature*”⁸³⁷. The reason for this can be found in the “*pure neoclassical theory*”⁸³⁸, in which the nonmarket environment is seen as exogenous.⁸³⁹ However, in recent years more and more researchers have realized the importance of NS as a part of the overall competitive strategy of a firm and claim to integrate this approach into management frameworks.⁸⁴⁰ Boddewyn and Brewer (1994) summarize this in the following statement: “*political behavior complements economic behavior [...]*”⁸⁴¹. It further needs to be understood that the government is not the “*enemy [...] an obstacle to the firm’s strategy*”⁸⁴² but can also be an ally; therefore, firms need to consider NS.⁸⁴³

In this thesis’s approach, and in line with Boddewyn and Brewer (1994) market and nonmarket strategies are treated as an integrated concept.⁸⁴⁴ Furthermore, concepts from the research field of competitive strategy are integrated in the framework as the RBV and the MBV of the nonmarket environment.⁸⁴⁵

After having discussed drawbacks in literature, in the upcoming section, concepts for a framework proposed in the literature will be discussed and compared to the Driver Model. The easiest opportunity to build a Driver Model is to add the sixth force (the nonmarket environment) to Porter’s five-forces framework. The main advantage is that this framework is widely used and accepted. The major drawback, on the other hand, is that it still focuses on the market environment and does not integrate the nonmarket environment.⁸⁴⁶ Other frameworks do exist and are, compared to Porter’s approach,

⁸³⁶ cf. Salorio et al. (2005).

⁸³⁷ Shaffer, Quasney, and Grimm (2000: 126).

⁸³⁸ Lichtenberg (1989: 31).

⁸³⁹ cf. Furubotn and Richter (2000: 8 f.).

⁸⁴⁰ cf. Hillman (2002); Jauch and Kraft (1986); Lord (2003); Palazzo and Scherer (2006); Smircich and Stubbart (1985); Vining et al. (2005).

⁸⁴¹ Boddewyn and Brewer (1994: 121).

⁸⁴² Mahon and McGowan (1998: 396).

⁸⁴³ cf. Mahon and McGowan (1998).

⁸⁴⁴ See also Chapter 2.1.2 Market Strategies versus Nonmarket Strategies.

⁸⁴⁵ See the Chapters 2.1.4 The RBV of the Nonmarket Environment – Political Resources, 3.2 The three Perspectives of the Driver Model mirrored to the Research Field of Strategic Management, 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment and 3.4 External Drivers of Firms’ Engagement in Nonmarket Strategies.

⁸⁴⁶ cf. Porter (2008); Vining et al. (2005).

easier to apply in the nonmarket environment; they will therefore be discussed. These include the frameworks of Boddewyn and Brewer (1994), Blumentritt (2003), Meznar and Night (1995), Oliver (1991), and Oliver and Holzinger (2008).⁸⁴⁷

Boddewyn and Brewer (1994), for example, introduce a framework to analyze international business political behavior based on the RBV.⁸⁴⁸ The starting point of their analysis is a criticism of the classical management strategy for not considering political resources.⁸⁴⁹ In contrast, Boddewyn and Brewer (1994) recommend that firms act politically (*“political behavior is attractive for a variety of reasons”*)⁸⁵⁰. They explain that governmental actions heavily influence firms’ survival.⁸⁵¹ Furthermore, they consider firms’ *“organizing ability, legitimacy, privileged information, and access”*⁸⁵², which are comparable to the internal drivers of the Driver Model. In addition, Boddewyn and Brewer (1994) consider external drivers such as regulations⁸⁵³ and they see political behavior not as *“developed in a vacuum”*⁸⁵⁴ but as constituted by all players in the environment (firms, industry, and interest groups). Thus, their model focuses on the interaction of *“interactive conditioning factors”*⁸⁵⁵ (encompassing the firm, the industry, and the nonmarket environment); *“business political behavior”*⁸⁵⁶ (distinguishing between bargaining and non-bargaining strategies and their intensity); and *“strategic objectives related to efficiency, market power and legitimacy”*⁸⁵⁷. The conditioning factors of the Boddewyn/Brewer model are comparable to the drivers proposed in this thesis; they differentiate

⁸⁴⁷ cf. Boddewyn and Brewer (1994); Blumentritt (2003); Meznar and Nigh (1995); Oliver (1991b); Oliver and Holzinger (2008).

⁸⁴⁸ cf. Boddewyn and Brewer (1994).

⁸⁴⁹ *“Stranger still is the relative silence of the now popular resource-based theory of strategic advantages (e.g., Barney, 1986; Collis, 1991; Conner, 1991; Grant, 1991; Mahoney & Pandian, 1992; Peteraf, 1993; Teece, Pisano, & Shuen, 1990). In this theory, the distinctive competences of firms—that is, their resources as deployed through capabilities—are essentially economic and organizational in nature but not political. When mentioned at all, political factors act only as constraints (e.g., Conner, 1991: 134). Moreover, when the tradeability of resources is discussed, only economic markets are mentioned but not political ones. In other words, the means acquired and used to gain rents, as the aim of strategic behavior, are purely “intraeconomic” (Etzioni, 1988: 218-219).”*; Boddewyn and Brewer (1994: 120).

⁸⁵⁰ Boddewyn and Brewer (1994: 121).

⁸⁵¹ *“First, acts of government create individual winners and losers in the marketplace”*; Boddewyn and Brewer (1994: 121).

⁸⁵² Boddewyn and Brewer (1994: 121).

⁸⁵³ *“Political behavior complements economic behavior, although it may predominate over economic means, as when beleaguered U.S. automobile manufacturers requested and obtained government protection to reduce the Japanese competition that threatened their survival and profits”*; Boddewyn and Brewer (1994: 121).

⁸⁵⁴ Boddewyn and Brewer (1994: 121).

⁸⁵⁵ Boddewyn and Brewer (1994: 121).

⁸⁵⁶ Boddewyn and Brewer (1994: 121).

⁸⁵⁷ Boddewyn and Brewer (1994: 121).

between types of firms, industries, and nonmarket environments.⁸⁵⁸ Further, their concept of “political behavior and legitimacy” is comparable to those concepts in the Driver Model.⁸⁵⁹ However, in contrast to the Driver Model, Boddewyn and Brewer (1994) do not apply several “accepted” theories for their concept to explain the drivers of political actions; instead, they very much focus on the RBV.⁸⁶⁰ They justify this step by explaining that from their perspective it is not possible (and not desired) to develop an overarching framework due to the complexity of factors.⁸⁶¹ Overall, their framework offers a reliable contribution to research, in particular its link to the RBV; however, a major drawback of their model compared to the present approach is that the authors explicitly did not want to build an overarching framework. A framework cannot be used for a purpose for which the authors did not intend it.

Blumentritt’s (2003) model is based on the RDT and tested with an empirical study of the political actions of 91 foreign subsidiaries of US-based firms.⁸⁶² The focus of the model is to understand the political activities of MNEs in general and their subsidiaries abroad in particular. While using the RDT, the study (and following the model) focuses on “*Governmental Affairs Structures*”⁸⁶³. The basic model connects the “*Subsidiary Characteristics*” to the “*Host Country Characteristics*”⁸⁶⁴ and is therefore comparable with the external institutional drivers of the Driver Model (level of regulation and controlled resources – *subsidiary characteristics* and political system - *host country characteristics*).⁸⁶⁵ Due to the small area of research (RDT), this framework cannot be classified as overarching and, even within the analyzed area, the author states that “*there are limits on the generalizability of this study as the sample consisted of companies from a single industry.*”⁸⁶⁶ However, the model offers useful insights for understanding NS in different countries. In contrast to Blumentritt’s approach, the Driver

⁸⁵⁸ cf. Boddewyn and Brewer (1994: 122).

⁸⁵⁹ cf. Boddewyn and Brewer (1994: 134 ff.) and Chapter 3.3.1.2 Reference Field: Legitimacy.

⁸⁶⁰ In their section about strategic objectives, population ecology, resource dependence, and transaction cost analysis are used to explain the strategic component of the survival of the firm; a link to variables explaining the precondition of firm’s engagement in NS is nevertheless not given; cf. Boddewyn and Brewer (1994: 132 ff.).

⁸⁶¹ “*To be sure, no comprehensive theory of international-business political behavior can readily be developed because too many factors are involved, and because its temporal and spatial variations are almost infinite. Still, progress can be achieved by reformulating and ameliorating the assumptions, constructs, and variables currently used in its study*”; Boddewyn and Brewer (1994: 137).

⁸⁶² cf. Blumentritt (2003).

⁸⁶³ Blumentritt (2003: 207).

⁸⁶⁴ cf. Blumentritt (2003: 209).

⁸⁶⁵ See Chapter 3.4.1.2 Literature Review: Regulation & Controlled Resources and Chapter 3.4.1.5 Literature Review: Political System.

⁸⁶⁶ Blumentritt (2003: 227).

Model applies the IT to explain the relationship between the political system and firm's engagement in NS (see Section 3.4.1).

In their AMJ article, Meznar and Nigh (1995) investigate how firms should “*manage their relations with social and political stakeholders*”⁸⁶⁷. In particular, they analyze which NS firms should choose, i.e. under which conditions firms should invest either in *buffer strategies* (protecting the firm from the external environment)⁸⁶⁸ or in *bridge strategies* (the firm adapts/conforms to external expectations)⁸⁶⁹.⁸⁷⁰ The latter is comparable to the mimetic behavior of the IT.⁸⁷¹ In their study, Meznar and Nigh (1995) discuss “*Environmental uncertainty*”⁸⁷², “*Resource Dependence and Public Affairs Activities*”⁸⁷³, and the relation between “*Enterprise Strategy and Public Affairs Activities*”⁸⁷⁴. As a result of their empirical analysis, they find evidence that RDT can explain when firms invest in buffering strategies.⁸⁷⁵ However, they also find that RDT is not able to explain bridging strategies;⁸⁷⁶ this is in line with the Driver Model, in which conformity-related drivers are explained using the IT.⁸⁷⁷ Meznar and Nigh's (1995) approach cannot be considered as encompassing for two reasons: (1) they only focus on two strategies of explicit firm-government relationships (buffer, bridge); and (2) furthermore, due to their focus on RDT, they are unable to explain all interactions in their model. These drawbacks are mitigated in the Driver Model using a multi-theory approach.

⁸⁶⁷ Meznar and Nigh (1995: 975).

⁸⁶⁸ “*Buffering involves trying to keep the environment from interfering with internal operations and trying to influence the external environment. Buffering implies that a firm is trying either to insulate itself from external interference or to actively influence its environment through such means as contributions to political action committees, lobbying, and advocacy advertising. By buffering, a firm either resists environmental change or tries to control it.*”; Meznar and Nigh (1995: 976); Baumgartner and Leech (1998).

⁸⁶⁹ “*Bridging implies that the firm actively tries to meet and exceed regulatory requirements in its industry or that it attempts to quickly identify changing social expectations in order to promote organizational conformance to those expectations.*”; Meznar and Nigh (1995: 976).

⁸⁷⁰ cf. Meznar and Nigh (1995)

⁸⁷¹ See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

⁸⁷² Meznar and Nigh (1995: 978).

⁸⁷³ Meznar and Nigh (1995: 978).

⁸⁷⁴ Meznar and Nigh (1995: 980).

⁸⁷⁵ “*Resource dependence theory (Pfeffer & Salancik, 1978) seems to provide a useful framework for a theoretical understanding of what promotes buffering behavior.*”; Meznar and Nigh (1995: 991).

⁸⁷⁶ “*However, resource dependence theory seems inadequate to explain bridging behavior: The hypotheses relating resource dependence to bridging were not supported.*”; Meznar and Nigh (1995: 991).

⁸⁷⁷ See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

In Oliver's (1991) model, IT and RDT are applied to explain firms' engagement in NS as a response to institutional processes.⁸⁷⁸ Oliver (1991) develops five different strategic responses to institutional processes (Acquiesce, Compromise, Avoid, Defy, and Manipulate) with three tactics each.⁸⁷⁹ Finally, she shapes hypotheses about the circumstances under which firms in the nonmarket environment choose a particular strategy based on the RDT and IT.⁸⁸⁰ Oliver's (1991) model approach is comparable to that of the Driver Model; however, as she suggests undertaking field interviews as future research⁸⁸¹ and bases her propositions on only two theories, her model cannot be seen as encompassing. Nevertheless, her approach to explaining institutionally driven CPA adds value to research and confirms the present approach.

Finally, in Oliver and Holzinger's (2008) model, Oliver transfers her approach (Oliver (1991)) to the environment of dynamic capabilities.⁸⁸² In their study, Oliver and Holzinger (2008) emphasize the concept of dynamic capabilities as highly useful for managing NS due the several reasons as presented in the following.⁸⁸³ (1) To react to the ever changing environment of firms (public policy changes, privatization, and deregulation), "*firms are likely to need increasingly dynamic capabilities to cope with political change*"⁸⁸⁴; (2) in regard to other resources, dynamic capabilities "*affect profitability by enhancing the productivity*"⁸⁸⁵; and (3) as literature on corporate political behavior has "*neglected*"⁸⁸⁶ the firm-specific processes and capabilities regarding NS, an dynamic capabilities framework will be able to draw more attention to this topic.⁸⁸⁷ While it is certainly important to draw more attention to NS, in the present author's opinion the approach of dynamic capabilities is not necessary. Especially the internal resource gaining process can be pictured with the established approaches.⁸⁸⁸ Overall, Oliver and Holzinger's (2008) motivation to use the approach of dynamic capabilities does not seem logical; however, in their study they present a useful overview of the state of the art in this area of

⁸⁷⁸ cf. Oliver (1991b).

⁸⁷⁹ cf. Oliver (1991b: 152).

⁸⁸⁰ cf. Oliver (1991b: 160 ff.).

⁸⁸¹ cf. Oliver (1991b: 172).

⁸⁸² cf. Oliver and Holzinger (2008). See as well as a further approach Kelley (1990) Kelley (1990).

⁸⁸³ cf. Oliver and Holzinger (2008: 497).

⁸⁸⁴ Oliver and Holzinger (2008: 497).

⁸⁸⁵ Makadok (2001): 317 in Oliver and Holzinger (2008: 497).

⁸⁸⁶ Oliver and Holzinger (2008: 497).

⁸⁸⁷ cf. Oliver and Holzinger (2008: 498).

⁸⁸⁸ See Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment and 3.3.3 Reputation-related Drivers: Internal Resources and Structure, Experience with NS.

research, including basic theories. In their study, they present a model to explain the antecedents of NS with regard to four respective strategies (Reactive, Anticipatory, Defensive, and Proactive Strategies)⁸⁸⁹ and shape propositions focusing on the firms' internal resource base (dynamic capabilities). They consider concepts such as legitimacy, institutional influence⁸⁹⁰, and strategic assets⁸⁹¹. Therefore, Oliver and Holzinger's (2008) model is comparable to the internal driver section of the Driver Model. It makes useful contributions to research; however, its explanation level remains in the internal perspective and can therefore not be considered as encompassing.

In summary, the existing frameworks in the literature are not overarching as it has previously been defined in this thesis; they do not analyze all necessary perspectives. Nevertheless, they were used to build this thesis's framework and to challenge it. This discussion underlines Meznar's (2002) argument. He assumes that *"a single overarching framework is not the solution [...]"*⁸⁹² and endorses the development of *"a variety of competing (and perhaps complementary) frameworks"*⁸⁹³. Nevertheless, the present author argues that several competing frameworks without a common theoretical basis are not the optimal solution for research. It must however be conceded that one framework might be desirable but beyond possibility. In any case, it is important to agree on a defined theoretical basis and further cornerstones of the framework. Mirroring the results of the discussion, the following summarizes what an "encompassing framework" should include:

- A clear link to the research field of strategic management;
- A clear definition of political resources;
- Agreement on basic theories to explain firms' engagement in NS;
- Aligned definitions of market and nonmarket; and
- Agreement on stakeholders to consider in both the market and nonmarket environments.

Furthermore, an overarching framework must offer both a common basis and freedom to integrate new perspectives.

In the next section, general theoretical considerations for building frameworks will be discussed. The overarching Driver Model developed in this thesis uses a multiple-lens perspective to explain firm

⁸⁸⁹ cf. Oliver and Holzinger (2008: 506).

⁸⁹⁰ E.g. cf. Oliver and Holzinger (2008: 511).

⁸⁹¹ E.g. cf. Oliver and Holzinger (2008: 516).

⁸⁹² Meznar (2002: 335).

⁸⁹³ Meznar (2002: 335).

behavior in the market and nonmarket environments. This is not unusual for research in the field of management, where a combination of *“ideas and blends of theories to advance new insights”*⁸⁹⁴ to develop new hypotheses is common practice.⁸⁹⁵ Especially in the field of NS, considering the volume of papers in this field of research⁸⁹⁶, other authors also use multiple-lens approaches to build their frameworks.⁸⁹⁷ Further evidence for this approach can be found in literature. In an editorial note of the Academy of Management Review, the authors not only investigated but also recommended that researchers build theories *“by combining lenses”*⁸⁹⁸. Even though the present author read this article at the very end of the production time of this thesis, it seems to confirm the approach that was followed to develop the Driver Model. After addressing the general approach of a multiple-lens perspective to develop the Driver Model, this section will demonstrate how this approach of combining lenses is accepted within academia.

Most of the theories that have been integrated into the Driver Model share compatible underlying assumptions, such as the influence of social pressures on organizations, and address substantially similar phenomena, namely how organizations made decisions. For example, both the RDT and the IT assume a strong influence of *“social pressures and power on their individual decision making”*⁸⁹⁹. In academia this combination of theories is widely applied.⁹⁰⁰ In the Driver Model, these theories can be seen as central in combination with the reference fields.⁹⁰¹ However, not only theories from similar fields of research have been integrated into the Driver Model.

Theories have also been combined in the Driver Model whose origins are highly diverse. For example, RBV and the LCM⁹⁰² examine different phenomena. The former theory investigates how firms create a competitive advantage based on the application of a bundle of valuable tangible or intangible resources at the firm's disposal.⁹⁰³ The latter explains when firms should engage in NS while a policy is

⁸⁹⁴ Okhuysen and Bonardi (2011: 6).

⁸⁹⁵ cf. Okhuysen and Bonardi (2011: 6).

⁸⁹⁶ See Chapter 1 Introduction.

⁸⁹⁷ cf. Okhuysen and Bonardi (2011).

⁸⁹⁸ Okhuysen and Bonardi (2011: 6).

⁸⁹⁹ Okhuysen and Bonardi (2011: 8).

⁹⁰⁰ cf. Okhuysen and Bonardi (2011: 8).

⁹⁰¹ In combination with the Behavioral Theory of the Firm.

⁹⁰² See also Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment and 3.5.1 Theoretical Background: The Life Cycle Model of Public Policy Management (LCM).

⁹⁰³ cf. Penrose (2009); Rumelt (1984: 557 f.); Wernerfelt (1984: 172).

moving through the public policy shaping process. Even their research fields of origin are far removed: on the one hand, business management, and on the other hand, political science.

Referring again to Okhuysen and Bonardi's (2011) editor's note, the combination of theories stemming from research fields that are far removed from each other helps to explain fields of academia that have not been investigated before.⁹⁰⁴ Even though this combination can be useful or helpful, it is not easy to process. Discussions need to be undertaken twice: on the one hand, the topic needs to be discussed, and on the other hand, whether the combination fits also need to be addressed.⁹⁰⁵ To this end, an in-depth discussion about the underlying assumptions and how they can be combined is necessary; this is valid for all theories in the Driver Model, and not only the RBV and LCM. Furthermore, these discussions must be reproducible for the reader.⁹⁰⁶ In the context of this work – and this can certainly be seen as a limitation – an in-depth analysis of all considered theories (more than 20) was not presented in this thesis due to space restrictions.⁹⁰⁷

In summary, the combination and “borrowing” of theories to build frameworks, especially in relatively young fields of research, is widely accepted in academia. For this reason, this thesis's approach can be seen as useful; however, the partly brief documentation of the processes may be a drawback and should engage other researchers to continue to investigate this area of research. In the next section, the link to the theories of strategic management at the example of RVB will be discussed.

After having discussed how to develop frameworks based on theories in the previous section; the following section will discuss the theoretical basis of the Driver Model at the intersection of management theory and political science at.

This thesis makes several contributions to strategic management in the nonmarket environment. In recent years, the management of public affairs of companies has changed: from a tactical ad hoc response to critical legislation⁹⁰⁸ or regulation, to a more strategic approach⁹⁰⁹. Furthermore, a shift of the representation of the firms' political agenda to the nonmarket environment has been realized as

⁹⁰⁴ cf. Okhuysen and Bonardi (2011: 10).

⁹⁰⁵ cf. Okhuysen and Bonardi (2011: 10).

⁹⁰⁶ cf. Okhuysen and Bonardi (2011: 10).

⁹⁰⁷ See also Chapter 6.1 Limitations and Further Research.

⁹⁰⁸ See Chapter 1 Introduction and 3.5 Issue-related Drivers of Firms' Engagement in Nonmarket Strategies.

⁹⁰⁹ See especially the buildup of internal resources.

well. On the one hand, the firm's own GADs are of increasing importance; on the other hand, trade associations are losing importance. The background for this change can be found in a decreasing trust in the work of the associations⁹¹⁰ and in the actions of the nonmarket actors. Politics nowadays directly connects to firms without considering the associations.⁹¹¹ This is beneficial for the nonmarket actors, too: representatives of firms can – without considering the opinions of other firms⁹¹² – directly respond to the nonmarket actors and, further, make precise commitments.⁹¹³ In addition, more and more policy shaping decisions are being made on a European level; therefore, firms need to invest in national capitals and in connections to international bodies such as the EU. Consequently, firms need to invest in internal political resources in domestic and foreign countries.

These changes in the nonmarket environment are reflected by the Driver Model. The first four drivers explain how firms' internal resources affect their engagement in NS.⁹¹⁴ The reference fields⁹¹⁵, developed within the Driver Model to connect the theoretical basis (IT⁹¹⁶ and BTF⁹¹⁷) to the drivers and to link the model to the approaches of the research field of strategic management, provide a deeper theoretical understanding of why firms invest in internal nonmarket capabilities. In addition, these elaborations afford interesting insights for practitioners into how to boost their success with NS by investing in their own internal (political/nonmarket) resources.

As discussed in Chapter 1⁹¹⁸, *“political behavior can be a source of efficiency, market power, and legitimacy.”*⁹¹⁹ It is important to note that firms are subject to pressures (e.g. laws and regulations) stemming from the nonmarket environment.⁹²⁰ This thesis has shown that NS are nowadays intrinsic to businesses, and especially to MNEs. As discussed above,⁹²¹ the nonmarket environment of a firm can be viewed as a political marketplace, in which firms and other actors engage with policy makers to

⁹¹⁰ cf. Speth and Leif (2003: 41 ff.)

⁹¹¹ cf. Busch-Janser (2004); Coen and Grant (2006b).

⁹¹² See also Chapter 1 Introduction.

⁹¹³ cf. Schendelen, M. P. C. M. (2003).

⁹¹⁴ See Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment.

⁹¹⁵ See Chapter 3.3.1.2 Reference Field: Legitimacy and 3.3.1.3 Reference Field: Reputation.

⁹¹⁶ See Chapter 3.3.2.1 Theoretical Background: The Institutional Theory.

⁹¹⁷ See Chapter 3.3.3.1 Theoretical Background: The Behavioral Theory of the Firm.

⁹¹⁸ See also Chapter 1 Introduction.

⁹¹⁹ Boddewyn and Brewer (1994: 122).

⁹²⁰ cf. Baron (2001: 14).

⁹²¹ See also Chapter 2.1.1 The Market Environment and the Nonmarket Environment – Definitions and Disparities.

execute NS that can generate advantages for the firm and that are costly for their competitors. However, while NS are an important part of the overall competitive strategy of a firm, this does not mean that firms are only driven by the nonmarket environment. Nevertheless, the discussion of firms' political behavior has implications for academic debates about the relationships among firms' strategies, firms' resources, and finally firms' environments, both market and nonmarket.⁹²²

One of the research gaps in the literature that this thesis has identified is the missing adaptation of approaches from strategic management theory to the area of NS.⁹²³ It is generally accepted that the capability to influence the public policy shaping process is a source of sustainable competitive advantage.⁹²⁴ To find evidence in support of this, researchers should more heavily apply theories from strategic management such as the RBV, in particular to shape encompassing frameworks and to find empirical evidence.⁹²⁵

It is important for future research that this thesis's analysis is compatible with the resource-based approach of the firm. The Driver Model (an in particular the internal drivers)⁹²⁶ are based on the same premise as the RBV that firms' performance is affected by their strategic choice of organizational competences. In addition, this thesis has expanded and enriched the RBV by adding the nonmarket component, which is largely missing in today's academic literature.⁹²⁷ It is important to emphasize again that resource-based models can benefit from this expansion because "*the sources of power are much broader than the sources of efficiency*"⁹²⁸. Nevertheless, whether other scholars will accept the additional sources of power coming from the nonmarket environment remains to be seen.

Finally, as mentioned at the beginning of this chapter, the issue-related approach will be reviewed in this section, as insights remain weak.⁹²⁹ The outcome of the literature could only unveil a few studies, and the results of the conducted interviews are two edged: on the one hand, interviewees saw this

⁹²² cf. Baron (1997a: 340 ff.).

⁹²³ See Chapter 1 Introduction.

⁹²⁴ cf. Shaffer (1995).

⁹²⁵ cf. Dahan (2005a); Dahan (2005b); Dahan (2005c); McWilliams et al. (2002).

⁹²⁶ See also Chapter 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment.

⁹²⁷ See also Chapter 1 Introduction.

⁹²⁸ Francis et al. (1983: 196).

⁹²⁹ See Chapter 3.5 Issue-related Drivers of Firms' Engagement in Nonmarket Strategies and Chapter 4.2 Insights.

approach as useful, but on the other hand, as further discussions with researchers were held, this approach appeared to overlapping the internal and external drivers.

In the interviews, lobbyists confirmed the importance of the driver *issue*, because the stage in the public policy life cycle, and the changes in the external environment are all important drivers of firms' engagement in NS. Some lobbyists insisted that for "*good lobbyists it is quite too late to start engagement when the issue is visible*". Skilled lobbyists know their "markets" and their environment and decide when to start NS. Based on this approach, the remaining drivers would be sufficient and the issue-related drivers are not needed to further explain firms' NS behavior.

Therefore, these drivers have been rejected from the model. More theoretical work is needed to confirm these drivers. Once this is done, empirical studies can begin to try to establish them within a model.

5.1.2 The Interviews in Focus

This section discusses the main structural results of the interviews. The sample was clustered into four subgroups: firm representatives based in the US (subgroup 1) and based in Europe (subgroup 2); and interest groups and politicians based in the US (subgroup 3) and in Europe (subgroup 4). Analyzing the data, no significant difference could be found between the results of the firms and the interest groups/politicians, except for in one case.

(1) Interest groups, especially business umbrella organizations, usually present moderate positions due to the manifold structures of their members. Before they can present their policy documents, they need to coordinate the different and sometimes opposing positions within their organization. Especially interest groups with compulsory membership⁹³⁰ need to follow strict decision-making processes underlying governmental laws. (For this reason, they have organizational legitimacy.)⁹³¹ Therefore, interest groups usually present compromises. In contrast, firms (or some environmental interest groups) are able to present one-sided positions. Therefore, interest groups sometimes simplify

⁹³⁰ There are compulsory memberships by law. For example, capital companies (and other) need to be member of the Industrie- und Handelskammern (Commercial and Industrial Chamber) in Germany. Cf. Speth and Leif (2003): Das Bundesgesetz zur vorläufigen Regelung des Rechts der Industrie- und Handelskammern vom 18. Dezember 1956 (BGBl. I, 920) wird auch IHK-Gesetz (IHKG) genannt.

⁹³¹ See Chapter 3.3.1.2 Reference Field: Legitimacy.

the work of politicians and other public policy decision-makers because they present the coordinated opinion of larger groups. As a result, it is easier for them to obtain access to public policy decision-makers. Interesting insights whether collective NS (as a member of business umbrella organizations) are substitutes or complements to individual NS (applied by single firm) could not be unveiled from the interviews. In general, the interviews confirm, that collective NS are more common in the EU, as individual NS are more common in the US.⁹³²

(2) Large differences in the results could be found between Europe and the US (due to the different political systems).⁹³³ Participants of the study described the US as a *more open* system compared to the countries in Europe.⁹³⁴ Business and politics are more intertwined in the US; the revolving door⁹³⁵ is a daily occurrence in the US; conversely, members of the EU are not allowed to enter corporate jobs for 18 months after they have left office.⁹³⁶ However, in Germany, which is the economically biggest country in the EU, there is no such law. Nevertheless, politicians' ventures into business are scarce and in most cases not seen as successful (e.g. Roland Koch), or they apply in the area of state-owned firms and are not seen as so important to society (e.g. Deutsch Bahn). Comparing the "political systems" on both sides of the Atlantic Ocean, it is obvious that politics in the US is more transparent than in the EU. Elections in the US are generally direct elections; thus, politics is personal. In Europe most elections are list elections, and the power in the political environment stems from parties. This has a strong impact on lobbyists' access points: in the US access is more directed towards the individual politician, whereas in Europe the access to institutional bodies, such as parties and governmental departments, is important.

Another aspect to be discussed is the focus on the origin of the firm; Europe is still a conglomerate of smaller and larger countries. *Europeans* do not truly exist; in negotiations in the nonmarket environment and especially in the EU, politicians are strongly focused on their countries. Interest

⁹³² Jia (2014) in his study shows that for China both strategies are complements especially in less economically developed provinces (cf. Jia (2014)).

⁹³³ See also Constantelos (2007).

⁹³⁴ See also Appendix B: Driver Model Results.

⁹³⁵ Revolving door means, that especially due to the short legislation periods in the House (only two years), there is a vivid exchange of personnel between Capitol Hill and K Street.

⁹³⁶ cf. Riss (2014).

groups and politicians in Europe confirmed that the origin of a firm is important.⁹³⁷ In the US, in contrast, employment, investments, and social engagement are more important antecedents of firms' engagement in NS than their origin. The US is, in contrast to European countries, an immigration country; this cultural heritage still seems to have an impact on the lobbying behavior.

(3) A large difference could be found between SMEs and MNEs. This study revealed that firms' strategies to gain reputation and the ways in which firms use their reputation to engage in the nonmarket environment heavily depend on firm size. To analyze this relationship, the study results were clustered into two groups: multi-domestic/global firms (MNEs), and small and medium-sized firms that were either domestic or foreign to the market. For the former, it is relatively easy to interact in the nonmarket environment because (1) these firms enjoy a positive reputation from various transactions in the past, and (2) it is easy for them to build their reputation because their actions are visible for a wide range of actors, especially in the nonmarket environment. To quote a lobbyist for a large car manufacturer: *"reputation is no problem for us, we are well known"*.

For the latter, it is more difficult due to the firms' non-visibility to a broad public. For SMEs, especially image-building activities such as sponsoring can be *"useless"*, as a representative of a German middle-sized technology company explained in the interviews. This is confirmed by the concept of reputation (see section 3.1.1.3); image is related to the general public.⁹³⁸ Consequently, due to their low visibility, it is more useful for smaller firms to focus on professional nonmarket actors (for example, building expertise-related reputation and credibility).⁹³⁹ In contrast, large companies have a widely accepted and recognized reputation and are, for that reason, ready to invest considerable amounts of money in philanthropic activities. In contrast to SMEs, MNEs' philanthropic activities do not have to be connected to their business or local environment. Examples include the sponsoring of museums, festivals, and concerts. In contrast, smaller firms focus for example on educational activities to invest in their own future workforce.

Furthermore, MNEs do not have difficulty in achieving access because of their high visibility: *"big firms don't have to pay for access"*, a lobbyist for an MNE explained. SMEs try to combat this disadvantage

⁹³⁷ For further explanations, see also Facchinetti (1995).

⁹³⁸ See Chapter 3.3.1.3 Reference Field: Reputation.

⁹³⁹ See Figure 12: Concept of Reputation.

through “*coalition building*”, “*founding of associations*”, and “*gaining visibility by attending hearings and hosting events*”, as the representatives of smaller firms and associations indicated.⁹⁴⁰ Especially smaller firms have to identify (possible) allies and enemies with which to develop and combine political resources to shape appropriate strategies.

These differences have an impact on the design of further quantitative studies. To prevent biased results, firm size has to be a control variable. Furthermore, it has an impact on the recommendations for what firms (or their managers) should do to engage in the nonmarket environment, as well as the political resources on which they should focus and the way in which to analyze their nonmarket environment.⁹⁴¹

5.2 Implications

This section presents the managerial implications of firms’ behavior in the nonmarket environment. It focuses on the importance of specific political resources for firms to engage in NS. Further, it emphasizes the differences between political systems and presents guidelines and a best practice case on how to behave in foreign environments. It especially focuses on the political system of the EU as there is still a lack of studies that explain this multinational body.⁹⁴²

Internal resources of a firm play a decisive role as antecedents of firms’ engagement in NS.⁹⁴³ The interviews conducted in this study supported the proposition that internal resources influence the likelihood of a firm’s engagement in the nonmarket in several ways: directly, indirectly via the reference fields, and through changes in the temporal disposition.⁹⁴⁴ From the perspective of strategic management, firms need to actively plan their investments in political resources. As is explained by the concept of reputation⁹⁴⁵ and by the concept of legitimacy⁹⁴⁶, political resources consist of short-

⁹⁴⁰ See also Chapter Appendix B: Driver Model Results.

⁹⁴¹ See also Chapter 6 Limitations, Further Research and Conclusion.

⁹⁴² See also Chapter 1 Introduction and in particular the research questions.

⁹⁴³ See also Chapter 4.2 Insights.

⁹⁴⁴ See also Appendix B: Driver Model Results.

⁹⁴⁵ See Chapter 3.3.1.3 Reference Field: Reputation.

⁹⁴⁶ See Chapter 3.3.1.2 Reference Field: Legitimacy.

term and long-term fragments and need to be developed over a medium to long-term perspective. Furthermore, internal resources need to be adapted to particular environments.

On outcome of the investigation of this thesis is that certain political resources allow firms to engage in certain NS. To pursue litigation strategies, for example, firms need vast amounts of resources to accompany sometimes long-lasting juridical proceedings. Even though specialized law firms usually support the firms in these proceedings, the firms still need the resources both to submit needed information to lawyers and to finance the process (in some cases) for years.

To engage in lobbying strategies, firms need a different set of resources: internal capabilities with which to analyze and understand the socio-political environment, as well as reputation and a specific level of legitimacy needed in order to be heard. Most important to pursuing lobbying strategies is access to decision-makers, because lobbying demands direct contact with public policy decision-makers.⁹⁴⁷

The interviews also provided insights into how firms adapt to different environments, especially regarding their political resource base. The participants were asked how firms manage to acclimate to another country's nonmarket environment. The interviewees confirmed that it sometimes takes enormous efforts to build the resources, capacities, and access points to engage in NS in a manner comparable to that of domestic firms.⁹⁴⁸

Different countries have different political systems (Proposition 4)⁹⁴⁹, cultures, and traditions. This means that firms that intend to enter new markets have to consider this and build specific political resources. Country/environment-specific political resources are needed to engage in the particular nonmarket environment. Consequently, foreign firms are not – or not to the same degree as domestic actors – able to benefit from public policies, i.e. from subsidies, standards, or legal help. To fill this strategic gap between domestic and foreign firms, the latter have to acquire specific resources.

⁹⁴⁷ See Chapter 3.3.1.1 The Concept of Access – the Basis for the internal Reference Fields.

⁹⁴⁸ See also Appendix B: Driver Model Results.

⁹⁴⁹ Proposition 4: The socio-political environment (political system) of a firm determines the kind and level of its engagement in NS.

The easiest opportunity to understand a “new” nonmarket environment and to benefit from it is to employ “insiders”. This allows firms to use their political resources, such as networks (access) and experience (Proposition 2)⁹⁵⁰, for their own purposes. This is the reason why most firms rely on domestic professionals: it gives firms the opportunity to quickly understand the nonmarket environment and obtain access to nonmarket sources and information. Accordingly, the vast majority of employees in GAD – and in most cases all of them –originate from the country or even the area the GAD is located. This is useful for two reasons.

(1) It allows the firms to gather country-specific political resources. At the same time, firms build their own political resource base, making them more independent of consultants and expensive lobbyists. This process was confirmed by participants in the interviews. When firms enter a new market and decide to engage in the nonmarket environment, they largely rely on consultants. In the next phase, they build their own political resource base, hiring in-house lobbyists and learning from consultants. In the third phase, the firms reduce their contracts with consultants to economize. However, as the present analysis also indicates, consultants maintain an important role for two reasons. First, they are needed when firms face specific problems at the federal level and second, at the state level, because at this level it is in most cases not efficient to build own specific resources.

(2) It provides the firm with the opportunity to behave “adequately for the country” (Proposition 4)⁹⁵¹. Interviewees from German firms that were active in the US emphasized that they “act like an American company” while doing business in the US. They emphasized that the only way to succeed in a foreign country is through the adaptation to the rules and culture of that country.

Companies have various opportunities to adapt to the cultural specifics of target countries. All firms that were represented in the interviews hired professionals in their destination country: Americans in Washington D.C., and Germans in Germany. Furthermore, most firms assign consultants and law firms

⁹⁵⁰ Proposition 2: Firms’ internal resources and structures (political resources) as well as the firms’ experience in dealing with the nonmarket environment determine firms’ engagement in NS.

⁹⁵¹ Proposition 4: The socio-political environment (political system) of a firm determines the kind and level of its engagement in NS.

on location to achieve access to political decision-makers and to learn how to interact in this specific nonmarket environment (“Yes, we hire consultants”). Hiring politicians after their political career is another possibility to gain access and to understand the processes on the nonmarket environment. Examples include former German chancellor Gerhard Schröder working for Gazprom, and former German Minister of State Joseph Martin Fischer working for RWE Nabucco pipeline and for the Madeleine Albright group. The educational background of the former politicians is for that reason not decisive;⁹⁵² firms simply want to benefit from their employees’ networks (see above: access strategies)⁹⁵³.

In summary, the easiest and most common way for firms to build political resources, especially in new socio-political environments, is by buying expertise and developing internal capabilities afterwards. But what does this mean in an environment of increasing globalization with growing international bodies and treaties? Are there international lobbyists or even international political resources? The EU is an interesting and powerful example of an international body. For this reason, lobbyists in Brussels were asked about how to acclimate to the EU.

Considering that there are no “real” European politics, because the EU does not have a government but still a weak parliament, it is difficult for firms to identify to **what** they have to acclimate. European politics means many layers, 28 different political cultures, and – in addition – a complex structure. Nonetheless, EU politics are increasingly important for firms, especially due to their responsibility for economic and trade policies (single EU market), competition regulations, energy, and consumer and environment protection.⁹⁵⁴ For this reason, this thesis recommends that firms build their European-specific political resources. The interviewees in this study asserted that firms need to understand the interactions between the European and national levels to successfully engage in this nonmarket environment.

Accordingly, firms need to understand the domestic political systems and the culture of EU decision-makers. What is most important in acclimating to the EU level is to understand the “multi-layer formal and informal system” of EU politics. To provide an example of European politics, the interviewees were

⁹⁵² cf. Stiftung Haus der Geschichte der Bundesrepublik Deutschland (2012).

⁹⁵³ See Chapter 3.3.1.1 The Concept of Access – the Basis for the internal Reference Fields.

⁹⁵⁴ cf. EU Council (2007).

asked to explain how to obtain contact with commissioners or other decision-makers. The participants of the study asserted that communication is – and this is the major outcome of the European part of this study – dependent on the domestic country of the respective politician. For example, meeting a French decision-maker, individuals *“have to speak French”*. Still, the outcome of the talk might be disappointing because, due to the centralized political culture in France, every detail has to be *“discussed with the Élysée Palace in Paris”*. In the southern European countries, informal networks are of high importance; to *“know a friend from college might be more promising than being the representative of a large firm or important association”*. In Germany, the Länder (states) are very important on the European level and provide access points for firms and associations. As in the Scandinavian countries, languages are a minor problem; speaking English is sufficient.

Overall, there is no such thing as a European lobbyist or European political resources. To engage in NS on an EU level, it is recommended that firms invest in both an understanding of the EU structure and an understanding of particular political resources due to the country of origin of the respective public policy decision-maker. It is useful for firms and interest groups to engage in coalition building initiatives, particularly for smaller firms and interest groups and for members of smaller countries to achieve visibility and political power.

Summary of Chapter 5: Discussion and Implications

Implications for Theory:

- Researchers have (long) demanded an overarching framework to explain firms' behavior in the nonmarket environment.
- An encompassing approach has not yet been developed in the literature. However, ideas from other researchers have been integrated into the Driver Model, and have also been used them to challenge the model's proposed concept.
- The Driver Model, based on applied theories and two reference fields to explain firms' internal (nonmarket) resources in depth, can be seen as a step forward for research.
- Most models and most empirical studies in the literature do not apply an encompassing theoretical reasoning.
- The Driver Model is based on acknowledged theories and can from this point of view provide a basis from which to develop an overarching framework.
- The RBV is applied as a guiding principle to explain firms' engagement level in NS with regard to the firms' internal (nonmarket) resource base. Therefore, the RBV is transferred to the nonmarket environment using the reference fields.
- The concept of political resources is a valuable contribution for research in the field of NS and beyond.

Implications for Practice:

- The major aim of both market and nonmarket resources is to gain long-term survival through anticipating and integrating competitive strategies and NS.
- Internal resources influence the likelihood of firms' engagement in the nonmarket environment in several ways: directly, indirectly via the reference fields, and through changes in the temporal disposition.
- From the perspective of strategic management, firms need to actively plan their investments in political resources e.g. to set up GADs.
- Political resources consist of short-term and long-term fragments and need to be developed over a medium to long-term perspective.
- Furthermore, internal resources need to be adapted for particular environments.
- In addition, to enter the nonmarket environment of a foreign country, firms need to invest in specific internal nonmarket resources.

Conclusion:

The "nonmarket RBV" explains how firms utilize their internal (nonmarket) resources to influence the public policy shaping process; it is a valuable contribution to research. Several implications for the management of governmental relations can be derived from the Driver Model, as the interviews illustrate.

6 Limitations, Further Research, and Conclusion

6.1 Limitations and Further Research

The previous chapter discussed the Driver Model and its implications to theory and practice; the present section will now focus on the Driver Model's limitations and deduct ideas for further research as limitations are starting points for further research. In the following chapter, an empirical study approach to find evidence for the Driver Model will be developed.

Five major limitations of this study could be identified: (1) the application of theories from other fields of research to the nonmarket environment; (2) the connection of those theories to the integrative approach to develop the Driver Model and combining the insights of several fields of research, which has the disadvantage that a deeper and detailed discussion for each theory is impossible within the context of a dissertation; (3) the concept of challenging the Driver Model based on "borrowed" results from empirical studies ("variables") from the literature and the conducted interviews; (4) missing generalizability of the outcome of the Driver Model to the world due to the model's focus on Europe and the US; and finally, (5) due to the sensitive topic (most information in this field of research is strictly confidential) and the partly fast changes in the environment (e.g. the financial crisis of 2008/2009), firms' nonmarket political behavior could change rapidly, which makes it difficult to define general models. In the following, these five limitations are discussed in detail.

(1) Some of the basic theories applied in this thesis to derive the Driver Model originate from other fields of research. For this reason, one could argue that the results of the Driver Model need to be interpreted with care. As discussed in Section 2.2⁹⁵⁵ the field of NS is relatively young; therefore, it is impossible to develop encompassing frameworks based on the field's "own" theories. However, the method of *borrowing theories* is widely accepted in academia,⁹⁵⁶ and is especially important for young disciplines such as this one.⁹⁵⁷ A prime example is the field of organizational research, which has borrowed theories and concepts notably from sociology (and psychology).⁹⁵⁸ The wrong usage of theories should not be underestimated; this usage is important for the development of the Driver

⁹⁵⁵ See also Chapter 2.2 The Concept of Borrowing Theories.

⁹⁵⁶ cf. Okhuysen and Bonardi (2011); Whetten et al. (2009).

⁹⁵⁷ cf. Whetten et al. (2009: 163).

⁹⁵⁸ cf. Whetten et al. (2009: 537).

Model, and may therefore represent a limitation of its results.⁹⁵⁹ In Section 2.2⁹⁶⁰ the borrowing process was carefully described to prevent misuse. However, as discussed above, other scholars use different theories to analyze the same relationships; thus, only further research can prove or disprove the present approach and the borrowing concept.

Based on the discussed limitations (1) further research could (a) develop new theories to substitute the borrowed ones (due to the small area of research and the complexity of developing new theories, however, this remains unlikely); or (b) further support the concept of borrowing theories, e.g. with case studies or empirical studies.

(2) The integrative concept of the Driver Model of combining theories and approaches from several disciplines can be seen as a limiting factor as well. Six theories are applied in the model to explain the behavior of firms in the nonmarket environment.⁹⁶¹ In addition, two reference fields⁹⁶² have been developed to connect the firms' internal drivers to the research field of strategic management.⁹⁶³ As space is limited in a dissertation, to discuss all approaches in detail was not possible. For that reason, this thesis introduced and discussed the applied theories sometimes not to the needed depth. One could argue that theories that could disprove the Driver Model have been purposely excluded. However, this is not the case: other theories were also analyzed in detail, but were not presented in this thesis. An overview of all considered theories can be found in Section 2.3.⁹⁶⁴ Nevertheless, the applied theories and approaches were presented on a "higher" level, and it is impossible to be certain that all possible theories were considered (the author is convinced that they have not). This method was chosen to focus on the integrated approach of the Driver Model because it is the only way in this highly interrelated field of research to develop a truly encompassing driver model. Therefore, several theories from several disciplines need to be borrowed and integrated.

⁹⁵⁹ cf. Suddaby (2010: 160).

⁹⁶⁰ See also Chapter 2.2 The Concept of Borrowing Theories.

⁹⁶¹ Institutional Theory, Behavioral Theory of the Firm, Resource Dependence Theory, Collective Action Theory, Interest Group Theory and Stakeholder Theory, Lifecycle Management Theory of Public Policies.

⁹⁶² The Concept of Legitimacy: See 3.3.1.2 Reference Field: Legitimacy also Chapter 3.3.1.3 Reference Field: Reputation.

⁹⁶³ See also 3.3.1 Internal Drivers – the RBV of the Nonmarket Environment and 3.2 The Three Perspectives of the Driver Model Connected to the Research Field of Strategic Management.

⁹⁶⁴ See Chapter 2.3 Main Theories in the Research Field of Nonmarket Strategies.

Further research could obtain a greater insight into these single theories to provide further proof of the concept. In addition, borrowed theories could be further developed in their adaptation to the nonmarket environment. A recommendation for further research is to focus on specific parts of the Driver Model (e.g. only internal drivers) in order to discuss the explaining theories in more detail to mitigate this limitation. More insights could be obtained with regard to the reference models and their interfaces to theoretical approaches. In detail, the reference field could be tested by qualitative and quantitative studies: e.g. the reference model of reputation and its approaches could be validated by using an empirical study to answer the questions of how image and expertise build reputation and of what the effects of credibility are in the long run; furthermore, this method could be used to explain the triangle of legitimacy⁹⁶⁵ and to validate this concept in relation to the legitimacy-related approaches.⁹⁶⁶

A recommendation for further research could be to organize a team of PhD students to analyze the Driver Model and its theories in detail in a joint research project. The different fields of research of the theories should be considered in the organization of such a research team. A further advantage of this method to deeply analyze the Driver Model is the opportunity that it affords to undertake an encompassing empirical study, e.g. following this thesis's proposal of an empirical study (see below).

(3) The main limitation of this thesis arises from the methodology that was used to validate the Driver Model: it has not been validated. Two methods to challenge the Driver Model were selected: (a) using results from empirical studies from the literature (variables)⁹⁶⁷ and (b) using results from the interviews conducted for this study.⁹⁶⁸ Both concepts comprise individual limitations. With regard to the results from empirical studies from the literature, the major disadvantage is that these results are not connected to my Driver Model. They have been taken out of their context and transferred to the model, analyzing the underlying empirical models from the respective studies. As most of the models in literature do not follow an approach based on the theories selected in the present thesis,⁹⁶⁹ the

⁹⁶⁵ See also Figure 10: Triangle of Legitimacy.

⁹⁶⁶ See Chapter 3.3.1.2 Reference Field: Legitimacy and Chapter 3.3.1.3 Reference Field: Reputation.

⁹⁶⁷ See also Appendix B: Driver Model Results.

⁹⁶⁸ See also Appendix A: Empirical Results from Literature – The Variable View.

⁹⁶⁹ See also Chapter 3 Determinants of Nonmarket Strategies – the Driver Model.

reference fields and the theories from the Driver Model were applied to the studies to obtain results.⁹⁷⁰ Due to this limitation, interviews were additionally conducted to challenge the Driver Model.⁹⁷¹ Due to the fact that 28 interviews are not comparable to a quantitative/empirical study, the results must be rated as scarce. Furthermore, only 28 interviews as a basis for the EU and US makes it difficult to deduce generalizable insights.

To find evidence for the Driver Model, conducting quantitative studies is highly recommended as the methodology applied in this thesis (transferring results from empirical studies from the literature and an interview study with n=28) only served to challenge the model; it needs to be further substantiated.⁹⁷² There are two opportunities to proceed: (a) the Driver Model could be tested by using a single empirical study to investigate the entire model; or (b) the single drivers or groups of drivers could be tested in particular empirical studies. In the following section⁹⁷³ a possible model with which to test the drivers will be presented. To this end, hypotheses should be developed from the propositions presented in this dissertation.

(4) Closely connected to the above, the Driver Model is not generalizable to the entire world. As was discussed in the introduction, former research has mainly focused on the US.⁹⁷⁴ One of the purposes of this thesis was to better understand firm's engagement in NS in the EU. However, important areas of the world, such as Asia, South America, and Russia, have not been considered. Especially in these areas, the political and business cultures are different to those cultures in the Western world (EU and North America).⁹⁷⁵ For example, the political system in China is not comparable to the democracies in the Western hemisphere. Furthermore, the business world is still undergoing profound change. In his study, Yongqiang Gao (2006) compares corporate political action in the US and China and finds important differences, for example with regard to lobbying (US) vs. Guanxi-based lobbying (China) or grassroots mobilizations and press conferences (US) vs. direct contact with the government (China).⁹⁷⁶ The guanxi culture and the direct interaction with governmental officials are some of the cultural

⁹⁷⁰ How this has been processed see also for any of the variable Chapter 3.1 Introduction and Methodology.

⁹⁷¹ See also Chapter 4 The Driver Model in the real World – Results from a Field Investigation.

⁹⁷² See also Chapter 6.1 Limitations and Further Research.

⁹⁷³ See Chapter 6.2 Towards an Empirical Approach.

⁹⁷⁴ See also Chapter 1 Introduction.

⁹⁷⁵ See Pei Sun et al. (2012) for a first discussion about emerging economies.

⁹⁷⁶ cf. Yongqiang Gao (2006: 116); Yongqiang Gao and Zhilong Tian (2006).

specialties of nonmarket engagement in China.⁹⁷⁷ Furthermore, cultural differences can also be found in Arabic countries. Therefore, it must be assumed that the Driver Model is still limited in its explanation of firms' engagement in the nonmarket environment in Europe and in the US.

Further research is needed to either find evidence for the validity of the Driver Model in other regions or to adapt it to other areas. To make the Driver Model a global concept, it would be useful to undertake qualitative and quantitative studies in selected countries and to further combine the different perspectives into a new integrative global Driver Model.

(5) The topic of NS is highly sensitive.⁹⁷⁸ NS sometimes occur in a juridical "grey zone". For this reason, it is not easy to obtain the needed information to shape the Driver Model and to validate it. Beyond that, the data are often imprecise and biased by market and nonmarket effects. Furthermore, interactions in the nonmarket environment are heavily influenced by the political culture, which differs from country to country.⁹⁷⁹ This could be seen as a general limitation for all studies in this field of research. However, as more emphasis is put on this topic in academia, the results will continue to improve.

A further increase in studies in this area⁹⁸⁰ will mitigate the effects described above.⁹⁸¹ More transparency, gained among others through an increasing number of academic discussions, will pull the "lobbying-related" business out of the "grey zone", and will force citizens to actively participate in the public policy shaping process.

In general, one of the most important outcomes of this thesis is the Driver Model, which is based on accepted theories and the link to the research field of strategic management via the reference fields. As discussed earlier in this thesis,⁹⁸² two of the 11 initial drivers were ultimately not integrated: issue-related antecedents of firms' engagement in NS.⁹⁸³ To clarify whether this driver needs to be part of the Driver Model or whether all issues related to this driver are already covered by other drivers⁹⁸⁴,

⁹⁷⁷ cf. Guosheng Deng and Kennedy (2010); Zhilong Tian and Xinming Deng (2007).

⁹⁷⁸ See also Chapter 1 Introduction.

⁹⁷⁹ See also Chapter 5.1.2 The Interviews in Focus.

⁹⁸⁰ See also Figure 1: Ebscohost Search on Articles in Strategic Management.

⁹⁸¹ See also Chapter 6.1 Limitations and Further Research.

⁹⁸² Chapter 4.2 Insights.

⁹⁸³ See also Chapter 3.5 Issue-related Drivers of Firms' Engagement in Nonmarket Strategies.

⁹⁸⁴ See the criticism of Freeman: cf. Freeman (2004: 231).

further research is needed.⁹⁸⁵ In this regard, a recommendation is to investigate the LCM⁹⁸⁶ in further detail, as this is a relatively young theory that has only been applied in a relatively small area of research. In addition, empirical investigations could give further evidence with regard to whether this driver is necessary. Due to the lobbying disclosure act of 1995,⁹⁸⁷ to create an empirical model to find evidence in the US might be relatively easy.

6.2 Towards an Empirical Approach

This section proposes an empirical approach that could be used to verify the Driver Model with a quantitative study. Several empirical methodologies have been compared to determine which one to recommend. The purpose of such a study needs to be to test whether the Driver Model is only applicable to the firms examined in the present dissertation⁹⁸⁸ or is valid across firms in general. In general, the use of Cresswell's (2003) sequential explanatory design is recommended.⁹⁸⁹ Other studies in the area also apply this model, including Coen and Grant (2006), Martin (2006), and Schuler (2002).⁹⁹⁰ A combination of qualitative and quantitative methods is provided below. It is easily possible to integrate the results from the present thesis (application of theories, development of reference fields, and the interviews) into an empirical study (as defined below).

⁹⁸⁵ See also Chapter 3.5 Issue-related Drivers of Firms' Engagement in Nonmarket Strategies and 5.1.1 The overarching Framework: Step forward for Research?

⁹⁸⁶ See also Chapter 3.5.1 Theoretical Background: The Life Cycle Model of Public Policy Management (LCM).

⁹⁸⁷ cf. Legislative History -S. 1060 (H.R. 2564) (S. 101) (1995).

⁹⁸⁸ See above.

⁹⁸⁹ cf. Cresswell (1999); Cresswell (2003). See Jick (1979) for another mixed approach Jick (1979).

⁹⁹⁰ cf. Coen and Grant (2006b); Martin (2006); Schuler (2002).

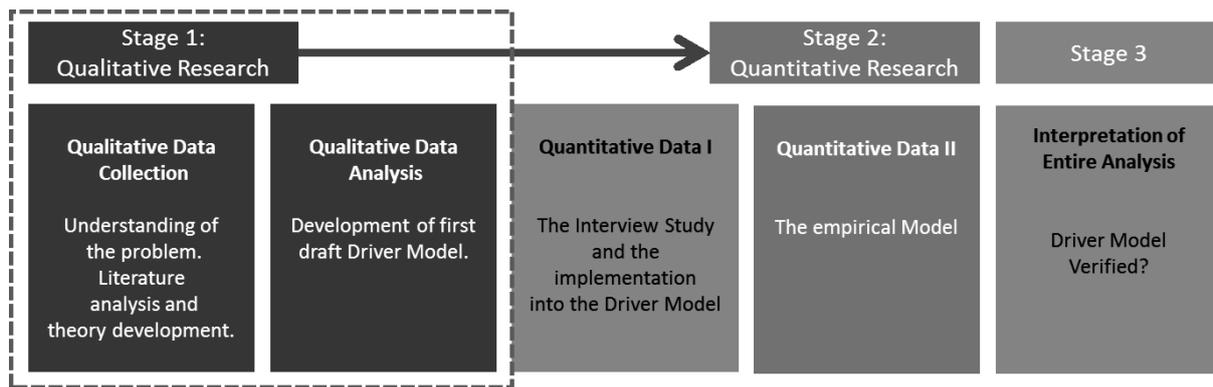


Figure 21: Sequential Exploratory Design⁹⁹¹

Figure 21 illustrates the methodology recommended in this thesis. The dotted line highlights the parts of the approach that were implemented in this thesis. In the data collection and analysis phases, information was gathered about the state of the art in literature⁹⁹² to define the problem of the thesis. Furthermore, theories were applied and the first approach of the Driver Model was developed.⁹⁹³ In the quantitative data I phase, an interview study was developed, but only some test interviews were conducted to challenge the Driver Model; the results were then implemented into the model.⁹⁹⁴ The interview study following the Sequential Exploratory Design is still pending. The basis for the step “quantitative data II” is proposed in the following. For this step, the structural equation modeling technique has been chosen. However, the basis for an empirical study first needs to be developed.

Definition of the Empirical Model

The Empirical Model can be defined as follows:

The antecedents of firms’ engagement in NS can be explained using two drivers: internal drivers and external drivers⁹⁹⁵. Additionally, issue-related driver could be incorporated.⁹⁹⁶

Furthermore, firms invest in NS as part of their overall integrated firm strategy (NS and CS) if they expect a positive effect on the long-term firm survival and the short- to medium-term firm results.⁹⁹⁷

⁹⁹¹ based on Cresswell 2003 #502: 213}.

⁹⁹² See Chapter 1 Introduction.

⁹⁹³ See Chapter 2 Definitions and Chapter 3 Determinants of Nonmarket Strategies – the Driver Model.

⁹⁹⁴ See Chapter 4 The Driver Model in the real World – Results from a Field Investigation

⁹⁹⁵ About the discussion of the necessity to integrate the issue-related driver see above.

⁹⁹⁶ See Discussion above.

⁹⁹⁷ See also Appendix C: Outcome of Nonmarket Strategies.

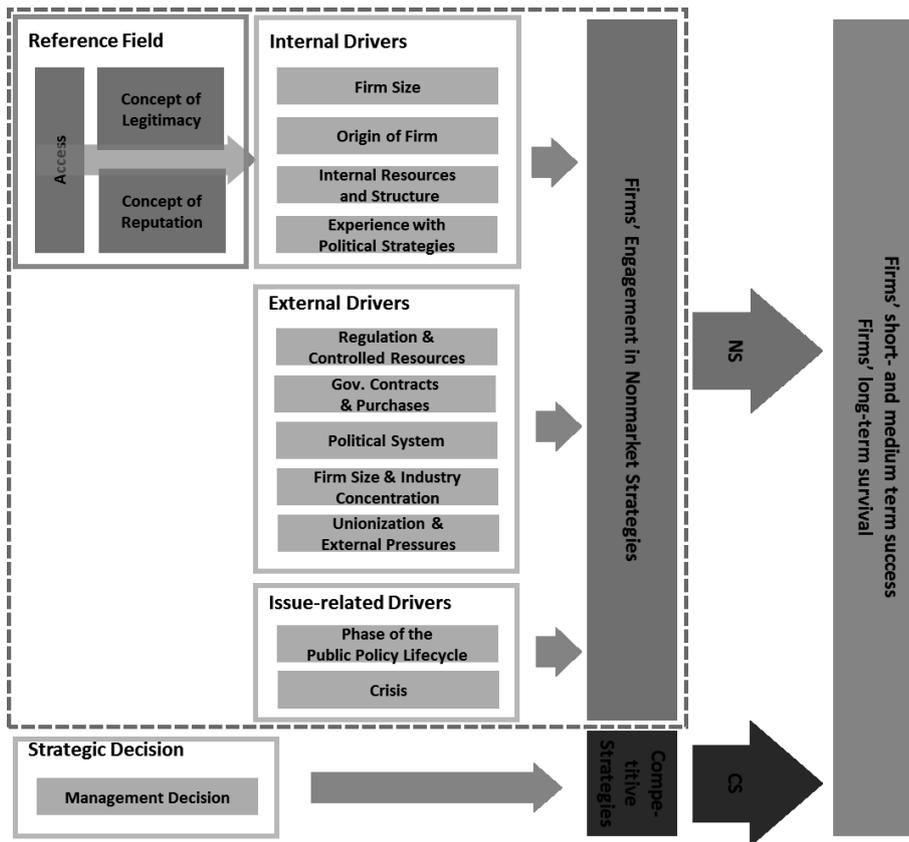


Figure 22: Model for the Empirical Analysis

Figure 22: Model for the Empirical Analysis illustrates the parts of the empirical model to be developed. The following focuses on the first part of the empirical model to explain the antecedents of firms' engagement in NS (dotted line in the figure). The figure clearly indicates that the empirical model needs to be developed as a multi-dimensional construct. This is consequent, considering the numerous cause variables within the drivers and the reference fields⁹⁹⁸, and especially the definition of the multiple political resources. The RBV will serve as the basis to develop the empirical model.⁹⁹⁹ This allows for the easy integration of competitive strategies within the overall empirical model to analyze the outcome of the integrated strategic approach of the future firm success. The following introduces the variables for the empirical model.

Based on extant literature, on the development of the Driver Model using established theories in this thesis, and on the insights into the important antecedents of firms' engagement in NS obtained from the interviews, measurement scales were designed for the three dimensions in the Driver Model:

⁹⁹⁸ See above Chapter 3 Determinants of Nonmarket Strategies – the Driver Model.

⁹⁹⁹ Further, the SCP (Structure-Conduct-Performance) Model can give deeper insights in the area of external drivers.

internal drivers, external drivers, and (again) issue-related drivers, as well as for the reference fields, due to the chosen empirical model.

Independent Variables

Internal Drivers: The first variable within the internal driver's section is *firm size* (IDF11) and is measured by number of employees (this is a well-accepted measure within the research of Nonmarket Strategies as seen by: Bhuyan (2000); Hillman (2003); Rehbein (1998) and Unah (2003))¹⁰⁰⁰ and is related to the reference field legitimacy¹⁰⁰¹.

The second variable explains the origin of the firm and is also related to legitimacy.¹⁰⁰² The use of the items *foreign origin* (IDO11) and *foreign origin firm's age in country* (IDO12) is recommended, because even a foreign-owned or originated firm will behave as a domestic one after years in a foreign country;¹⁰⁰³ these variables are widely accepted within the literature (cf. Bernhagen (2006); Hansen (2000); Mitchell (1997); Rehbein (1995); and Sadrieh (2005))¹⁰⁰⁴.

The third variable, internal resources and structure, is closely related to the concept of reputation¹⁰⁰⁵ and to the RBV of the nonmarket environment. A two-item construct is recommended. First, item 1 is related to organizational slack. Bourgeois (1981) defines organizational slack as "*a cushion of excess resources available in an organization that will either solve many organizational problems or facilitate the pursuit of goals outside the realm of those dictated by optimization principles*"¹⁰⁰⁶. Only firms that can afford to engage in NS (here slack is needed) will do so; therefore, organizational slack can be used as a measure to explain firms' engagement in NS. In this vein, the item *organizational slack* (IDR1X) is defined as a construct of the following items: *sales* (IDR11), *profit* (IDR12), *revenue* (IDR13), *employees* (IDR14), *free cash flow* (IDR15), and *market share* (IDR16). All variables are widely accepted in the literature.¹⁰⁰⁷ The second item is *GAD* (IDR21). A GAD is a highly specialized department that analyzes

¹⁰⁰⁰ cf. Bhuyan (2000); Hillman (2003); Rehbein and Schuler (1998); Unah (2003).

¹⁰⁰¹ See also Chapter 3.3.1.2 Reference Field: Legitimacy.

¹⁰⁰² See also Chapter 3.3.1.2 Reference Field: Legitimacy.

¹⁰⁰³ cf. Rehbein (1995: 46).

¹⁰⁰⁴ cf. Bernhagen and Mitchell (2006); Hansen and Mitchell (2000); Mitchell et al. (1997a); Rehbein (1995); Sadrieh and Annavarjula (2005).

¹⁰⁰⁵ See also Chapter 3.3.1.3 Reference Field: Reputation.

¹⁰⁰⁶ Bourgeois (1981: 29).

¹⁰⁰⁷ cf. Bernhagen and Mitchell (2006); Bhuyan (2000); Blumentritt (2003); Bombardini (2008); Drope and Hansen (2006); Georgiou (2005); Griffin and Dunn (2004); Ingram and Simons (1995); Lenway and Rehbein (1991);

the nonmarket environment and plans and coordinates NS. The “lobbyists” within these departments have in-depth knowledge about the public policy shaping process and have useful connections to politicians, which create the reputation of a firm. This variable can be found in literature, too; however, it is most often related to “office in Washington, D.C.”¹⁰⁰⁸.

The fourth variable within the internal driver section is experience with NS and is also related to the concept of reputation (especially credibility) and the RBV of the nonmarket environment.¹⁰⁰⁹ The item *years’ experience with NS* (IDE11) is recommended. Scholars argue that credibility is one of the most important characteristics of lobbying, and that it is gathered over years.¹⁰¹⁰ The variable is only used by Hillman (2003).¹⁰¹¹ For an overview of all internal variables see table 3.

Table 3: Items: Internal Drivers

No	Dimension	Item	Nonmarket RBV Link
1	Internal Drivers	firm size (IDF11)	Legitimacy
2	Internal Drivers	foreign origin (IDO11)	Legitimacy
3	Internal Drivers	foreign origin firm’s age in country (IDO12)	Legitimacy
4	Internal Drivers	organizational slack (IDR1X)	Reputation
4a	Internal Drivers	sales (IDR11)	Reputation
4b	Internal Drivers	profit (IDR12)	Reputation
4c	Internal Drivers	revenue (IDR13)	Reputation
4d	Internal Drivers	employees (IDR14)	Reputation
4e	Internal Drivers	free cash flow (IDR15)	Reputation
4f	Internal Drivers	market share (IDR16)	Reputation
5	Internal Drivers	GAD (IDR21)	Reputation
6	Internal Drivers	years’ experience with NS (IDE11)	Reputation (credibility)

External Drivers: The first variable within the section of external drivers is a two-item construct: item 1 is defined as *level of regulation* (EDR11). Unfortunately, there are no data available on the precise degree to which firms are affected by regulations. However, it has long been recognized that certain industries are more heavily regulated than others.¹⁰¹² To operationalize this item, the use of the

Masters and Keim (1985); Meznar and Nigh (1995); Mitchell et al. (1997a); Rehbein (1995); Rehbein and Schuler (1998); Schuler (1996); Schuler (1999); Schuler et al. (2002); Tripathi (2000); Unah (2003).

¹⁰⁰⁸ cf. Lenway and Rehbein (1991); Hart (2001); Schuler (1999).

¹⁰⁰⁹ See also Chapter 3.3.1.3 Reference Field: Reputation.

¹⁰¹⁰ cf. Heinz et al. (1990); Keim and Baysinger (1988); Sethdi (1982) and Chapter 3.3.1.3 Reference Field: Reputation.

¹⁰¹¹ Hillman (2003).

¹⁰¹² cf. Long and Albert N. Link (1983); Pittman (1977).

Standard Industrial Classification (SIC) is recommended, as is differentiating between the highly regulated industries, such as airline transportation and pharmaceuticals, and the less regulated industries, such as manufacturing. This variable is widely accepted in literature.¹⁰¹³ Item 2 is defined as *dependence on controlled resources* (EDR21). Firms depend on resources that they cannot control, such as the permission to pollute or market access. As with the item level of regulation, there are no data available to precisely analyze this item; therefore, the recommendation is again to use the SIC as market access and permission to pollute or to mine are industry-specific. It is important to emphasize that the outcome for a respective firm of the two items (EDR11 and EDR 21) based on SIC codes is not the same. To fill the items EDR11 and EDR21, a group of experts will define which SIC codes are related to regulation (then EDR11 turns to 1) and which SIC codes are related to controlled resources (then EDR 21 turns to 1).

The second variable is *governmental purchases* (EDP11). It is an advantage to measuring this variable that all governmental purchases are disclosed (e.g. Federal Business Opportunities Database); therefore, researchers can calculate the share of governmental purchases of every firm. This is applied in literature as well (see Drope & Hansen (2009); or Grier, Munger et al. (1994)).¹⁰¹⁴

The third variable is *political system* (EDS11). In line with Hillman (2003), it is recommended to differentiate between pluralist and corporatist countries on a five-point Likert scale, starting with 1 for highly pluralist countries (e.g. United Kingdom 2) up to 5 for highly corporatist countries (e.g. Sweden 4).¹⁰¹⁵

The fourth variable is industry concentration, measured using the item *four-firm concentration ratio* (EDC11). The four-firm concentration ratio (measuring the market shares of the four largest firms in an industry) is a widely applied construct in literature and data are easily accessible.¹⁰¹⁶

The fifth variable is *unionization* (EDU11). It is recommended to analyze the share of unionization for every single firm; this approach is also widely accepted in the literature (e.g. item: union coverage=

¹⁰¹³ cf. Burris (2001); Drope and Hansen (2009); Hart (2001); Jin-Hyuk Kim (2008); Masters and Keim (1985).

¹⁰¹⁴ cf. Drope and Hansen (2006); Grier et al. (1994).

¹⁰¹⁵ cf. Hillman (2003: 47); see as well Siaroff (1999) & Todosijević and Enyedi (2003).

¹⁰¹⁶ cf. US Census Bureau; Bhuyan (2000); Drope and Hansen (2006); Grier et al. (1994); Jin-Hyuk Kim (2008).

percentage of the industry's workforce covered by union contracts (Mitchell & Hansen (1997); see further Rehbein & Schuler (1998) and Unah (2003)).¹⁰¹⁷

The sixth and final variable in the section of external drivers is *external pressures* (EDE1X), which is a two-item construct. Item 1 is defined as *legislature debate* (EDE12). This item indicates whether a debate within the public policy shaping process affects the respective firm (e.g. the German energy turnaround for energy firms); the item is used in the literature (e.g. Rehbein (1995); for count of legislative hearings see Baumgarten, Gray et al. (2009))¹⁰¹⁸. Item 2 is *visibility / articles* (EDE12). This item analyzes the visibility of a company in the media and is widely accepted in the literature (e.g. Drope & Hansen (2009)).¹⁰¹⁹ For an overview of all external variables see table 4.

Table 4: Items: External Drivers

No	Dimension	Item
7	External Drivers	level of regulation (EDR11)
8	External Drivers	dependence on controlled resources (EDR21)
9	External Drivers	governmental purchases (EDP11)
10	External Drivers	political system (EDS11)
11	External Drivers	four-firm concentration ratio (EDC11)
12	External Drivers	unionization (EDU11)
13	External Drivers	external pressures (EDE1X)
13a	External Drivers	legislature debate (EDE12)
13b	External Drivers	visibility / articles (EDE12)

Issue-related drivers: Two issue-related items are defined to explain the antecedents of firms' engagement in NS. Item 1 is firms' economic crisis (IDC11). A firm is in a crisis if its profits decline (and become losses) or if the sales trend is negative. As NS need to be implemented in an early phase it is recommended to use the *three-year sales trend (relative)* (see also Kim (2008)).¹⁰²⁰ Item 2 is defined as *interest group pressure* (IDC21). Interest group pressure can include developing public opinion against the firm, boycotts, strikes, embargos, lockouts, public demonstrations, coercive persuasion, and the use of the media. A possible way to measure this item is to analyze negative social media comments with regard to a firm over time with pre-defined thresholds (e.g. increase of negative comments within

¹⁰¹⁷ cf. Mitchell et al. (1997a); Rehbein and Schuler (1998); Unah (2003).

¹⁰¹⁸ cf. Baumgartner et al. (2009); Rehbein (1995).

¹⁰¹⁹ cf. Drope and Hansen (2009).

¹⁰²⁰ cf. Jin-Hyuk Kim (2008).

three months by 50%). In the literature this measure based on newspaper articles is applied, e.g. Greening & Gray (1994)¹⁰²¹. After having gathered the results, a new discussion where to integrate these drivers (internal/external drivers vs. issue-related drivers) shall be undertaken. For an overview of all internal variables see table 5.

Table 5: Items: Issue-related Drivers

No	Dimension	Item
14	Issue-related Drivers	economic crisis (IDC11)
15	Issue-related Drivers	interest group pressure (IDC21)

Reference Fields: The measure *legitimacy* (RFL11) explains whether a firm follows contemporary laws and conventions of a society from the perspective of the policy shaping body (product range, work and safety laws, and philanthropic activities). Therefore, a panel of politicians shall be set up to rate the legitimacy of the respective firms using a questionnaire. This questionnaire includes the following questions, among others, rated on a five-point Likert scale (1: low – 5: high): (1) company is important for the economic stability of the country; (2) company engages in voluntary social programs to increase the stability of the society; (3) company is an important employer in the country; (4) company always sticks to laws and regulations; and (5 – countermeasure) company only acts in self-interest.¹⁰²²

The next measure is related to reputation and is developed as a three-item construct. Item 1 *image* (RFR11) is related to the general public and therefore measures the number of positive articles about a firm in a selection of media entities.

The second item of reputation is *expertise* (EFR12), which is a long-term measure and is related to a smaller professional audience (e.g. politicians). It is recommended to analyze the participation of managers of the respective firm in official hearings. Another opportunity is to organize an expert group to rate the expertise level of the firms in the panel.

The third item of reputation is *credibility* (EFR13), which is a measure to determine whether a firm keeps the promises it has made to a larger audience. This item is difficult to quantify because interactions of the respective firms with several actors in the nonmarket environment need to be

¹⁰²¹ cf. Greening and Gray (1994).

¹⁰²² See for legitimacy-related measures e.g. Deeds, Decarolis, and Coombs (2000); Hillman and Dalziel (2003).

analyzed for a longer time period. Therefore, it is recommended to organize an expert group to rate the credibility of the firms. The expert group should consist of several groups from the nonmarket environment, such as politicians, journalists, unions, and other interest groups.

The next measure is access. This measure is a multi-item construct measuring firms' degree of access to several actors within the nonmarket environment. A three-item construct is recommended, the first being the item *access to legislative body* (RFA11). To measure this item, the interviewees are asked how many direct meetings managers from the company have had with members of the parliament within a defined period. The item *access to executive body* (RFA12) measures the direct interactions of the firms' managers with ministers and undersecretaries. Finally, the measure *indirect access* (RFA13) measures the interactions of the firms' managers with the political environment via consultants and associations. For an overview of all reference field variables see table 6.

Table 6: Items: Reference Fields

No	Dimension	Item
16	Reference Field	legitimacy (RFL11)
17	Reference Field	reputation-image (RFR11)
18	Reference Field	reputation-expertise (EFR12)
19	Reference Field	reputation-credibility (EFR13)
20	Reference Field	access to legislative body (RFA11)
21	Reference Field	access to executive body (RFA12)
22	Reference Field	indirect access (RFA13)

Dependent Variables

The measure *firms' engagement in NS* is a multi-item variable. In the following a possible item set is proposed.

Item 1 is *NS decision* (DV1). This is a binary scaled item: 1 if the firm engages in NS, and 0 if not. This item is widely accepted in the literature (e.g. Bernhagen & Mitchell (2006); Drope & Hansen (2009); Schuler (1999))¹⁰²³.

Item 2 is *NS expenditures* (DV2), which is defined as the total expenditure of firms on their engagement in NS. This item consists of disclosed expenditure to candidates and parties and the calculation of the

¹⁰²³ cf. Bernhagen and Mitchell (2006); Drope and Hansen (2009); Schuler (1999).

cost of GADs based on publically accessible information. Especially the former is widely accepted in the literature (e.g. Drope & Hansen (2009); Grier, Munger et al. (1994); Kim (2008))¹⁰²⁴.

Item 3 is *PAC engagement* (DV3); it is a binary scaled item 1: if the firm has its own PAC, and 0 if not (only applies for the US). This item is widely accepted in the literature (e.g. Hart (2001); Rehbein (1995))¹⁰²⁵.

Item 4 is *PAC contributions* (DV4). This item is defined as PAC's total contributions to candidates (only applies for the US), and is widely accepted in the literature (e.g. Hansen & Mitchell (2000); Mitchell, Hansen et al. (1997); Kim (2008); Tripathi (2000))¹⁰²⁶. For an overview of all dependent variables see table 7.

Table 7: Items: Dependent Variables

No	Dimension	Item
A	Dependent Variable	NS decision (DV1)
B	Dependent Variable	NS expenditures (DV2)
C	Dependent Variable	PAC engagement (DV3)
D	Dependent Variable	PAC contributions (DV4)

An empirical model has been developed which allows further research to test the Driver Model to either verify or reject the presented approach.

¹⁰²⁴ cf. Glantz, Abramowitz, and Burkart (1976); Gordon (2001); Drope and Hansen (2009); Grenzke (1989a); Grier et al. (1994); Hersch and McDougall (2000); Jin-Hyuk Kim (2008); Milyo, Primo, and Groseclose (2000); Poole and Romer (1985).

¹⁰²⁵ cf. Evans (1988); Hart (2001); Rehbein (1995).

¹⁰²⁶ cf. Hansen and Mitchell (2000); Mitchell et al. (1997a); Jin-Hyuk Kim (2008); Tripathi (2000).

6.3 Conclusion

This thesis makes several contributions to academic knowledge about firm's drivers to engage in NS. After analyzing the prevailing literature, the starting point of this thesis was the finding that, in spite of the increasing significance of NS, a theoretically well-founded encompassing framework is still missing.¹⁰²⁷ Furthermore, most of the analyses in the literature focus on the US, neglecting the economically important (500 million people) continent of Europe.¹⁰²⁸

To fill this gap, two major goals were defined for this thesis: (1) to build an overarching framework to explain firms' engagement in the nonmarket environment (in NS), and (2) to challenge the results of that framework with interviews in the US and in Europe. For this reason, two major research questions by developing an overarching framework based on theories were defined as the basis for this thesis:

1. What are the determinants that force business firms to engage in NS?
2. Are there differences between the determinants in the US and in Europe?

To answer the research questions and reach the goals of this thesis, more than 20 theories were analyzed to determine their possible contribution to explaining firm behavior in the nonmarket environment. Out of this group, six theories plus the RBV were selected for integration into the Driver Model to explain firm behavior with regard to NS. It was important in the process of developing the Driver Model to maintain balance between the (pure) application of theories to explain firm behavior with regard to the nonmarket environment and the integration of insights from practice. For this reason, contributions from strategic management theory were implemented into the Driver Model by linking the model to this research field.

It was necessary not to be biased by practical experience in the selection and borrowing of theories, and to always follow an encompassing green field approach. On the other hand, the Driver Model should not only be a theoretical framework with scarce practical significance. To this end, the interviews with practitioners were conducted.

¹⁰²⁷ See Chapter 1 Introduction.

¹⁰²⁸ As discussed in Chapter 6.1 Limitations and Further Research besides the "Western World" further areas are missing.

As a result of this thesis, it can be stated that both research questions have in general been answered.

(1) The Driver Model is (a) a step towards an encompassing framework; it considers internal and external drivers and is connected to the research field of strategic management. The internal drivers (in combination with the reference fields) implement – applying the RBV – strategic management theory into the Driver Model. In addition, a time component (issue-related driver)¹⁰²⁹ was initially considered but in the following discussion rejected.¹⁰³⁰ Furthermore (b) the Driver Model describes various strategic drivers that force firms to engage in NS. The strategic component of firms' nonmarket behavior is increasing in practice; therefore, the Driver Model is a step in the right direction.

(2) By following a theoretical approach, the prevailing focus on North America has been slightly mitigated. The Driver Model, from its theoretical foundation, seems to be valid for all Western democratic societies. The interviews provided insights into the sub-questions concerning (a) proof of concept for the application of the Driver Model in Europe and filling the existing research gap outside the US; (b) analyzing the differences between the different nonmarket structures in the US and in Europe and integrating the results into the Driver Model; and finally, (c) offering some advice to practitioners by learning from each other (an article has been provided by the author working for an think tank in the US based on the interviews).¹⁰³¹ This goal could only be achieved with retrenchments.

Overall, the Driver Model makes useful contributions to explaining the antecedents of firms' engagement in NS. The model takes an encompassing perspective by integrating the internal and external drivers. In addition, the model is based on widely accepted theories.¹⁰³² Leaving the theoretical basis of the model and turning to insights from empirical studies in literature, it was possible to find support for the model's propositions for explaining engagement in the nonmarket environment by applying the main theories in the research field of NS.¹⁰³³ However, the limited empirical basis (only 42 studies) could not explain the actors' behavior in the nonmarket environment in all of its characteristics. Further research (especially of the empirical variety) in this field is needed.

¹⁰²⁹ See Chapter 3.5 Issue-related Drivers of Firms' Engagement in Nonmarket Strategies.

¹⁰³⁰ An exception is clearly and logical the definition of the empirical model for further research.

¹⁰³¹ cf. Seeringer (2012).

¹⁰³² As an exception the LCM Theory needs to be mentioned; however, the issues-related driver has been excluded from the driver model. Following that, all now applied theories can be seen as widely accepted.

¹⁰³³ See Chapter 2.3.

Finally, the Driver Model logic was transferred to practice by way of interviews. The results support the model. Furthermore, insights into building a GAD or setting up governmental affairs (in a foreign country) were presented, which makes this thesis more interesting for practitioners.

The stringent application of widely accepted theories to develop an encompassing Driver Model to explain firms' engagement in the nonmarket environment is relatively new. Nevertheless, it has been proven as a valuable and sustainable approach to foster further research. Therefore, an empirical model has been developed that can be used in other studies to support the Driver Model.

In general, the Driver Model contributed to understanding the public policy shaping process and its internal processes. It provides an insight into and an understanding of the processes in the nonmarket environment. The approach, using widely accepted theories to explain NS, can be seen as useful for research. To expand the field of strategic management to the nonmarket environment in particular through the development of the nonmarket RBV and the nonmarket MBV is not only a necessary reaction to the circumstances in practice, but also an important trigger for academia.

Summary of Chapter 6: Limitations, Further Research, and Conclusion

Five major limitations were unveiled in the discussion:

- Many theories applied in the Driver Model have been borrowed from other fields of research
- A deep and full analysis of all applied and rejected theories (more than 20) has not fully been achieved in the thesis (however this was partly documented in the appendix)
- There is a lack of own empirical analysis, and instead the “borrowing” of over 100 empirical results from other studies in the literature
- There is a restricted generalizability of the results by focusing on the EU and the US
- Detailed results were impossible to disclose due to the sensitivity of the topic (nonmarket environment)

To address the research drawbacks that were discussed in the section on limitations, approaches were developed in the section on further research for all five limitations.

An encompassing empirical approach has been developed to support the Driver Model. To this end, the results of this thesis have been integrated into a global model using sequential exploratory design.

The structural equation modeling technique has been chosen to find empirical evidence for the Driver Model. Furthermore, 34 measures have been defined.

With the development of the Driver Model based on widely accepted theories, both research questions posed in this thesis have been answered; however, some questions still remain unanswered.

The theoretically well-founded Driver Model offers useful contributions to drive academic knowledge and provides a well-structured basis for further research.

The interviews are a first approach to close the research gap for Europe and provide interesting insights for practitioners (e.g. how to start a GAD in a foreign country).

With its reference fields, the Driver Model has connected competitive strategy and NS to define an encompassing corporate strategy.

The research field of strategic management has been widened by developing the “RBV of the nonmarket development”, connecting the market and nonmarket environments.

Conclusion:

The Driver Model explains the antecedents of firms’ behavior in the nonmarket environment and connects corporate strategy with Nonmarket Strategy.

Appendix

Appendix A: Empirical Results from Literature – The Variable View

Table 8: Internal Drivers: Firm Size (Employment - Legitimacy): Empirical Results

Firm Size Employment - Legitimacy	<i>Institutional Theory</i>	<i>Number of Results: 7</i>
Study	Independent Variable	Effect on Dependent Variable
(Bhuyan, 2000); Review of Industrial Organization	Number of Employees	positive (**) on NS Expenditure
(Borghesi & Chang, 2015); Journal of Economics & Finance	Total assets	Positive (***) on Lobbying Expenditure
(Hillman, 2003); Business & Politics	Number of Employees	positive (***) on Participation Level NS
(MacHer & Mayo, 2015); Strategic Management Journal	Firm Size (employees)	Positive (***) on legislative influence
(MacHer & Mayo, 2015); Strategic Management Journal	Firm Size (employees)	Positive (***) on executive influence
(Rehbein & Schuler, 1998); Academy of Management Proceedings & Membership Directory	Employees	positive on Engagement in NS
(Unah, 2003); Business & Politics	Number of Employees	positive (**) on Corporate Litigation

Table 9: Internal Drivers: Origin of Firm (Ownership - Reputation): Empirical Results

Origin of Firm (domestic (+)) Ownership - Legitimacy	<i>Institutional Theory</i>	<i>Number of Results: 7</i>
Study	Independent Variable	Effect on Dependent Variable
(Bernhagen & Mitchell, 2006); conference paper	Origin of Firm = Norway	positive (but foreign firm) (**) on EU Lobbying
(Bernhagen & Mitchell, 2006); conference paper	Origin of Firm = Japan	negative (foreign firm) (**) on EU Lobbying
(Bernhagen & Mitchell, 2006); conference paper	Origin of Firm = US	negative (foreign firm) (**) on EU Lobbying
(Hansen & Mitchell, 2000); The American Political Science Review	Foreign ownership	Negative (***) on PAC contributions but nor effect on lobbying/charities
(Mitchell, Hansen, & Jepsen, 1997a); Journal of Politics	Foreign owned firm	negative (**) on PAC Donations
(Rehbein, 1995); Policy Studies Journal	Foreign Ownership	negative (**) on Contributions to PAC all sectors
(Sadrieh & Annavarjula, 2005); Int. Journal of Public Admin.	Domestic Firm compared to Foreign Firm	positive on Lobbying

Table 10: Internal Drivers: Internal Resources & Structure: Empirical Results

Internal Resources & Structure	<i>Basic Theory: Behavioral Theory of the Firm</i>	Number of Results: 31
Study	Independent Variable	Effect on Dependent Variable
(Bernhagen & Mitchell, 2006); conference paper	In. Sales (firm size)	positive (**) on EU Lobbying
(Bhuyan, 2000); Review of Industrial Organization	Average Sales	positive (**) on NS Expenditure
(Bhuyan, 2000); Review of Industry Organization	Level of Profit	positive (*) on NS Expenditure
(Blumentritt, 2003); Business and Society	Subsidiary Size	positive (*) on Engagement in NS
(Bombardini, 2008); Journal of Int. Economics	Firm Size (log sales)	positive on Participation
		positive on Contribution level
(Drope & Hansen, 2006); Business and Politics	Revenue	positive (***) on Lobbying Expenditure
(Drope & Hansen, 2006); Business and Politics	Revenue	positive (***) on Lobbying Decision
(Georgiou, 2005); Abacus	Sales (size of company for resources)	positive (**) on Number of Comment Letters
(Griffin & Dunn, 2004); Business Society	Human Resources	positive (**) on Corporate Political Communication Strategies
(Hart, 2001); Journal of Politics	D.C. Consultant	positive (***) on PAC Formation
(Hart, 2001); Journal of Politics	D.C. Office	positive (***) on PAC Formation
(Hart, 2001); Journal of Politics	D.C. Office	positive (*) on PAC Size
(Ingram & Simons, 1995); AMJ	Organizational Size	positive (**) on Work-family Issues
(Lenway & Rehbein, 1991); AMJ	Organizational slack	positive (**) Firms with organizational slack are more likely leaders and not free riders
(Lenway & Rehbein, 1991); AMJ	Washington Office	positive (**) Firms with Washington offices are more likely to act as leaders or followers than as free riders
(Masters & Keim, 1985); Journal of Politics	Total Assets	positive (*) on PAC Participation
(Masters & Keim, 1985); Journal of politics	Employment (resources)	positive (***) on PAC participation
(Meznar & Nigh, 1995); AMJ	Organizational Size	positive (***) on Engagement in NS
(Mitchell et al., 1997a); Journal of politics	Size	positive (***) on PAC Donation
(Rehbein, 1995); Policy Studies Journal	Firm Size	positive (***) on Contributions to PAC
(Rehbein & Schuler, 1998); Academy of Management Proceedings & Membership Directory	Employees	positive on Engagement in NS
	Profitability	positive on Engagement in NS
	Free Cash Flow	positive on Engagement in NS
(Schuler, 1996); AMJ	Market Share	positive (**) on Petitions
		positive (***) on Testimony
(Schuler, 1999); Business and Politics	Organizational environment (Washington office,	positive on Engagement in NS

	consultants, experiences, slack resources)	
(Schuler, Rehbein, & Cramer, 2002); AMJ	Sales	positive (***) on Corporate Political Access
(Tripathi, 2000); Business & Politics	Sales	positive (***) on PAC Contributions
(Unah, 2003); Business & Politics	In Sales	positive (***) on Corporate Litigation
(Unah, 2003); Business & Politics	Number of Workers	positive (***) on Corporate Litigation

Table 11: Internal Drivers: Experience with Nonmarket Strategies: Empirical Results

Experience with Nonmarket Strategies	<i>Basic Theory: Behavioral Theory of the Firm</i>	<i>Number of Results: 5</i>
Study	Independent Variable	Effect on Dependent Variable
(Hillman, 2003); Business & Politics	Years' Experience with NS	positive (*) on Participation Level in NS
(Rehbein & Schuler, 1998); Academy of Management Proceedings & Membership Directory	D.C. Staff	positive on Engagement in NS
	D.C. Consultants	positive on Engagement in NS
Schuler 1999 #52); Business and Politics	Organizational environment (Washington office, consultants, experiences, slack resources)	positive on Engagement in NS
(Unah, 2003); Business & Politics	Legal Counsel	positive (***) on Corporate Litigation

Table 12: External Drivers / Institutions: Level of Regulation: Empirical Results

Level of Regulation	<i>Resource Dependence Theory</i>	<i>Number of results: 18</i>
Study	Independent Variable	Effect on Dependent Variable
(Burriss, 2001); American Sociological Review	Regulated Industry	positive (****) on Contributions made to Republicans
(Drope & Hansen, 2006); Business and Politics	Federal Court Cases	positive (***) on Lobbying Expenditure
(Drope & Hansen, 2006); Business and Politics	Federal Court Cases	positive (***) on Lobbying Decision
(Drope & Hansen, 2006); Business and Politics	Number of Federal Agency Interactions	positive (***) on Lobbying Expenditure
(Drope & Hansen, 2006); Business and Politics	Number of Federal Agency Interactions	positive (***) on Lobbying Decision
(Drope & Hansen, 2009); Pol. Research quarterly	Pollution Regulation	positive (***) on Lobbying Decision
(Drope & Hansen, 2009); Pol. Research quarterly	Federal Agency Regulation	positive (***) on Lobbying Decision
(Grier, Munger, & Roberts, 1994); American Pol. Science Rev.	Cumulative Antitrust	positive (*) on PAC Contribution
(Grier et al., 1994); American Pol. Science Rev.	Regulated Industry	positive (***) on PAC Contributions

(Hart, 2001); Journal of Politics	Regulation	positive (**) on PAC Formation
(Hart, 2001); Journal of Politics	Regulation	Positive (***) on PAC Size
(Holburn & Vanden Bergh, 2014); Strategic Management Journal	Before announcement of M&A in regulated industry	Positive (***) on campaign contribution
(Jia, 2014); Strategic Management Journal	Regulated Industry	Positive on participation in CPA (congress seats)
(Jin-Hyuk Kim, 2008); Business and Politics	Regulated Industry	positive (**) on Lobbying Participation positive (**) on Lobbying Expenditure
(Jin-Hyuk Kim, 2008); Business & Politics	Regulated Industry	positive (**) on Campaign Contribution Participation positive (**) on Campaign Contribution Expenditure
(Masters & Keim, 1985); Journal of politics	Regulated Industries	higher PAC participation in higher regulated industries

Table 13: External Drivers / Institutions: Dependence on Controlled Resources: Empirical Results

Dependence on Controlled Resources	Resource Dependence Theory	Number of results: 5
Study	Independent Variable	Effect on Dependent Variable
(Figueiredo & Silverman, 2006); Journal of law and economics	Alumni in Committee	positive (***) on lobbying
(Fleisher, 1993); Legislative Studies quarterly	Member of Defense Committee	positive (***) on Size of PAC Contributions from Defense PAC
(Ingram & Simons, 1995); AMJ	Public Sector	positive (***) on Work-family Issues
(Mezner & Nigh, 1995); AMJ	Controlled Resources	positive (***) on NS Involvement
(Mitchell et al., 1997a); Journal of politics	Pollution Expenditures	positive (**) on PAC Donations

Table 14: External Drivers / Institutions: Governmental Purchases and Contracts: Empirical Results

Governmental Purchases And Contracts	Resource Dependence Theory	Number of results: 18
Study	Independent Variable	Effect on Dependent Variable
(Bernhagen & Mitchell, 2006); conference paper	Industry with high Percentage of Governmental Purchases	positive (***) on EU lobbying
(Burris, 2001); American Sociological Review	Percentage of Sales to Defense	positive (***) on Contributions made to Republicans
(Drope & Hansen, 2006); Business and Politics	gov. Procurement	positive (**) on Lobbying Expenditure
(Drope & Hansen, 2006); Business and Politics	gov. Procurement	positive (***) on Lobbying Decision
(Drope & Hansen, 2009); Pol. Research quarterly	gov. Procurement	positive (**) on Lobbying Decision
(Fleisher, 1993); Legislative Studies quarterly	Amount of Disticts Contracts from Defense Department	positive (***) on PAC Contributions from Defense PAC
(Grier et al., 1994); American Pol. Science Rev.	gov. Sales	positive (**) on PAC Contributions
(Hart, 2001);	gov. Sales	positive (***) on PAC Formation

Journal of Politics		
(Hart, 2001); Journal of Politics	gov. Sales	positive (**) on PAC Size
(Jin-Hyuk Kim, 2008); Business and Politics	gov. Purchases	positive on Lobbying Participation
		positive (**) on Lobbying Expenditure
(Jin-Hyuk Kim, 2008); Business and Politics	gov. Purchases	positive (**) on Campaign Contribution Participation
		positive (**) on Campaign Contribution Expenditure
(Mitchell et al., 1997a); Journal of politics	gov. Shipments	positive (***) on PAC Donations
(Mitchell et al., 1997a); Journal of politics	Defense	positive (***) on PAC Donations
(Schuler et al., 2002); AMJ	Governmental Contract	positive (***) on Corporate Political Access
(Tripathi, 2000); Business & Politics	Defense Budget	positive (***) on PAC Contributions
(Tripathi, 2000); Business & Politics	Dependence on Defense Contracts	positive (***) on PAC Contributions

Table 15: External Drivers / Institutions: Political System: Empirical Results

Political System	<i>Institutional Theory</i>	<i>Number of results: 6</i>
Study	Independent Variable	Effect on Dependent Variable
(Bouwen, 2004b); Journal of Common market studies	Access Granted by EU Institutions	European Associations before Domestic Associations; no Consultants
(Constantelos, 2007); Journal of public affairs	Political System	Regional gov. Lobbying Difference France vs. Italy
(Hillman, 2003); Business & Politics	Political System	positive (***) on NS Participation Level
(MacHer & Mayo, 2015); Strategic Management Journal	Political Structure Dependent governmental branches	Positive (***) on executive influence
(MacHer & Mayo, 2015); Strategic Management Journal	Political Structure Dependent governmental branches	Positive (*) on legislative influence
(Rehbein & Schuler, 1998); Academy of Management Proceedings & Membership Directory	Political System	positive on NS Involvement

Table 16: External Drivers / Industry and Society: Industry Concentration: Empirical Results

Industry Concentration	<i>Collective Action Theory</i>	<i>Number of results: 17</i>
Study	Independent Variable	Effect on Dependent Variable
(Bhuyan, 2000); Review of Industrial Organization	Concentration Ratio	positive (**) on NS Expenditure
(Drope & Hansen, 2006); Business and Politics	Concentration Ratio	positive (**) on Lobbying Expenditure
(Drope & Hansen, 2006); Business and Politics	Concentration Ratio	positive (***) on Lobbying Decision
(Drope & Hansen, 2009); Pol. Research quarterly	Concentration Ratio	positive (**) on Lobbying Decision

(Drope & Hansen, 2008); Business & Politics	Firm Size	positive on Lobbying
(Grier et al., 1994); American Pol. Science Rev.	Concentration Ratio	positive (*) on PAC Contributions
(Jin-Hyuk Kim, 2008); Business & Politics	Concentration Ratio	positive (**) Lobbying Participation
		positive (**) on Lobbying Expenditure
(Jin-Hyuk Kim, 2008); Business and Politics	Concentration Ratio	positive (**) on Campaign Contribution Participation
		positive (**) Campaign Contribution Expenditures
(MacHer & Mayo, 2015); Strategic Management Journal	Number of Competitors	Negative (***) on legislative influence
(MacHer & Mayo, 2015); Strategic Management Journal	Number of Competitors	Negative (***) on executive influence
(Rehbein & Schuler, 1998); Academy of Management Proceedings & Membership Directory	Market Concentration	positive on NS Involvement
(Schuler, 1996); AMJ	Market Share	positive (**) on Petitions
		positive (***) on Testimony
(Schuler et al., 2002); AMJ	Concentration Ratio	positive (*) on Corporate Political Access
(Lenway & Rehbein, 1991); AMJ	Number of firms	Negative (**) on Leader Follower in opposite to CA-Theory

Table 17: External Drivers / Industry and Society: Unionization: Empirical Results

Unionization	<i>Interest Group Theory</i> <i>Stakeholder Theory</i>	Number of results: 4
Study	Independent Variable	Effect on Dependent Variable
(Masters & Keim, 1985); Journal of politics	Unionization	positive (**) on PAC Participation
(Mitchell et al., 1997a); Journal of Politics	Union Coverage	positive (*) on PAC Coverage
(Rehbein & Schuler, 1998); Academy of Management Proceedings & Membership Directory	Unionization	positive on NS Involvement
(Unah, 2003); Business & Politics	Organizational Labor	positive (***) on Corporate Litigation

Table 18: External Drivers / Industry and Society: External Pressures: Empirical Results

Pressure from Interest Groups/Competitors	<i>Interest Group Theory</i> <i>Stakeholder Theory</i>	Number of results: 13
Study	Independent Variable	Effect on Dependent Variable
(Baumgartner, Gray, & Lowery, 2009); Pol. Research Quarterly	Congressional Hearing	positive (***) on State Lobbyist Registrants
(Drope & Hansen, 2006); Business and Politics	Visibility / Wall Street Journal Articles	positive (***) on Lobbying Expenditure
(Drope & Hansen, 2006); Business and Politics	Visibility / Wall Street Journal Articles	positive (***) on Lobbying Decision
(Drope & Hansen, 2006);	Countervailing Pressure	positive (***) on Lobbying Expenditure

Business and Politics		
(Drope & Hansen, 2006); Business and Politics	Countervailing Pressure	positive (***) on Lobbying Decision
(Fleisher, 1993); Legislative Studies quarterly	Total PAC Receipts	positive (***) on Contributions from Defense PAC
(Hao & Nwaeze, 2015); Accounting Horizons	2008 Presidential Election	Positive (***) on Lobbying Expense
(Henisz, Dorobantu, & Nartey, 2014); Strategic Management Journal	Stakeholder Support (media-based event data)	Positive (***) on financial market valuation
(Ingram & Simons, 1995); AMJ	Female Manager	positive (*) on Work-family Issues
(Ingram & Simons, 1995); AMJ	Same Industry and Same Region Diffusion	positive (**) on Work-family Issues
(Ingram & Simons, 1995); AMJ	Female Unemployment in Industry	negative (***) on Work-family Issues
(Rehbein, 1995); Policy Studies Journal	Legislature Debate	positive (*) on Contributions to PAC in Manufacturing
(Schuler et al., 2002); AMJ	Industry Political Rivalry	positive (***) on Corporate Political Access

Table 19: Issue-related Drivers: Empirical Results

Issue-related Drivers Target and crisis	LCM	Number of Results: 12
Study	Independent Variable	Effect on Dependent Variable
(Goldstein & Lenway, 1989); Int. Studies Quarterly	Decline of profits (crisis)	positive (**) on ITC escape clause decisions
(Greening & Gray, 1994); AMJ	Interest group pressure	positive (+) on resource commitment
		positive (**) on committee use
	Severity of crisis	negative (*) on formalization positive (*) on resource commitment
(Jin-Hyuk Kim, 2008); Business and Politics	3 year sales trend recession	negative (**)
		on lobbying participation negative (**)
		on lobbying (expenditure)
(Meznar & Nigh, 1995); AMJ	Uncertainty	positive (***) on engagement in NS
(Schuler, 1996); AMJ	Domestic demand	negative (***) on petitions
	Import penetration	positive (**) on testimony
(Vanden Berg & Holburn, 2007); Business and Politics	campaign contributions for house/senate incumbents in the 102 vs. 103 session	House Session 102 \$1136 extra on baseline Session 102 \$ 1875 Senate 102 \$ 636 Session 103 \$ 113

- (+) p < ,05
 (*) p < ,05
 (**) p < ,01
 (***) p < ,001

Appendix B: Driver Model Results

Legitimacy	
1. Firm Size (Employment)	2. Origin of Firm (Ownership)
7	7
<p>Theoretical Background: If a firm's organization is in compliance (isomorph) with the expectations of the institution/its environment it can obtain advantages from public policies - Institutional Theory</p>	
<p>Proposition 1: Firms' engagement in NS is higher if firms are in compliance with the institutional environment (origin of the firm) and cater to societal goals (employment).</p>	
<p>Variables: Nr. of employees (2), employment, Nr. of workers, firm employees (+)</p>	<p>Variables: foreign owner (-), foreign firm (Norway (+), Japan (-), US(-)), foreign sales,(-) foreign firm to domestic (-)</p>
<p>Results from empirical studies: (Hillman, 2003): Institutional Theory - legitimacy approach IT and RBV / (Bhuyan, 2000): no Theory, no legitimacy - just resources / (Unah, 2003): no legitimacy - no of worker=power, visibility and size / (MacHer & Mayo, 2015); Strategic Management Journal Firm Size (employees) Positive (***) on executive and legislative influence / (Borghesi & Chang, 2015): no theory – resources (assets) / (Rehbein & Schuler, 1998): no Theory, no legitimacy but to measure political receptivity, they identified the number of employees that an industry had located within a trade subcommittees' members' district or state.</p>	<p>Results from empirical studies: (Bernhagen & Mitchell, 2006): no IT, no legitimacy - but the explanation esp. for Norwegian firms is connected to IT and my legitimacy approach. / (Mitchell et al., 1997a): no IT but legitimacy approach; firms need to adapt to the local environment. / (Rehbein, 1995): emphasizes on the cultural similarity of foreign owned firms as a predictor of firms' engagement in NS. Foreign ownership and cultural distance opens a lobbying gap. This can be connected to my legitimacy approach. / (Sadrieh & Annavarjula, 2005): confirms Rehbein's results without theoretical explanation. / (Hansen & Mitchell, 2000): no theory but legitimacy question arises from foreign ownership. Foreign firms invest less in NS. Found evidence that foreign firms adapt to local behavior but at the same time try to avoid the appearance of influencing the politics of another country.</p>
<p>FIRMS EU: provision of jobs, investments, "we see ourselves as a part of the society", legitimacy</p>	<p>FIRMS EU: location e.g. Germany; ownership is closely connected to the visibility of a firm in a country - being domestic makes it easier to engage in NS</p>
<p>FIRMS USA: provision of jobs, investments, kind of jobs ("even 10 people in future technology are more important than hundreds of jobs in a dying industry"); "we need your (politicians) help, because we employ XYZ people in your district" - access strategy</p>	<p>FIRMS USA: important for congress members; "we focus on the employment in the country of the NS and not on the country of origin of the firm" - "Do it like the Americans if you are in America"</p>
<p>Interest Groups/Politics EU: producing necessary goods, employment base (members)</p>	<p>Interest Groups/Politics EU: producing necessary goods, employment base (members)</p>
<p>Interest Groups/Politics USA: jobs, producing needed goods, investments, influence only if there is something on stake (such as jobs, investments or needed goods)</p>	<p>Interest Groups/Politics USA: origin of a firm is not that important in the US in the case of German firms, because they employ more than 650.000 Americans and have been good corporate citizens for decades - it is jobs that count, in America act as an American, legitimacy through following laws and regulations/standards</p>
<p>Theoretical Basis: Only Hillman (2003) uses IT and names legitimacy. However, Rehbein & Schuler (1998) (no theory, no legitimacy) discuss political receptivity, which can be seen as a part of my legitimacy concept. Bhuyan (2000) uses no of employees as a proxy for resources, neglecting the legitimacy approach. Finally, Unah (2003) who focuses in the theoretical section on cost-benefit (economy) and relationship (sociology) approaches connects the no of workers to power, visibility and size. Even though visibility in this study is connected to a wider product range a wider discussion leads to my legitimacy approach.</p>	<p>Theoretical Basis: In all studies no theoretical approach. Legitimacy approach mentioned or explained in two studies (Hansen & Mitchell (2000) and Mitchell et al. (1997)). Ownership seen as an important driver grounded in legitimacy considerations.</p>

<p>Result: No. of workers (or better provision of jobs) are most important to gain legitimacy in both my study and empirical results from literature. Esp. in the U.S. (due to the power of the single congressman) employment in a specific district is important (see Rehbein & Schuler 1998). Interestingly beside the Study of Hillman (2003) no theoretical framework to explain the results is given in the studies. Reason: studies analyze specific variables to explain firms' behavior in specific situations; only a few follow an integrated approach (framework), Differences between U.S. and Europa are marginal and depend on the differences in the political systems.</p>	<p>Result: Both empirical studies from literature as well as my study confirm the importance of the origin of the firm in relation to firms' engagement in NS; reasons: cultural distance, access. A difference can be found in my study between the U.S. and Europe. In Europe, the origin of a firm seems to be important to get access to political decision makers; in the U.S. the employment in the U.S. is important in the first place. American emphasize that it is important to adapt to the culture (legitimacy) and to follow American laws and standards.</p>
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Reputation	
3. Internal Resources & Structures	4. Experience with NS
31	5
<p>Theoretical Background: Firms' organizational factors such as structure, routines (history) and resources mediate the relationship between external signals and the level and form of NS chosen by the firm. - Behavioral Theory of the Firm</p>	
<p>Proposition 2: Firms' internal resources and structures (political resources) as well as the firms' experience in dealing with the nonmarket environment determine firms' engagement in NS.</p>	
<p>Variables: (ln) firm sales, sales, sales, ln sales, sales, avg. sales; market share, profitability, revenue, revenue, size, firm size, level of profits; D.C. office, orga. Environment, total assets, employees, nr. of workers, human resources, D.C. consultant, D.C. office, D.C. office, orga. size, employees, profitability, free cash flow, orga size, firm size, subsidiary size. (+)</p>	<p>Variables: legal counsel, years' experience, organization/ D.C. staff (+)</p>
<p>Results from empirical studies: (Bernhagen & Mitchell, 2006): none / (Georgiou, 2005): none / (Lenway & Rehbein, 1991): slack may be more important than the expected returns. Evidence found for Washington office - reason may be better connections (link to reputation) / (Masters & Keim, 1985): as higher the assets as higher the risks from Public Policies and as larger the share (CAT - cost considerations); Employment - easier to raise PAC money the more employees / (Schuler, 1996): Market share explained with CAT and strategic choice - cost considerations for large firms (esp. high exit costs) / (Schuler, 1999): Orga. environment (D.C. Office/consultants; experiences, slack resources) has a positive effect on the engagement in NS explained by BTF / (Schuler et al., 2002): Reputation is important for access - sales explained by RDT / (Unah, 2003): No of workers and sales are proxies for power, visibility and size - further past litigation experience can be connected to sales / (Griffin & Dunn, 2004): based on RDT and IT orga. size affects credibility and reputation of an orga. - These full-time staff members (human resources) act as boundary spanners (Adams, 1976), act as an "early warning system" for top-level managers (Ansoff, 1975), and reduce "strategic surprises" (Wartick & Rude, 1986). / (Mitchell et al., 1997a): Size indicates resource availability AND political visibility of a firm. / (Rehbein, 1995): firm size explained with cost-benefit consideration (greater share - more resources). / (Drope & Hansen, 2006): none /; (Hart, 2001): none / (Tripathi, 2000): none / (Ingram & Simons, 1995): Orga. size: the greater the size the higher the level of responsiveness to institutional pressures - securing legitimacy. / (Rehbein & Schuler, 1998): Employees, Profitability and Free Cash flow have an impact on the engagement level in NS explained by the BTF / (Meznar & Nigh, 1995): Orga size on Engagement (Reputation mentioned in visibility) - This finding supports Pfeffer and Salancik's (1978) argument that large organizations are better able to withstand social control and to influence their environments. /</p>	<p>Results from empirical studies: (Unah, 2003): cost benefit considerations - past litigation experience as a sales driver - international trade is complex for that reason legal counsel. / (Hillman, 2003): (no. of years in the country) experience as a proxy for credibility - credibility most important characteristic in lobbying. / (Schuler, 1999): using the Behavioral Theory of the Firm - political routines -> experience -> orga. environment -> BTF -> precondition for engagement in NS / (Rehbein & Schuler, 1998): As part of the firm filter Rehbein & Schuler evidence that D.C. staff and consultants have an impact on the firm's engagement level in NS. The theoretical foundation is the BTF.</p>

(Bombardini, 2008): none / (Bhuyan, 2000): none / (Blumentritt, 2003): size has an effect on NS	
FIRMS EU: technical expertise, providing solutions to tackle governmental tasks, providing information from experts and markets, GADs, working closely together with associations, establishing non-profits,	FIRMS EU: "technology oriented policy consulting", expertise is most important antecedent, consumer image is important to successfully engage in NS, well-known company and expertise are access strategies to policy deciders, employees are involved in politics (especially local affairs), competence in considering different interest groups, coalition building (esp. SME)
FIRMS USA: staff from the country of interest = American employees in the US. GADs, networks from employees, technological partner for policy decision makers, charities and educational support	FIRMS USA: well-known company in the nonmarket environment (reputation); experience is the best access strategy, building networks to public policy decision makers, participation in hearings and background talks, private networks (eg. "golf"), "access has to come from the expertise side (buying is only a door opener)", known for providing trusted information, credibility is crucial, reputation
Interest Groups/Politics EU: information, understanding the political environment, associations have more resources and more contact points to the nonmarket environment	Interest Groups/Politics EU: well-known firm, seriousness, trust/credibility, expertise, "beware of the (left) press in Europe", quality is important
Interest Groups/Politics USA: information, personal networks	Interest Groups/Politics USA: continuity, "stick to what you have said" validated information (credibility), firms can be part of an advisory committee, access is expertise driven
Theoretical Basis: Two studies Rehbein & Schuler (1998) and Schuler (1999) use the BTF to explain firms' engagement level in relation of internal resources and structure. Other studies (e.g. Lenway & Rehbein (1991), Schuler et al. (2002), Griffin & Dunn (2004) and Mezner & Nigh (1995)) emphasize the importance of credibility/ reputation to engage in NS. Most studies do not explain firm behavior using theoretical approaches; a bunch of studies explain the relation between internal resources and firms' engagement in NS with cost considerations (as larger the firm as greater the share/as higher the exit costs) with connects to CAT.	Theoretical Basis: Two studies (Schuler (1999) and Rehbein & Schuler (1998)) use the BTF to explain firm's engagement level in NS. In her study from 2003 Hillman connects experience with NS with the credibility approach. Finally, Unah (2003), sees a connection between past litigation experience with the actual engagement level in NS.
Result: Empirical studies from literature heavily focus on cost-benefit considerations: more (more resources/larger firm) – greater share of benefits from public policies. Important aspects here are exit costs. In my study interviewees focus on reputation e.g. from technical expertise/internal structures and expertise as drivers for firms' engagement in NS. Reason: different research question. Differences between U.S. and Europe: In the U.S. charities and educational support are important factors to build reputation. In Europe coalition building with associations/unions is important; tackle tasks for the government.	Result: In both the empirical studies from literature and my study the credibility approach is confirmed. Experience with NS is the main source to build credibility. No differences between the U.S. and Europe in this driver. Important is a long-term relation between the firms and governmental institutions.

Institutional	
5. Regulation & Controlled Resources	6. Governmental Purchases and Contracts
23	18
Theoretical Background: In an environment of resource dependency, firms can actively manage their sourcing strategies (strategic choice). - Resource Dependence Theory	
Proposition 3: The dependence on resources (e.g. regulations and governmental purchases) determines the engagement of firms in NS.	
Variables: SIC codes, regulated industries (4), Anti-trust (2), fed. court cases (2), pollution regulation, nr. of fed. agency interactions (2), fed. agency regulation, regulation (2); pollution expenditures, public sector, resources controlled, member of defense committee, alumni in committee (+)	Variables: aerospace/defense, defense budget, defense contracts (3), % of def. contracts, gov. procurement/purchase/sales (9), gov. contracts, gov shipments (+)

<p>Results from empirical studies:</p> <p>(Masters & Keim, 1985): regulated industries are more engaged in PAC - because of resource dependence - firms are dependent on the governments regulation - further on the long run regulation is more important than gov. purchases. / (Drope & Hansen, 2006): impact of regulation found (explanation Institutional Theory - but weak) esp. for larger firms (study purpose test CA Theory). / (Grier et al., 1994): Regulation and anti-trust have an impact on PAC contributions - theory: CA Theory confirmed: investment-oriented NS; cost-benefit considerations. / (Holburn & Vanden Bergh, 2014); Strategic Management Journal; Before announcement of M&A in regulated industry Positive (***) on campaign contribution / (Jia, 2014); Strategic Management Journal Regulated Industry Positive on participation in CPA (congress seats) / (Drope & Hansen, 2009): Again a study to test CA Theory - market structure variables are confirmed, additionally regulation is confirmed without any theoretical explanation (here test on industry association level. / (Hart, 2001): Analysis relies on study of Grier 1994 - therefore connected to CA Theory. Regulation as a driver of firm's engagement in NS is explained by rent-seeking strategies; no theoretical contribution just a link to the "rent seeking literature". / (Jin-Hyuk Kim, 2008): regulation as a driver for firms' engagement in NS confirmed - theoretical explanation rent-seeking and SCP-Framework. No further theoretical explanation. / (Burris, 2001): none / (Mitchell et al., 1997a): controlled resources by the government (here pollution expenditures) have an impact on firms' engagement in NS - Mitchell (1997) emphasizes that in the case of private goods, CA Theory does not help - firms focus on their resources and narrow interests / (Ingram & Simons, 1995): institutional pressures (public sector) force firms to invest in NS. / (Meznar & Nigh, 1995): explanation through RDT / (Fleisher, 1993): none / (Figueiredo & Silverman, 2006): none</p>	<p>Results from empirical studies:</p> <p>(Bernhagen & Mitchell, 2006): none. / (Schuler et al., 2002): Gov. contracts have an impact on firms' engagement in NS - explained with RDT "Resource dependency theorists have stated that if the government occupies an important position in a firm's task environment (as is often the case with firms that receive defense related revenues), the firm will become proactive in attempting to shape its environment (Pfeffer & Salancik, 1978; Schuler & Rehbein, 1997) (Mitchell et al., 1997a). "The political activity of defense contractors also seems consistent with the idea of integrated strategy (Baron, 1995)". / (Mitchell et al., 1997a): states that CA Theory does not help for private goods such as gov. purchases - here free-riding has no impact; important profit-maximizing strategies; firms focus on their own resources and narrow interest - no further theoretical explanation / (Drope & Hansen, 2006): gov. procurement increases firms' engagement in NS - explanation: firms try to influence gov. decision (esp. large firms) if there is a dependence on gov. purchases - no theoretical foundation. / (Grier et al., 1994): connection between gov. sales and PAC contribution - explanation: gov. sales measures dependence on political action and ties to the political environment / (Drope & Hansen, 2009): in contrast to other studies Drope & Hansen (2009) focus on industry associations. Even though gov. procurement affects firms on a private level, firms invest in NS on a collective level, too. It's from collective interest of all firms of an industry to influence governmental decision; in a second step every firm tries to get the highest share. No theoretical explanation. / (Hart, 2001): gov. sales are a strong predictor for both PAC formation and size; no theoretical explanation / (Jin-Hyuk Kim, 2008): gov. purchases have a strong effect on firms' engagement in NS - no theoretical foundation. / (Tripathi, 2000): the political activity of a firm is driven by its dependence on gov. sales - no theoretical explanation. / (Burris, 2001): none / (Fleisher, 1993): none</p>
<p>FIRMS EU:</p> <p>Regulation is an antecedent to engage in NS and to integrate NS in the firms overall firm strategy</p>	<p>FIRMS EU:</p> <p>Less defense spending in western countries increases the market pressure - for that reason firms try to secure governmental purchases through NS</p>
<p>FIRMS USA:</p> <p>Obama administration is increasing regulation; NS are needed to mitigate the effects</p>	<p>FIRMS USA:</p> <p>Investments in infrastructure (gov. purchases) increases firms' engagement in NS, Military purchases.</p>
<p>Interest Groups/Politics EU:</p>	<p>Interest Groups/Politics EU:</p>
<p>Interest Groups/Politics USA:</p>	<p>Interest Groups/Politics USA:</p>
<p>Theoretical Basis:</p> <p>Most studies focus on the Collective Action Theory and analyze the impact of the market structure on firms' NS decision. Variables for regulation are tested in addition, in most cases without theoretical explanation; the reason is seen in cost-benefit considerations and rent-seeking strategies (one study relates to the SCP-framework). Only Masters & Keim (1985) evidence the relationship between regulation and firms' engagement in NS with the RDT. Mitchell et al. (1997) confirm Master and Keim's (1985) approach w/o mentioning. They state that CAT does not help to explain firm's behavior related to private goods.</p>	<p>Theoretical Basis:</p> <p>Schuler (2002) explains the relationship between gov. purchases and engagement in NS with the RDT. All other studies evidence this relation w/o explicit theoretical explanations. Drope & Hansen (2006), Grier et al. (1994) and Tripathi (2000) discuss the relation between firm's dependence on gov. sales and firms' political activity. Mitchell et al. (1997) and Drope & Hansen (2009) emphasize that in the case of private goods such as gov. procurement firms focus on their resources and narrow interest; CAT does not help in this case. Drope & Hansen (2009) finds out that firms engage on two levels to influence gov. decision, on collective level (industry associations) and private level.</p>
<p>Result:</p> <p>Most Theories use CAT and cost-benefit considerations; but as Mitchell et al. (1997) state, this is not the best approach. The RDT (if one understands regulation as a firms' resource) gives better explanations for the firm behavior in this case. In my study, regulation is conformed as an important driver. Differences between the U.S. and Europe could not be found.</p>	<p>Result:</p> <p>My study confirms the results from of the empirical studies from literature. Differences between the U.S. and Europe could not be found.</p>

Institutional	Issue
7. Political System	10. Phase of the LC Crisis
6	12
Theoretical Background: If a firm's organization is in compliance (isomorph) with the expectations of the institution, it can obtain advantages from public policies - Institutional Theory	Theoretical Background: Issues such as crisis or changing stages in the public policy cycle have an impact on the engagement in NS - Life Cycle Model of Public Policy Management (LCM) (for BTF see left)
Proposition 4: The socio-political environment (political system) of a firm determines the kind and level of its engagement in NS.	Proposition 7: The phase of a public policy in the political life cycle determines the likelihood and the kind of NS chosen by firms. Proposition 8: Changes in the environment (external stimuli) and in the internal resource base (GAD, experience) determine when firms engage in the nonmarket environment (crisis).
Variables: Corporatism/pluralism, Access to EU institutions, pol. System	Variables: interest group pressure (2) (+), severity of crisis (2), (3 year) sales trend (3) (-), domestic demand (-), import penetration (+), campaign contributions, uncertainty
Results from empirical studies: Hillman 2003 #68: confirms Institutional Theory: "institutional context matters"; explaining political system as a driver for firms' engagement in NS because institutions are important; IT focuses on the role of environments. / (Bouwen, 2004b): Political System is an important driver for NS shown at the example of the EU; no theory (RDT) / (Constantelos, 2007): evidence for institutional factors having an important role in shaping NS; no theoretical foundation / (MacHer & Mayo, 2015); Strategic Management Journal Political Structure Dependent governmental branches Positive (*) on legislative and executive influence / (Rehbein & Schuler, 1998): own model with political environment as a variable; explaining Theory Public Choice (->CA): industry conditions affect firms' NS.	Results from empirical studies: (Goldstein & Lenway, 1989): none / (Greening & Gray, 1994): interest group pressure and severity of crisis have impact on firm's engagement in NS - explained by LCM (esp. Institutional perspective); the emergence of interest groups represents a significant stage in the LCM; crisis -> resource commitment / (Jin-Hyuk Kim, 2008): 3-year sales growth rate has negative effect on lobbying - w/o theoretical contribution (SCP) no crisis (no recession) less spendings / (Meznar & Nigh, 1995): uncertainty in the general environment may pose a threat to the technological routine of a firm and how organizational legitimacy can be maintained; adopting to changes in the environment is costly and difficult; evidence that uncertainty (complexity/turbulence) has an impact on NS; theoretical explanation RDT / (Schuler, 1996): competitive pressures from foreign imports (import penetration) and downward swings in the domestic demand influence firms' engagement in NS ; Schuler could evidence important effects on the timing of NS from external economic circumstances which evidences the crisis approach / (Vanden Berg & Holburn, 2007): this study evidences the issue-approach and the LCM; it depends on the lifecycle of a policy in which firms spend their money
FIRMS EU: The multi-layer system in the EU gives firms the opportunity to use access strategies on different levels (European level, country level, state level)	FIRMS EU: Energy transition in Germany, Economic and Euro Crisis, Regulations.
FIRMS USA: "Lobbying is big business in the US and part of the game", the American system is more open (more access points) to engage in NS compared to European system (access to policy makers in the EU is more limited)	FIRMS USA: Changing Administration: Obama higher spendings for infrastructure and social welfare, Economic crisis and governmental stimulus packages;
Interest Groups/Politics EU: kind of political system and culture is important, Germany: top-down (administration very important), America: bottom up (single members and states are powerful), EU: multi-layer system without a real government	Interest Groups/Politics EU: The hearing phase of a law is not the starting point but the final stage for a good lobbyist.
Interest Groups/Politics USA: Due to the political system in the USA, firms and other private organizations fulfill more tasks in the social environment compared to Europe (here the government pays), this gives firms in the US access point, revolving door in the US, highly interconnected between business and politics	Interest Groups/Politics USA:

<p style="text-align: center;">Theoretical Basis:</p> <p>All four studies show that the political system is an important driver for firms' NS. All of them focus on the importance of institutions or political conditions. However only Hillman (2003) explains this firm behavior using Institutional Theory.</p>	<p style="text-align: center;">Theoretical Basis:</p> <p>The LCM is a specialized theory to explain the relation between firms' engagement in (specific) NS and the phase of a public policy. For that reason, studies from Greening & Gray (1994) and vonden Bergh (2007) use this theory and could proof this relation. Crisis as an issue-related drives is tested by several studies. For example, Meznar & Nigh (1995) find evidence that environmental uncertainty has an impact on firms' engagement in NS. Schuler (1996) analyzed the relation between competitive pressures from foreign imports (crisis) and firms' engagement in NS and could find evidence.</p>
<p style="text-align: center;">Result:</p> <p>Here, large differences between the U.S. and Europe can be found due to the different Political Systems.</p>	<p style="text-align: center;">Result:</p> <p>This approach is confirmed by my interviews; however, deleted from the model</p>

Industry/Society	
8. Industry Concentration & Size	9. Unionization & External Pressures
17	17
<p>Theoretical Background:</p> <p>Explains why firms are politically active and others are not (size and concentration matters). Industry concentration and firm size (less free-riding) increase the engagement level in NS because of cost-considerations (private net-benefit). Collective Action Theory</p>	<p>Theoretical Background:</p> <p>The democratic public policy process is an attempt to reach compromise between the competing goals of a multitude of interest groups/stakeholders. The outcome of a public policy shaping process seen as a compromise of diverse interests. Explains motives of firms to engage in PA. The (expected) behavior of external interest groups influences the engagement of firms in NS. - Interest Group/Stakeholder Theory</p>
<p>Proposition 5: The concentration of the industry and cost-benefit considerations related to firm size determine firms' involvement in NS.</p>	<p>Proposition 6: The (expected) behavior of actors in the same environment is a predictor of firms' engagement in NS.</p>
<p style="text-align: center;">Variables:</p> <p>Market share, concentration, (7), firm size, industry structure (+)</p>	<p style="text-align: center;">Variables:</p> <p>Unionization, orga. labor, union coverage, industry structure (union); industry pol. rivalry, legislature debate, visibility (WJJ articles) (2), countervailing pressure (2), female (2), same industry, state lobby registrants, PAC receipts (3) (+)</p>
<p style="text-align: center;">Results from empirical studies:</p> <p>(Schuler, 1996): market share following CA Theory (free-riding) because esp. large firms engage in NS; further following strategic choice because larger firms have higher fixed assets, employees and exit costs. / (Schuler et al., 2002): concentration ratio has a positive impact on access to policy decision makers; Theory: Collective Action Theory - 1. less free-riding/cost-benefit consideration 2. concentrated industries make it easier for firms to get access to policy deciders. / (Drope & Hansen, 2006): CA Theory overall confirmed. / (Grier et al., 1994): impact of concentration ratio on PAC contributions explained with CA Theory / (MacHer & Mayo, 2015); Strategic Management Journal Number of Competitors Positive (***) on legislative and executive influence / (Drope & Hansen, 2009): Concentration ratio has an impact on engagement in NS and increases the likelihood of industry associations - based on CA Theory / (Jin-Hyuk Kim, 2008): concentration ratio has an impact on NS. Explained with CA Theory - "CA closely connected to firms rent-seeking incentives." / (Drope & Hansen, 2008): "free-riding by smaller firms at the expense of the largest firms is rampant" - CA Theory. / (Rehbein & Schuler, 1998): Market concentration's impact on NS involvement explained with CA Theory and Public Choice / (Bhuyan, 2000): CA Theory (free-riding and cost-benefit consideration)</p>	<p style="text-align: center;">Results from empirical studies:</p> <p>(Masters & Keim, 1985): unionization has an impact on PAC participation; explanation w/o theory: union-management alliances; industries with high unionization share act in an environment with high governmental involvement. / (Henisz et al., 2014): stakeholder support has impact on valuation, NS useful / Strategic Management Journal (Unah, 2003): organized labor has an impact on corporate litigation explained by pluralist theory (unions speak on behalf of workers) and relationship theory (sociology) / (Mitchell et al., 1997a): Union coverage seen as countervailing pressure has an impact on PAC coverage - the work of one interest group (e.g. union) results in a wave of interest activity. / (Rehbein & Schuler, 1998): none. / (Schuler et al., 2002): Industry political rivalry has an impact on access to public policy decision makers; explanation Institutional Theory - mimetic behavior: firms adopt strategies of their competitors - further NS is a "race for access" / (Rehbein, 1995): here pressure from political environment has an impact on firms' NS - explanation w/o Theory: firms fund PACs when they may be affected by gov. decision / (Drope & Hansen, 2006): Countervailing pressure has an impact on lobbying decision explained by countervailing pressure theory; further visibility has an impact, too - explanation w/o theory because visibility increases pressure from others / (Ingram & Simons, 1995): external pressure of conformity : legitimacy -> IT; compliance with institutional pressures. / (Baumgartner et al., 2009): pressure from another political level - no Theory / (Fleisher, 1993): none / (Hao & Nwaeze, 2015); Presidential Election; Positive on Lobbying Expense</p>
<p style="text-align: center;">FIRMS EU:</p> <p style="text-align: center;">example cash for clunkers</p>	<p style="text-align: center;">FIRMS EU:</p> <p style="text-align: center;">nuclear-power phase out</p>

<p>FIRMS USA: Patent law especially in the pharmaceutical industry. Most registered lobbyists in Washington D.C. work for the pharmacy industry.</p>	<p>FIRMS USA: Our spending for NS are aligned to the spending of our biggest American competitors. It's our job to supervise movements and moods in the society. Communication with unions esp. in M&A.</p>
<p>Interest Groups/Politics EU: example cash for clunkers</p>	<p>Interest Groups/Politics EU: Global Warming, minimum wage, health care reform</p>
<p>Interest Groups/Politics USA: car industry bail out</p>	<p>Interest Groups/Politics USA:</p>
<p>Theoretical Basis: All studies evidence a strong relationship between the market variable market concentration/firm size and firms' engagement in NS. All studies refer to Collective Action Theory (free-riding and cost-benefit considerations). Empirical data shows, that smaller firms free-ride on costs of larger firms.</p>	<p>Theoretical Basis: To explain the driver unionization and external pressures I combined the Interest Group Theory with the Stakeholder Theory and adapted them to area of NS. For that reason, this theory could not be mentioned in the studies from literature. All studies evidence a relationship between the existence of external pressures and firms' engagement in NS. Firms sometimes adopt strategies from their competitors (mimetic behavior) or try to behave as expected. The results of the empirical studies can be explained using my approach.</p>
<p>Result: The CAT is one of the most important theories to explain firm behavior towards NS. For that reason, all studies from literature explain firm behavior with the CAT. In my study, no differences between the U.S. and Europe are found. Firm concentration is an important driver due to the scarce time governmental agents have to meet with lobbyists from the industry – as fewer firms the more time for every firm. Firm size is mostly connected to cost-benefit considerations, exit costs and employment (e.g. car industry bail out, cash for clunkers).</p>	<p>Result: My study confirms the results from literature: e.g. firms adopt the behavior of competitors (“Our spending for NS are aligned to the spending of our biggest American competitors”). A difference between the U.S. and Europe can be seen in a special kind of external pressure: environmental groups – they have a great influence in Europe. Examples are the nuclear-power phase out and global warming topics. Here firm try to find “compromise” with external pressures by using NS.</p>

Appendix C: Outcome of Nonmarket Strategies

Author Paper	Dependent Variable(s)	Independent Variable(s) Results	Comments
(Abetti, 2008); Journal of Economic Policy Reform	Congressional voting on CAFTA PAC	Business contributions +0,1 %*** labor contributions -0,3 % *** (raise of \$1000)	Predictor: without contributions it would have failed. This paper examines the determinants of Congressional voting on CAFTA, focusing on environmental lobbying. Empirical results indicate that the environment was in fact not a major point of contention during the CAFTA vote.
(Alexander, Mazza, & Scholz, 2009); Journal of Law & Politics	Tax breaks for foreign earning reinvested (Lobbying) - AJCA	Return on lobbying spending 22.000% Dividing the estimated tax savings by the estimated amount spent on lobbying provides a measure of a firm's return on lobbying investment.	Measuring Rates of Return on Lobbying Expenditures: An Empirical Case Study of Tax Breaks for Multinational Corporations.
(Baldwin & Magee, 2000); Public Choice	On voting NAFTA/GATT	Labor contributions NAFTA - 0,0051 *** GATT -0,0027 *** Business contributions NAFTA + 0,0012** GATT + 0,0005 *	Examines the voting on trade bills by United States Representatives on the North American Free Trade Agreement, the Uruguay Round Agreement and nation status for China. Use of political economy models of trade policy to formulate specification of congressional voting behavior; Influence of campaign contributions on the votes of legislators.
(Bizjak & Coles, 1995); American Economic Review	Abnormal return around lawsuit filing (shareholder wealth)	Sherman Act -0,65*** Defendants and + 0,66 * on Plaintiffs, Clayton Act: -1,05*** on Defendants and +1,56*** on Plaintiffs	Litigation has statistically significant effects on firm's performance: defendants lose approx. 0,6 % and plaintiffs gain 1,2 % wealth (measured by firm's equity value). Clayton Act filings have a higher effect on the plaintiffs than Sherman Act filings. Not the direct legal costs, the behavior restrictions and the financial distress are sources of leakages.
(Cladeira & Wright, 1998); American Journal of Political Science	Supreme Court Nomination	Bork + 2 votes if opposing lobbying efforts would be 10 % smaller - Thomas +33 votes if t25 % smaller	Favoring lobbying efforts have less outcome than opposing lobbying.
(Chappell, JR., 1982); Review of Economics and Statistics	Congressional voting	B-1 Bomber Appropriation (*)	Generally unable to conclude that contributions have a significant impact on voting decisions but 6 of 8 with positive effects 1 with significant.
(Conybeare & Zinkula, 1996); World economy	Vote on NAFTA	APL -0,053767 / 0,007721 Labor interest groups helped to make the NAFTA vote a narrow victory.	Discusses the North American Free Trade Agreement (NAFTA) and trade unions position on NAFTA. History of labor's position on trade issues; Why labor is against lowering trade barriers; Explanation of aspects of the NAFTA debate; What results of debate suggest.
(Drope & Hansen, 2008); Business and Politics	Firm level taxation	-4,21 (*) on firm size (employees) - logged	Using principally firm-level tax rates of a large random sample of U.S. corporations for the 1998-2005 time period, they determine whether lobbying has measurable effects on firm-level tax rates.
(Figueiredo & Silverman, 2006); Journal of Law & Economics	Academic earmarks through university lobbying	HAC (House Appropriations representation) +0,346/0,1 ** and SAC (senate XXX) +0,291/0,006 ***	Estimation of the returns to lobbying by universities. To motivate empirical work, Development of a simple theoretical model of university lobbying for academic earmarks. Statistical analysis shows that universities represented by a House Appropriations Committee (HAC) or Senate Appropriations Committee (SAC) member spend less money on lobbying than those that are not represented.
(Fleisher, 1993); Legislative Studies Quarterly	On voting behavior	Defense PAC contributions + 0,25 / 0,06 ***	Paper analyzes how PAC contributions from defense contractors influence members' votes for prodefense positions on the floor of the House of Representatives. PAC have a marginal outcome on voting-behavior especially to moderate members.

(Gius, 2010); Applied Economic Letters	Election outcome (votes obtained)	+.0,000012 t-stat 16,163 spend Indirect effect, because only who gets elected.	The results of research on the effects of political campaign expenditures on congressional elections are somewhat mixed although most suggest that incumbent campaign spending has a minimal to no statistically significant effect on election outcomes, whereas challenger spending has a rather significant effect.
(Grenzke, 1989b); American Journal of Political Science	Congressional voting behavior	PACs can gain access and change outcome, but not because of PAC contributions	Studies the relationship between political action committee (PAC) contributions and voting patterns in the United States Congress from 1975 to 1982. Changes in voting behavior resulting from PAC contributions; Effects of PAC contributions on voting behavior in a variety of issue domains.
(Hadani & Schuler, 2013); Strategic Management Journal	1. Market value of firm; 2. ROS (net income before extraordinary items to total revenue)	Corporate Political Investment on 1 (-0,04***), on 2 (-0,01*)	The study questions that NS are beneficial for firms. Although many believe that companies' political activities improve their bottom line, empirical studies have not consistently borne this out. Investigation of the relationship between corporate political activity (CPA) and financial returns on a set of 943 S&P 1500 firms between 1998 to 2008. Firms' political investments are negatively associated with market performance and cumulative political investments worsen both market and accounting performance.
(Hansen, 2011); Journal of International Accounting Research	Outcome on lobbying private standard setting	Lobbyists can influence the outcome depending on quality of input, size of home capital market and contributor of standard setting organization	Paper provides evidence on how the International Accounting Standards Board (IASB) generates accounting standards in the presence of lobbyists with differing preferences. Development of hypotheses regarding the associations between attributes of lobbyists and their lobbying activity, and their lobbying success. Finding that lobbying success is positively related to the ability of the lobbyist to provide information to the IASB; however, this success is dependent on the credibility of the lobbyist.
(In-Bong Kang & Greene, 1999); Public Choice	On NAFTA House voting senate similar	LABCON (unions contribution) - 0,013 t-stat -4,31 CRPCON (from corps) +0,006 t-stat 3,39	Presents the political economic analysis of Congressional voting patterns on the North American Free Trade Agreement in the United States. Consideration of employment gainers and losers as determinants for the patterns; Impact of contributions from labor unions on affirmative votes; Effects of political partisanship and ideological positions on votes.
(Jin-Hyuk Kim, 2008); Business & Politics	On equity returns (lobbying)	. + 0,025/0,007 *** unadjusted; + 0,024/0,007*** relative to market; +0,013/0,006** relative to industry	Firms in concentrated and regulated industries tend to engage in lobbying and campaigning. Lobbying is facilitated by highly paid CEOs (+), gov. purchases (+) and declining sales (+). Lobbying firms outperform the market average and in a lesser degree the average of the same industry in terms of equity returns.
(Kahane, 1996); American Journal of Economics and Sociology	On NAFTA House voting	LCON (labor contributions to member of congress) -0,007 ***	This paper combines information for individual legislators with state-level economic data to conduct an empirical analysis of the House and Senate voting patterns on NAFTA Results from the logit model estimation confirm that expected job gains/ losses, the presence of organized labor and political ideology (as represented by political party) were significant predictors of a legislator's vote on NAFTA.
(Kau, Keenan, & Rubin, 1982); American Journal of Economics and Sociology	Voting on 8 bills	Union contributions are significant in 4 of 8 votes - business contributions in 2 of 8	Specification of a model in which Congressmen, constituents, and campaign contributors simultaneously decide on behavior. Constituents and contributors desire to influence the voting behavior of Congressmen; Congressmen, on the other hand, want to be elected and vote accordingly. Empirically test this model using roll call voting

			on eight hills dealing with economic regulation and find support for the model. The results indicate that part of the voting behavior of Congressmen may be explained by noneconomic factors. Further, unions and businesses as campaign contributors are sometimes influential.
(Kee, Olarreaga, & Silva, 2007); Journal of Development Economics	On market access / US tariff preferences	Foreign lobby contributions are statistically significant explanations for us tariff preferences across products and countries	This paper focuses on the links between foreign lobbying and preferential market access granted by the United States" government to exporters in the rest of the Americas.
(Langbein & Lotwis, 1990); Legislative Studies Quarterly	On voting behavior (McClure-Volkmer bill) gun	Prevote Contributions: NRA +0,001/0,0005 ***, Handgun Control -0,004/0,003*	(PAC) donations have an impact on voting-behavior in congress (+).
(Langbein & Lotwis, 1990); Legislative Studies Quarterly	On voting behavior (McClure-Volkmer bill) gun	Constituent contacts: Progun letter +0,15/0,11 *, Antigun letters -0,26/0,14**; lobby contacts: Police group delegation -0,18/0,06 ***	Lobbying has a positive impact on voting-behavior in congress.
(Lord, 2000); Business & Politics	On legislative decision making	Constituency, executive and professional lobbying has an impact ***	Corporate constituency building is more effective for influencing legislators' decisions (support or oppose proposed legislation) than for influencing the specific details of the content. Further more effective in the House than in the Senate. There is no significant difference in effectiveness regarding Party (Dem/Rep). Finally, letters and phone calls are more effective than petition signature and mass emails.
(Marsh, 1998); Strategic Management Journal	Abnormal return anti-dumping filings on market value	Initial filing +0,01 ***, Final determination: winners +0,002 and losers -0,021***	Filing anti-dumping petitions against foreign competitors is beneficial (market value) for firms. Initial filing (+), preliminary determination (+), final determination: winners (+), losers (-).
(Neustadtl, 1990); Social Forces	On voting behavior	Significant for business and labor PAC, latter higher effect	PAC contribution has an effect on legislative outcome; varies by issue and PAC (labor contributions have a greater impact than business contr.).
(Salamon & Siegfried, 1977); American Political Science Review	Tax avoidance rate	asset size + 0,084 *** and 4 firm concentrations - 0,512 *** Indirect via legitimacy and power	This article seeks to fill this gap by first identifying five aspects of economic structure likely to affect an industry's political influence (firm size, industry size, market concentration, profitability, and geographic dispersion) and then testing these aspects by analyzing how well they account for variations among industries in their success at securing public policies of benefit to them, especially in two policy arenas: federal corporate income taxes and state excise taxes.
(Shaffer, Quasney, & Grimm, 2000); Business & Society	On airline performance	Nonmarket actions: +0,02/0,007*** on gross profit margin; +0,009/0,004** on load factor; +0,049/0,24** on change in market position	Nonmarket actions are significantly related to performance of airlines and the performance is increasing with further nonmarket actions. Market actions are not significantly related to performance.
(Silberman & Durden, 1976); Journal of Political Economy	On fair labor Standards Act 73	. +0,00029 ***total campaign contributions of orga. labor and -0,00016 *** of small business	This paper utilizes an economic model to analyze the determinants of legislative decision making. The model is empirically tested using the statistical technique of n-chotomous multivariate probit analysis. The legislative issue addressed is the 1973 amendment to the Fair Labor Standards Act.
(Steagall, 1996); Journal of labor research	NAFTA vote	PAC LABORPCT -0,027/0,03 BUSPCT +0,0563/0 WPACPCT (all Pacs) -0,0344/0,004 ENRGYPCT (energy and resources PACs) -0,0879/0,004	Exploration of how PACs influenced the House of Representatives' vote on the North American Free Trade Agreement (NAFTA). The NAFTA vote is analyzed because organized labor strongly opposed the treaty while business generally supported it and because of the straightforward voting generated by its fast-track status.

(Stratmann, 1991); Southern Economic Journal	On sugar vote	PAC contributions + 1,19 / 0,28 Significant in 8 of 10 votes	Detailed model of the effects of campaign contributions on congressional votes. Analysis of votes on subsidies to the farm sector.
(Stratmann, 1995); Review of Economics & Statistics	On Congressional vote	. + 0,61 / 0,24 (Contributions 79/80) and +1,89 / 0,85 (Contributions 8)1	Using event history data, the paper analyzes the distribution of reemployment spell durations conditional on the completed length of the preceding (contiguous) spell of unemployment. The model is used to infer how Unemployment Insurance, through unemployment duration, may affect the likelihood of reentering unemployment. Special attention is paid to the endogeneity between unemployment and reemployment duration and the sample information contained in the fact that some individuals obtain reemployment by recall as opposed to acceptance of a new job.
(Tosini & Tower, 1987); Public Choice	On congressional voting (textile bill 85)	Campaign contributions from special interest groups on House 0,1204 **** and on senate 0,1151	Explains voting patterns in the U.S. Senate and the House on a particularly important protectionist bill called the Textile Bill of 1985. Impact of the bill on the textile industry; Basic forms of work on protectionism; Effects of pressures to protect textiles on the U.S. Congress; Effect of the political variables on a congressman's vote.
(Tovar, 2011); Journal of International Economics	On trade protection	Lobbying expenditures play an important role in shaping trade protections across sectors	Study of how endogenous lobbying costs influence trade policies. Finding that lobbying expenditures directly affect the equilibrium policies. To test the predictions of the model data collection on lobbying expenditures from the Center for Responsible Politics as well as data on trade and industry characteristic variables for the United States from other sources. Structural estimation of the equilibrium trade policies and to find support for the paper's model.

Appendix D: Questionnaire

Political Strategies for a globalized world

Comparing the Strategies of Multinationals in the USA and Germany – Analyzing Political Strategies of Germany-based MNEs in the U.S.

Multinational Enterprises (MNE) act on different markets and are therefore confronted with different economic, legal and sociopolitical environments. They have to think and act **glocal**. In our study, we take the perspective of Germany-based MNEs and analyze how they acclimate to the American political system; in detail: how they deal with the respective layers of political action: their representatives in the states, in D.C. at the federal level and at the headquarters in Germany.

Due to your experience I would like to ask you for an interview. The interview will cover the following aspects and will be kept in confidence.

Main Questions:

1. *The changing political environment has significant and increasing effects on the opportunities of firms (regulations, laws, subsidies, controlling resources...) doing business in the U.S. Examples are the German “Abwrackpraemie” to support the German car-manufacturers in 2009 or the governmental interventions in the t-mobile-at&t merger. Against the background of these developments, how does the political environment affect the strategies of your firm in the U.S.?*
2. How did your company manage to acclimate to the political system in the U.S.? *To get involved in the political environment specific political resources are needed (legitimacy, reputation, access). How do you build up your political resource base in the U.S.? How do you gain access to political decision-makers in the U.S. on the several layers? How does the providing of jobs in the U.S. change the strategic opportunities of German firms?*
3. How do you interface with both the federal and state levels of governments in the U.S. and how do they differ in their impact on your business? How do you explain the need for political strategies in the U.S. to your headquarters in Germany?

1. Introduction

- Could you please briefly introduce yourself and explain to me what your position within is?
- Where do you find yourself in the organizational structure?
- Please give me some input about your educational background and your professional career

2. Main questions

- *The changing political environment has significant and increasing effects on the opportunities of firms (regulations, laws, subsidies, controlling resources...) doing business in the U.S. Examples are the German "Abwrackprämie" to support the German car-manufacturers in 2009 or the governmental interventions in the t-mobile-at&t merger.*

Political Strategies in general

Against the background of these developments, how does the political environment affect the strategies of your firm in the U.S.? (Representations and plants in the U.S. / active usage of political strategies to strengthen the firm's competitive position)

Are Political Strategies "integrated" in the overall firm strategy or are they more last resort strategies? How resources are assigned for political strategies?

Political Strategies in the U.S.

To get involved in the political environment specific political resources are needed (legitimacy, reputation, access).

- How did your company manage to acclimate to the political system in the U.S.? (e.g. Did you hire American professionals with an established network?)
- How do you build up your political resource base in the U.S.? (How do you gain reputation/legitimacy?)
- How do you gain access to political decision-makers in the U.S. on the several layers (federal, state)?
- How does the provision of jobs in the U.S. (gaining legitimacy) change the strategic opportunities of German firms?

- Which kind of legitimacy/reputation is needed to engage in political strategies in the U.S. as a German firm? How do you legitimize political strategies in the U.S.? (provision of jobs, taxpayer, American demand for your goods/services, supporting candidates and parties)

Federal and state level

- How do you interface with both the federal and state levels of governments in the U.S. and how do they differ in their impact on your business?
- Do you have distinct representative offices in the states and on the federal level? If yes, why and where are they?
- What are the differences in shaping political strategies on the state and federal level?

Political Strategies in the U.S. and Germany

- How do you explain the need for political strategies in the U.S. to your headquarters in Germany?
- Are the different political systems and cultures on both sides of the Atlantic a reason for conflicts?

3. Post-processing questions

- Whom do you recommend interviewing to as well?
- Thank you for your time and the Insights

Appendix E: The Propositions I

Why do firms engage in the public policy process?

1. The social-political environment of a firm is proposed as a determine of PS.
Institutional Theory – Resource Dependence Theory
2. Actors in the market or nonmarket environment engaging or planning to engage in PS determine a firm’s investment in PS.
Interest Group/Stakeholder Theory.
3. Cost-benefit considerations determine firm’s involvement in the nonmarket environment.
Collective Action Theory
4. Firm’s internal structure (political resources) and its experience in dealing with the nonmarket environment determine the engagement of firms in PS.
Behavioral Theory of the Firm

When do firms engage in the public policy process?

5. The phase of a public policy in the political lifecycle determines the kind of PS
Life cycle model of public policy management
6. The time, when other actors engage or plan to engage in PS determines reactions of the firm in the nonmarket environment.
Interest Group/Stakeholder Theory

Who is involved in the public policy process?

7. Firm’s size and the concentration of the firm’s industry are predictors for PS.
Collective Action Theory
8. The behavior of actors in the same environment is a predictor of PS.
Interest Group/Stakeholder Theory
9. The dependence on (scarce) resources determines the engagement of firms in PS
Resource Dependence Theory
10. Firms own nonmarket resources and experiences in PS determine their engagement.
Behavioral Theory of the firm
11. Firms that expect benefits through compliance with the institutional environment interact on nonmarket environments
Institutional Theory

How to choose the right strategy?

12. To choose the right strategy, firms have to be clear about their target.
The targets of Political Strategies depend on needed resources (RDT), or expected behavior (IT), the life-cycle of the public policy (LCM) and the balance of power and pressures in the nonmarket environment (IGT).
The firm’s own resource base and its experience with PS limit their choice of PS.
Behavioral Theory of the Firm and regarding cost and outsourcing consideration (CA&PA).

Appendix F: Literature from First Review

Author Paper	Title	Context Kind of Paper	Outcome
(Alter & Vargas, 2000); Comparative Political Studies	Explaining Variation in the Use of European Litigation Strategies	Changing gender discrimination by law (equal pay); Qualitative Study	EC law litigation strategy is one way to change domestic politics but it is a last choice strategy because of the open outcome and the need for support.
(Barnett, 2006); Journal of Management Studies	Finding a Working Balance Between Competitive and Communal Strategies	How to change the industry characteristics; Qualitative Study	Industry matters for firm performance and this constraint is not exogenous. The collective of firms can alter the institutional environment and increase the attractiveness of an industry. So for firm performance there exists two levers, one controlling resource allocations to competitive strategy and the other for communal strategy to influence industry effects.
(Baron, 1997b); California Management Review	Integrated Strategy, Trade Policy, and Global Competition	Market access in Japan for US firm; Qualitative Study	Integrated strategy in international trade policy is worth it for companies but could be dangerous.
(Baron, 1995); California Management Review	Integrated Strategy: Market and Nonmarket Components	Showing integrated strategies on examples; Qualitative Study	To be successful a firm must integrate market and nonmarket aspects to an integrated strategy. The nonmarket environment is important to the success of a competitive strategy. Nonmarket strategies have to be multi-domestic.
(Baron, 1997a); Journal of Economics & Management Strategy	Integrated Strategy and International Trade Disputes: The Kodak-Fujifilm Case	Market access in Japan for US firm; Qualitative Study	Need of integrated strategy.
(Baron, 2001); Journal of Economics & Management Strategy	Private Politics, Corporate Social Responsibility, and Integrated Strategy	Corporate social responsibility; Qualitative Study	The level of CSR/redistribution regarding private politics relates on the firm's strategy (profit-maximization or altruistic), the unabated pollution, nonmarket strategies of the firm/activist, the industry specifications and the information.
(Baumgartner, 2007); Journal of European Public Policy	EU Lobbying: A View from the US	Lobbying the EU; Qualitative Study	The complex multi-level advocacy within the EU creates challenges and opportunities for Lobbying and especially Framing.
(Baumgartner et al., 2009); Political Research Quarterly	Federal Policy Activity and the Mobilization of State Lobbying Organizations	Lobbying; Quantitative Study	Political action on federal level affects the number of lobbyist on state level. Lobby registration has a complex direct and indirect response on congressional hearings.
(Baumgartner & Leech, 1996); American Journal of Political Science	The multiple ambiguities of 'counteractive lobbying'	Choosing statistical models; Quantitative Study	Errors in theory-building and empirical models falsify studies. What one has to think about choosing a statistical model.
(Baumgartner & Leech, 1998); Basic Interests	CHAPTER 7: Building a Literature on Lobbying, One Case Study at a Time	Lobbying bevor legislators, courts and bureaucracy; Review Paper	The reason of contradictory findings in lobbying studies come from overlooking important variables and wring statistical designs.
(Baysinger, Keim, & Zeithaml, 1985); Academy of Management Journal	An Empirical Evaluation of the Potential for Including Shareholders in Corporate Constituency Programs	Corporate constituency building; Quantitative Study	Shareholders view managers as credible (++) and believe that the CPA is legitimate (+) and desire themselves some involvement (+). A corp. constituency program is useful, but there are differences in the subgroups: motivation for programs is increasing with number of shares (+) and high for corp. annuitants. On the other side members of CCP are more positive towards corp. political involvement.
(Berman, 2002); Journal of Public Affairs (14723891)	Public affairs, issues management, and political strategy: Opportunities, opportunities, and more opportunities	Lack of overarching theory; Qualitative Study	(More) Research in CPA is needed and meaningful. There are problems for scholars regarding to the wide topic. There is still a lack of overarching theory.
(Bernhagen & Mitchell, 2006); Conference Papers - - Midwestern	Global Corporations and Lobbying in the European Union	Lobbying the EU; Quantitative Study	In the EU firms size (+) and firm's exposure to EU policymakers (+) are the main determinants for lobbying. Firms on the EU markets but without a governmental patron lobby more.

Political Science Association			
(Beyers, 2004); Comparative Political Studies	Voice and access: political practices of European interest associations	Lobbying the EU; Quantitative Study	If groups represent different constituencies (diffuse or specific) they adapt their strategies according to the institution they are putting pressure on.
(Bizjak & Coles, 1995); American Economic Review	The Effect of Private Antitrust Litigation on the Stock-Market Valuation of the Firm	Litigation and effects to shareholder wealth; Quantitative Study	Litigation has statistically significant effects: defendants lose approx. 0,6 % and plaintiffs gain 1,2 % wealth (firm's equity value). Clayton Act filings have a higher effect on the plaintiffs than Sherman Act filings. Not the direct legal costs, the behavior restrictions and the financial distress are sources of leakages.
(Boddewyn, 2003); Business & Society	Understanding and Advancing the Concept of 'Nonmarket'	Four Perspectives to describe nonmarket; Qualitative Study	Boddewyn analyzed the literature to nonmarket and developed four perspectives to describe the meaning of nonmarket. He considered economic, social, strategic and organizational scholars. Nonmarket is needed to explain the economy;
(Boddewyn, 1995); International Trade Journal	The Legitimacy of International-Business Political Behavior	Legitimacy in IB and ethics (Legality, Conformity and Contribution); Qualitative Study	Firms need resources, not only factors of production but also legitimacy because society ultimately controls the resources. In IB legitimacy (here legality, conformity and contribution) differs.
(Boddewyn & Brewer, 1994); Academy of Management Review	International-Business Political Behavior: New Theoretical Directions	International Business; Qualitative Study	For international business political behavior can be a source of efficiency, market power and legitimacy. Political behavior is intrinsic to international business. Enhancing RBV.
(Bonardi, Holburn, & Vanden Berg, 2006); Academy of Management Journal	Nonmarket Strategy Performance: Evidence from U.S. Electric Utilities	Regulatory agencies; Quantitative Study	The firms use the rate review initiation process strategically. ROR change depend (performance of the firm) on level of interest group rivalry (-) = demand-side rivalry and on the supply-side of public policies depends on legislative rivalry (+) and regulatory resources (-). Finally firm nonmarket capabilities (firm's experience in PA (+)) increase the performance.
(Bonardi, Hillman, & Keim, 2005); Academy of Management Review	The Attractiveness of Political Markets: Implications for Firm Strategy	Democracies modeled as markets; Qualitative Study	Firms only engage in political market if they are attractive. This depends on the rivalry of demanders and suppliers but with other results than in economic markets. When to engage in political markets is another part of attractiveness. Firm may postpone their engagement and wait for more attractive political markets.
(Bouwen, 2004a); European Journal of Political Research	Exchanging access goods for access: A comparative study of business lobbying in the European Union institutions	Lobbying the EU; Quantitative Study	Access is important for lobbying EU institutions. The empirical studies show, that for the European Parliament European and national associations are the preferred counterparts; for the European Commission the European associations followed by individual firms and for the Council of ministers because of the national grounding the national associations followed by individual firms.
(Bouwen, 2004b); Journal of Common Market Studies	The Logic of Access to the European Parliament: Business Lobbying in the Committee on Economic and Monetary Affairs	Lobbying the European parliament; Quantitative Study	Lobbying the European Parliament is most effective through lobby the committees. Access is granted for European associations (+++), National associations (++) and individual firms (+) but not for consultants.
(Bouwen, 2002); Journal of European Public Policy	Corporate lobbying in the European Union: the logic of access	Lobbying the EU; Qualitative Study	Introducing a framework to explain lobbying EU institutions with exchange theory. There is a demand for access goods from EU institutions and a supply by firms
(Bouwen & Mccown, 2007); Journal of European Public Policy	Lobbying versus litigation: political and legal strategies of interest representation in the European Union	Influencing the European policy through either lobbying or litigation; Qualitative Study	Lobbying is the preferred strategy because it is less expensive; but in case of legislative deadlock litigation strategies are the only way to have success. Beside this the choice of the strategy depends on the issue and the resource base of the litigant/lobbyist.
(Brasher & Lowery, 2005); Conference Papers - American Political Science Association	The Corporate Context of Lobbying Activity	Lobbying; Quantitative Study	Using a larger sample with additional smaller firms shows a curvilinear relationship between firm size and lobbying behavior.

(Burris, 2001); American Sociological Review	The Two Faces of Capital: Corporations and Individual Capitalists as Political Actors	PAC; Quantitative Study	There are differences between corporate and individual capitalist PAC contributions. Corporates are less ideological and spend money to incumbents to gain access/influence.
(Buyse & Verbeke, 2003); Strategic Management Journal	Proactive Environmental Strategies: A Stakeholder Management Perspective	Reactive, proactive strategy and stakeholder management (background of environmental issues); Quantitative Study	Firms with proactive political strategies have more connections to their stakeholders (esp. regulatory agencies). But since the development of green competencies is a source of CA, they cooperate with regulatory agencies to tailor new regulations to their specific firm needs.
(Carter, 1990); Academy of Management Journal	Small Firm Adaptation: Responses of Physicians' Organizations to Regulatory and Competitive Uncertainty	Regulation; Quantitative Study	The response on regulation/uncertainty is a multicomponent construct. Proactive strategies allow investments in flexibility and seem to be less costly than reactive strategies.
(Clougherty, 2003); Business & Society	Nonmarket Strategy for Merger Reviews: The Roles of Institutional Independence and International Competitive Effects	Anti-trust policy of merger activity; Qualitative Study	For using private and public political forces, managers should serve a merger target that involve significant international implications.
(Coen, 1997); Journal of European Public Policy	The evolution of the large firm as a political actor in the European Union	Lobbying in the EU, Changes over time with the contract of Maastricht; Quantitative Study	In the last 20 years large firms becoming to be political actors in the EU. Forum politics. Central role of firms in the European policy process.
(Coen, 2007); Journal of European Public Policy	Empirical and theoretical studies in EU lobbying	EU lobbying; Qualitative Study	State of the art in EU lobbying: an overview.
(Coen & Grant, 2001); European Business Journal	Corporate political strategy and global policy: A case study of the Transatlantic Business Dialogue	The transatlantic Business Dialogue (TABD); Qualitative Study	The kind of influencing public policy is changing. Big-business forums as a partner of governments (esp. EU) have increasing impact on public policy. But there are problems with accountability, representativeness and legitimacy.
(Dahan, 2005a); Journal of Public Affairs (14723891)	A contribution to the conceptualization of political resources utilized in corporate political action	Political RBV; Qualitative Study	The typologies of political resources were too vague, simplistic and incomplete. The author developed a new typology of resources based on the RBV.
(Dahan, 2005c); International Studies of Management & Organization	Corporate Political Strategy	CPS in the resource based view; Review Paper	The resource concept is central to our understanding of CPS. Fresh scholarship and the 10-year gap.
(Dahan, 2005c); International Studies of Management & Organization	Can There Be a Resource-Based View of Politics?	Nonmarket RBV; Qualitative Study	The resource based view is relevant to describe how political behavior is performed. In the business competition area the RBV is overstretched. Public policy advantage is a collective good not a strategic asset.
(Drope & Hansen, 2006); Business & Politics	Does Firm Size Matter? Analyzing Business Lobbying in the United States	Lobbying; Quantitative Study	Taking part in political action (lobbying sample) depends on revenue (++), Visibility (++), Countervailing pressure (+), government procurement (0+ only for large firms), government regulation (+).
(Facchinetti, 1995); Corporate Board	Global lobbying in the new Europe	Lobbying the EU; Qualitative Study	What is important to influence the EU decision-making by lobbying. The lobbying style is different from Washington. Use allies in Europe to get your things done.
(Fleisher, 1993); Legislative Studies Quarterly	PAC contributions and [US] congressional voting on national defense	PAC money for members of house of representatives; Quantitative Study	PAC contributions can (marginally) affect policy outcomes. (ideology and party must be taken in consideration) most useful for moderate members.
(Georgiou, 2005); Abacus	Investigating corporate management lobbying in the U.K. accounting standard-setting process: a multi-issue/multi-period approach	lobbying standard settings; Quantitative Study	In U.K. Accounting Setting procedures firm size (+), debt covenant costs (+) and U.S. listings are predictors for lobbying regarding income-related issues. For disclosure issues only firm size (+) is significant to explain lobbying.
(Getz, 1991); Academy of Management Best Papers Proceedings	Selecting Corporate Political Tactics	PCA tactics; Qualitative Study	PCA tactics are dependent on the nature of the issue, the problems presented to the firm as a result of the issue's characteristics and a variety of organizational and industry factors

(Getz, 2002); Journal of Public Affairs (14723891)	Public affairs and political strategy: Theoretical foundations	Why and How firms participate in PS; Review Paper	Getz shows there is no overarching model of political action. It is impossible to overlook the entire literature. The theoretical groundings lay in several theories in different scholars. Getz analyzed all theories regarding 3 questions. Participation, strategies/tactics and capacity.
(Greening & Gray, 1994); Academy of Management Journal	Testing a Model of Organizational Response to Social and Political Issues	Issue management; Quantitative Study	How firms respond to social and political issues depends on interest group pressure (+) and severity of crisis (0+) - both confirming institutional theory and depends on firm size (0+) and top management commitment (+) - both endorsing resource dependence theory; issue related media exposure (0) is not significant.
(Grenzke, 1989a); Western Political Quarterly	Candidate attributes and [US] PAC contributions	PAC; Quantitative Study	PAC contributions is more about gaining access. While choosing whom to contribute friendship and aggressiveness play a leading part
(Grier et al., 1994); American Political Science Review	The Determinants of Industry Political Activity, 1978-1986	PAC; Quantitative Study	The amount of PAC contributions depends on: the industry concentration (+) - confirming collective action theory, governmental purchases (+) - confirming resource dependence theory, level of regulation (+) and is increasing from election cycle to the next.
(Guosheng Deng & Kennedy, 2010); China Journal	Big Business and Industry Association Lobbying in China: The Paradox of Contrasting Styles	Association lobbying in China; Quantitative Study	There is lobbying in China from companies and associations. But the kind of lobbying is different because of the contrasting environments - a competitive world for firms and a protected world for associations. So associations have better relationship to governmental institutions.
(Hansen, 2011); Journal of International Accounting Research	Lobbying of the IASB: An Empirical Investigation	Lobbying private standard setting; Quantitative Study	I argue that lobbyists who are better able to provide information to the IASB and lobbyists who have a greater impact on the viability of the IASB are more likely to have lobbying success.
(Harris & Lock, 1996); Journal of Marketing Management	Machiavellian Marketing: The Development of Corporate Lobbying in the UK	Lobbying in the UK; Review Paper	The main reasons for growing lobbying in UK are: increased internationalization, growing importation of structured lobbying systems from the USA, corporate acquisitions and mergers, disruptions in British politics and growth of international government.
(Hersch & McDougall, 2000); Public Choice	Determinants of automobile PAC contributions to [US] House incumbents: own versus rival effects	PAC by car manufacturers to house incumbents; Quantitative Study	Free rider argument is not supported for the car industry. Firm's level of PAC contributions is influenced by home district and the political activity of the competitors.
(Hillman, 2003); Business and Society	Determinants of political strategies in US multinationals	US MNC in Europe; Quantitative Study	Institutional and firm-specific (especially firm size) variables matter choosing political strategies (institutional theory & RBV +). Important as well the political system.
(Hillman, 2002); Journal of Public Affairs (14723891)	Public affairs, issue management and political strategy: Methodological issues that count - A different view	Reviewing and discussing Doug Schuler - discussing the need of an overarching theory; Qualitative Study	There is no need for a grand model; it is not good for the process in scholars and is too simple. But to have one dependent variable, firm performance, will be a great advancement.
(Hillman & Hitt, 1999); Academy of Management Review	Corporate Political Strategy Formulation: A Model of Approach, Participation, and Strategy Decisions	Formulation and choice of CPS; Qualitative Study	Building a model and identifying variables (firm-related and institutional) that affect political action choices (strategies and tactics).
(Hillman, Keim, & Schuler, 2004); Journal of Management	Corporate Political Activity: A Review and Research Agenda	; Qualitative Study Review Paper	Review of state of the research based on the review by Shaffer (1995). Analyzing the antecedents (firm, industry, issue and institutional), types of CPA (Proactive/Reactive approach, Approach, Participation level and strategy types), outcomes (public policy and firm performance), and Organization to implement (integration with market strategies and multiple political actors).
(Hillman & Zardkoohi, 1999); Strategic Management Journal	Corporate political strategies and firm performance: Indications of firm-specific benefits from CPS	The business-government interface; Quantitative Study	Found evidence that personal service for the government has an impact in firm performance.

(Holburn & Vanden Berg, 2008); Academy of Management Review	Making Friends in Hostile Environments: Political Strategy in Regulated Industries	Gaining favorable agency decisions at multiple government institutions; Qualitative Study	Regulated firms should not necessarily only target regulatory agencies. They should target legislators/executives too. It depends on the situation on the regulatory "market".
(Jazbinsek, 2009); Neue Soziale Bewegungen	Corporate Social Responsibility: Vom Nutzen der Wirtschaftsethik für den Wirtschaftslobbyismus. (German)	CSR and politics; Qualitative Study	CSR is an investment in PR. It extends lobbying and shows that new laws are not necessary. It is like a mafia structure. First the firms give without reward, but when needed they demand.
(Jin-Hyuk Kim, 2008); Business & Politics	Corporate Lobbying Revisited	Corporate Lobbying USA; Quantitative Study	Firms in concentrated and regulated industries tend to engage in lobbying and campaigning. lobbying is facilitated by highly paid CEOs and declining sales. Suggesting, that lobbying is more responsible for gaining political favors. Lobbying firms outperform the market average and in a lesser degree the average of the same industry in terms of equity returns.
(Keim & Hillman, 2008); Business Horizons	Political environments and business strategy: Implications for managers	Business in different countries; Qualitative Study	A integrated strategy is needed. Explaining the political environment with the framework of North.
(Keim & Baysinger, 1988); Journal of Management	The Efficacy of Business Political Activity: Competitive Considerations in a Principal-Agent Context	In legislative and regulatory arenas; Qualitative Study	Using principal agent theory to explain the efficiency of business political activity. Emphasizing the concept of VRIN.
(Kelley, 1990); Academy of Management Best Papers Proceedings	Contextual Influences on Political Strategy: The Case of the Trade Associations.	Behavior of trade associations; Quantitative Study	Trade associations have to meet members need. Therefore, they enact strategy at 2 levels: in political arenas and toward members (overarching vision). These strategies are dependent on industry structure, issue and political targets.
(Kelley, 1990); Legislative Studies Quarterly	The political efficacy of lobbying and money: gun control in the US House, 1986	Lobby pro and against gun legislation in the house; Quantitative Study	Spending (PAC)money and (grassroots-)lobbying have a substantial impact on the vote-behavior of congressmen. On the other side the vote-behavior on the gun-legislation has no effect on his revote.
(LaPira, Thomas, & Baumgartner, 2009); Conference Papers - - Midwestern Political Science Association	The Structure and Stability of Lobbying Networks in Washington	Structure of D.C. lobbying; Quantitative Study	Density of lobbying networks differs by issue, in general the system is dense, extremely stable.
(Larson, 1997); Journal of International Financial Management & Accounting	Corporate Lobbying of the International Accounting Standards Committee	International accounting standards committee; Quantitative Study	The reason that firms lobby the IAS is mostly self-interested. So large firms and firms with equity securities listed outside their domestic markets engage more in lobbying.
(Lenway & Rehbein, 1991); Academy of Management Journal	Research Notes. Leaders, Followers, and Free Riders: An Empirical Test of Variation in Corporate Political Involvement	Relationship to regulatory agencies, here ITC (U.S. international trade commission); Quantitative Study	Choosing a pol. Strategy in petitioning is pos. correlated with the number of firms in the industry (no free rider problem). There is no dependence on product sales or firm size. Only organizational slack can be a reason for choosing a leader strategy (no evidence).
(Lord, 2003); Academy of Management Executive	Constituency building as the foundation for corporate political strategy	US policy building; Qualitative Study	Lord gives an overview how constituency building is effective. Constituency building is a very effective PS. PC need to be integrated in ES.
(Lord, 2000); Business & Politics	Constituency-based Lobbying as Corporate Political Strategy: Testing an Agency Theory Perspective	Lobbying; Quantitative Study	Corporate constituency building is more effective for influencing legislators' decisions (support or oppose proposed legislation) than for influencing the specific details of the content. Further more effective in the House than in the Senate. There is no significant difference in effectiveness regarding Party (Dem/Rep). Finally, letters and phone calls are more effective than petition signature and mass emails.
(Lyon & Maxwell, 2004); Journal of Economics & Management Strategy	Astroturf: Interest Group Lobbying and Corporate Strategy	Indirect lobbying through groups; Qualitative Study	Analyzing 3 pol. Strategies with economic models for indirect lobbying.

(MacDougall, 2006); Business History Review	Long Lines: AT&T's Long-Distance Network as an Organizational and Political Strategy	Long-distance calls in US; Qualitative Study	Showing how it is possible to build a monopoly and new organizational strategies and saying that it is for the nation. AT&T seems to be an instrument to transform trusts in a dynamic and democratic institution despite being a trust.
(Mahon & McGowan, 1998); Business & Society	Modeling industry political dynamics	Porters five forces and the political environment; Qualitative Study	Mahon integrated business and society concepts into a model based on porters 5 forces. This model enables managers and academics to capture the political and social dynamics surrounding an industry/firm. He provided examples from many industries.
(Marsh, 1998); Strategic Management Journal	Creating barriers for foreign competitors: A study of the impact of anti-dumping actions on the..	Anti-Dumping actions in the U.S.; Quantitative Study	Filing anti-dumping petitions against foreign competitors is beneficial (market value) for firms. Initial filing (+), Preliminary determination (+) Final determination: Winners (+), Losers (-).
(Martha Hyder, 2005); Business & the Environment with ISO 14000 Updates	Lobbying -- the Politics of Corporate Social Responsibility	Lobbying and CSR; Qualitative Study	influencing powers: the firms want to address the bigger picture of political content. Connections between CSR practices and the political activities.
(Masters & Keim, 1985); Journal of Politics	Determinants of PAC Participation Among Large Corporations	PAC; Quantitative Study	Firm's resource base (+), employment base (+), assets (+), regulated industries (+), size of industry (- consistent with collective action theory), unionization (+) are related to PAC participation. Government purchases not (resource dependence theory -)
(McLaughlin, Jordan, & Maloney, 1993); Journal of Common Market Studies	Corporate Lobbying in the European Community	European Union - car industry; Qualitative Study	There are 2 possibilities to influence EC policy. Through an own representation or through euro-groups. Large companies can undermine the euro-groups.
(McWilliams, van Fleet, & Cory, 2002); Journal of Management Studies	Raising rivals' costs through political strategy: an extension of resource-based theory	Influencing the US politics to increase rival's costs; Qualitative Study	Explains the PS of raising rival's costs (RRC) with the RBV. RRC is used to create non-substitutable resources and so sustainable competitive advantages through the power of legislation/regulation.
(Mebane & Blendon, 2001); Journal of Child Neurology	Political Strategy 101: How to Make Health Policy and Influence Political People	Health policy; Qualitative Study	Creates a framework how MDs can promote health issues.
(Mezner, 2002); Journal of Public Affairs (14723891)	The theoretical foundations of public affairs and political strategy: Where so we go from here?	Missing of global research; Qualitative Study	One overarching framework is not possible - but political activity research should be organized and categorized along a variety of dimensions to understand a global view of this issue.
(Mezner & Nigh, 1995); Academy of Management Journal	Buffer or Bridge? Environmental and Organizational Determinants of Public Affairs Activities in American Firms	Public affairs; Quantitative Study	Size (+++), environmental uncertainty (++) and importance of a resource (+) are important for political activity (resource dependence theory +); visibility (0)
(Mitchell, Agle, & Wood, 1997b); Journal of Politics	The determinants of domestic and foreign corporate political activity	PAC; Quantitative Study	Government involvement (+++), size (++) visibility (+) and countervailing power play a role for PAC participation; foreign own company (-)
(Neustadtl, 1990); Social Forces	Interest-Group PACsmanship: An Analysis of Campaign Contributions, Issue Visibility and Legislative Impact	PAC; Quantitative Study	PAC contributions can affect the legislative outcome, more success through labor than through business PACs.
(Oliver & Holzinger, 2008); Academy of Management Review	The Effectiveness of Strategic Political Management: A Dynamic Capabilities Framework	Framework for public resource development and usage; Qualitative Study Review Paper	Introduced a framework with two motives of firms engaging in PS (value creation and maintenance) considering firm and industry characteristics. 4 strategies are possible; but not all of them create sustainable CA. Focusing on the development of DC.
(Osborn & Chin, 2006); Conference Papers - - Midwestern Political Science Association	In a Bind: Business Plans, Market Position and Corporate Lobbying Strategies	Filling the gap between political science and business management strategy; Qualitative Study	Explains how the competitive structure (PORTER) influences the engagement in political affairs of firms.
Ozer, Mine; Lee, Seung-Hyun;	When Do Firms Prefer Individual Action to	PAC receipts; Quantitative Study	Firms participate in PA at different levels. Governmental contacts and R&D intensity determine

Business & Politics	Collective Action in The Pursuit of Corporate Political Strategy? A New Perspective on Industry Concentration		the relationship between participation level and industry concentration.
(Rehbein, 1995); Policy Studies Journal	Foreign-owned firms' campaign contributions in the United States: An exploratory study	Foreign owned firms and PAC; Quantitative Study	Firm size (+ some industries) and legislative debates (+ all) have a positive impact on participating and the amount of contributing to PAC as a foreign-owned company (similar to domestic companies). Legislative debate (0) and import penetration (0) have no impact (opposite to domestic firms).
(Rehbein & Schuler, 1998); Academy of Management Proceedings & Membership Directory	The Behavioral Theory of Corporate Political Action: Applying a Structural Model to the Political Activities of U.S. Manufacturers	Organizational factors mediate the relationship between environmental factors and CPA; Quantitative Study	Empirical results show that the internal characteristics are crucial to understand the political involvement of a firm. Proof of the behavior theory.
(Repetto, 2007); Challenge	The Need for Better Internal Oversight of Corporate Lobbying	Global warming - lobbying oversight by the board of directors; Qualitative Study	Lobbying must be responsible and consider all stakeholders for a long-run success of the firm. Therefore, oversight by the board of directors of lobbying is useful.
(Russo, 1992); Strategic Management Journal	Power Plays: Regulation, Diversification, and Backward Integration in the Electric Utility Industry	Regulation; Quantitative Study	The greater the monitoring by regulatory agencies the higher the diversification.
(Sadrieh & Varjulia, 2002); Public Administration Quarterly	Antecedents of Corporate Lobbying Participation and Intensity	Lobbying in the US; Review Paper	Political activism is a multi-layered phenomenon. Firms engage in Lobbying in pursuit of different objectives.
(Sadrieh & Annavarjula, 2005); International Journal of Public Administration	Firm-Specific Determinants of Corporate Lobbying Participation and Intensity	Lobbying in the USA; Quantitative Study	Being an active lobbyist depends on: firm size/total sales (+), internationalization (+), product diversification (+), domestic firm (+), profitability (0). The lobbying intensity depends on: profitability (+), product diversification (0).
(Salamon & Siegfried, 1977); American Political Science Review	Economic Power and Political Influence: The Impact of Industry Structure on Public Policy	How to reduce the tax burden through Lobbying regarding the industry structure; Quantitative Study	Larger firms have greater political power. The free rider hypothesis is also supported; larger industries are less successful. The effects of lobbying are conditional to the industry structure.
(Salorio, Boddewyn, & Dahan, 2005); International Studies of Management & Organization	Integrating Business Political Behavior with Economic and Organizational Strategies	Integrated political strategy; Qualitative Study	All firms engage in political behavior in a bargaining or non-bargaining form. Political markets exist and are important like economic ones. Political behavior belongs to an integrated view of strategy. Political behavior affects and is affected by economic and organizational behaviors. Political behavior can superior performance.
(Schuler, 1996); Academy of Management Journal	Corporate Political Strategy and Foreign Competition: The Case of The Steel Industry	Lobbying U.S.; Quantitative Study	Shuler shows that firms with larger market shares are more political active. This might follow from collective action theory. The second important result is, that firms are more politically active by timing (recession) and venue of PS.
(Schuler, 1999); Business and Politics	Corporate political action: rethinking the economic and organizational influences	CPA U.S.; Quantitative Study	Schuler shows, that the organizational composition of the company and the economic environment are critically important determinants for involvement in CPA. Direct effect of economic environment on CPA (+), Orga. composition on CPA (+), Influence of both (+), economic factors are related to orga. factors (+).
(Schuler, 2002); Journal of Public Affairs (14723891)	Public affairs, issues management and political strategy: Methodological approaches that count	Reviewing all kinds of CPA; Qualitative Study Review Paper	Researches need to focus on constructing a theoretical model. Otherwise empirical studies are complicated. The problem with PAM/IM/CPA is, that it is difficult to handle and highly interrelated.
(Schuler et al., 2002); Academy of Management Journal	Pursuing Strategic Advantage Through Political Means: A Multivariate Approach	Combination of political strategies; Quantitative Study	Drivers to choose multiple political strategies are industry concentration (0+), pol. activity of competitors (+), existence of congressional caucuses (+) and firm size (+); there is no stat. Evidence for unionization (0) and firm resources (0).
(Shaffer, 1995); Journal of Management	Firm-Level Responses to Government Regulation: Theoretical and Research Approaches	Reviewing state of the art of PS; Qualitative Study Review Paper	Showing various perspectives and levels of analysis on CPA and suggests possibilities to integrate in "mainstream" literature of organizational theory and strategic management.

(Shaffer et al., 2000); Business & Society	Firm Level Performance Implications of Nonmarket Actions	US airlines; Quantitative Study	Nonmarket environment and following nonmarket action is a crucial competitive dimension for US airlines. Firms, that undertake nonmarket actions are more likely to experience above-normal performance. Nonmarket actions are significantly related to performance of air lines and the performance is increasing with further nonmarket actions. market actions are not significantly related to performance.
(Smith, 1995); Legislative Studies Quarterly	Interest Group in the U.S. Congress	lobbying the U.S. congress; Qualitative Study Review Paper	Review of state of the research on interest group influencing the congress. Showing especially the problems in methods.
(Taminiau & Wilts, 2006); Journal of Public Affairs (14723891)	Corporate lobbying in Europe, managing knowledge and information strategies	Lobbying in Europe; Qualitative Study	Corporate lobbying in the EU greatly depends on knowledge and information management capabilities of the firm.
(Tesler & Malone, 2008); American Journal of Public Health	Corporate Philanthropy, Lobbying, and Public Health Policy	Tobacco industry and philanthropy initiatives; Quantitative Study	Tobacco industry corporate philanthropy (here PM21) is a tool to support marketing (especially of it is otherwise not possible - ban of smoke ads) and lobbying activities.
(Tripathi, 2000); Business & Politics	PAC Contributions and Defense Contracting	PAC; Quantitative Study	PAC contributions increase with defense budget (+++), Contracts (++) and firm size (+). Leaders of committees get more PAC money.
(Tucker, 2008); Business & Politics	Trade Associations as Industry Reputation Agents: A Model of Reputational Trust	Trade associations and reputation; Quantitative Study	Introducing a framework of reputational trust between trade associations and stakeholders.
(Unah, 2003); Business & Politics	Explaining Corporate Litigation Activity in an Integrated Framework of Interest Mobilization	Litigation after failing in anti-dumping ; Quantitative Study	Using corporate litigation depends on the firm's resources: dollar sales/firm size (+), prior litigation experience (+) and use of lawyers (+). Additionally, unionization has an increasing effect.
(Vanden Berg & Holburn, 2007); Business & Politics	Targeting Corporate Political Strategy: Theory and Evidence from the U.S. Accounting Industry	US accounting - regulated firms; Quantitative Study	Firms target their political strategies at the pivotal institution. Several changes between the 102nd and 103rd session regarding House/Senate incumbent and House/Senate Committee member are statistically significant. The U.S. Accounting industry responded with shifts in their campaign contributions to the threat of new regulation.
(Vining, Shapiro, & Borges, 2005); Journal of Public Affairs (14723891)	Building the firm's political (lobbying) strategy	Framework building; Qualitative Study	Creation of a framework, based on Porters 5 forces to analyze the influence of the government. In the next step they developed a framework how to shape a Political strategies based on 5 elements.
(Weidenbaum, 1980); Journal of Business Strategy	Public Policy: No Longer a Spectator Sport for Business	Second managerial revolution in public politics; Qualitative Study	The modern business firm must restructure itself to survive in a world heavily influenced by public policy.
(Wesselius, 2005); Consumer Policy Review	High time to regulate EU lobbying	Lobbying the EU; Qualitative Study	A lobbying disclosure act is needed in Brussels. There is a lack of democracy in EU.
(Yoffie, 1988); Harvard Business Review	How an Industry Builds Political Advantage	Lobbying of US semiconductor industry. Section 301 claim; Qualitative Study	Introducing of 4 general principles for making things happen in D.C. 1. firms need a united front 2. Government allies are essential 3. CEOs have a special role 4. PA by executives is more effective.
(Yongqiang Gao, 2006); Journal of Public Affairs (14723891)	Corporate political action in China and America: a comparative perspective	CPA in China; Qualitative Study	Showing similarities and differences of CPA between USA and China. Originated by different political systems and culture.
(Zhilong Tian & Xinming Deng, 2007); Journal of Public Affairs (14723891)	The determinants of corporate political strategy in Chinese transition	CPS in China; Quantitative Study	3 main theory contributions: 1. identified the taxonomy of firms' PS 2. found specific firm- and industry-level factors influencing PS 3. tested RBV and PS.

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