# Business Diplomacy in international firms

## An extensive literature review and results from a survey

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# Preface

This thesis is written as the graduation assignment for the Master in Business Administration with a specialisation in International Management, University of Twente, Enschede. I would like to express my gratitude to the people who have helped and contributed to the completion of this master thesis.

First of all, I would like to thank Dr. H.J.M. Ruël for giving me the opportunity to work on the business diplomacy project. His enthusiasm, knowledge and guidance have been a great help in the completion of my thesis. Almost every two weeks we had a meeting in which we reflected and discussed the relevant topics of the research.

I would also like to thank Tim Wolters, as we cooperated intensively in the initial stages of the project. Together we were able to conduct an extensive literature review and discover the field of business diplomacy. His help with the creation of the questionnaire was highly appreciated.

Furthermore, I would like to thank my second supervisor Dr. H.G. van der Kaap for his valuable advice and feedback during the green-light appointment.

Last but not least, I would like to thank the firms that participated in this research which provided insights into the current level of business diplomacy within firms.


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Enschede, November 2012

# Abstract

This master thesis research examines the influence of firm characteristics, the type of industry and institutional development on the approach advancedness and organization of business diplomacy within multinationals (MNCs). Based on the definition of Saner et al. (2000), we constructed the following definition of business diplomacy: "*Business diplomacy involves establishing and sustaining positive relationships (by top executives or their representatives) with foreign government representatives and non-governmental stakeholders (economic and non-economic) with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment*".

Interaction with governments and being sensitive to the demands and expectations of non-governmental organizations (NGOs) is becoming more important nowadays in the international business environment. However, little is known about business diplomacy, as most conducted research only stresses the importance of business diplomacy. Our research fills the quantitative gap by measuring business diplomacy using the dimensions approach and looking at its organization and by identifying the determinants related to business diplomacy. We argue that business diplomacy can be measured with six sub-dimensions, of which intensity, policy clarity, breadth, means deployments and resource availability identify the level of approach advancedness of business diplomacy. And how business diplomacy is organized, on the headquarters level or more on a subsidiary level, can be measured with business diplomacy responsibility. The business diplomacy level of firms is measured for foreign government representatives as well as for non-governmental stakeholders. The central research question of this master thesis is:

*To what extent do firm characteristics, the type of industry and institutional development determine the approach and organization of business diplomacy within MNCs?*

Saner and Yiu (2005) and Muldoon (2005) argue that establishing and sustaining relations with today's business environment is becomingly more important for creating business opportunities, as firms cannot solely depend on their competitiveness and efficiency. Our findings suggest that firms do understand the need for business diplomacy, as they have a moderately high level, clear and organization-wide business diplomacy policy for establishing and sustaining relationships with foreign government representatives (FGreps) and non-governmental (NONg) stakeholders. Also, they are moderately active in seeking contacts and use diverse means to establish and sustain these relations. Their medium score on the scale for business diplomacy breadth and resource availability implies that establishing and sustaining relationships with FGreps and NONg stakeholders is done by every employee within the company to some extent. Saner et al. (2000) argued that business diplomacy knowledge should be shared throughout the entire company, but firms use a medium amount of multiple firm resources to establish and sustain these relationships. Firms do acknowledge that establishing and sustaining relationships with FGreps and NONg stakeholders is an activity that takes time, but investing in knowledge transfers through training or a learning system to enable employees to establish and sustain relationships is an activity rarely conducted by the firms in our sample. Our findings show that firms could invest more in business diplomacy knowledge transfer. Decision-making regarding business diplomacy is neither completely decentralized (subsidiary level) nor fully centralized (headquarters) for Fgreps as well as for NONg stakeholders as the scores of our sample suggest.

The approach and organization of business diplomacy that firms employ with Fgreps and NONg stakeholders do differ, though the differences in and between firms are relatively small. Firms are more intense and have clearer policies for establishing and sustaining relations towards FGreps than towards NONg stakeholders. The difference in the approach advancedness, intensity and policy clarity is greater for business diplomacy targetting FGreps than NONg stakeholders.

We tested firm characteristics, the type of industry and institutional development (a total of nine independent variables) with the (sub)dimensions for establishing and sustaining relations towards FGreps and NONg stakeholders. A total of 126 relations were tested, of which 20 were found to be significant. The antecedents tested on the level of business diplomacy, approach and organization were derived from related theories such as CPA and international business theories. The extent to which a firm is globally integrated is the independent variable most related to business diplomacy as it influences the approach advancedness and four sub-dimensions of the business diplomacy approach (Intensity, breadth, means deployment and resource availability) for FGreps. The extent to which a firm is globally integrated is positively related, suggesting that globally integrated firms are more active in business diplomacy, have a broader approach, are deploying more means and have more resources available for business diplomacy. The level of local responsiveness of firms influences the business diplomacy responsibility, where a firm's level of local responsiveness is positively related to central (headquarters) business diplomacy responsibility. The other measured variables show various significant relations with the sub-dimensions of business diplomacy. Our findings suggest relations between the size of a firm and policy clarity (FGreps and NONg), the country of origin with means deployment (NONg) and responsibility (FGreps), the host country with intensity (FGreps) and clarity (FGreps), and the type of industry with policy clarity and breadth (FGreps and NONg). Only firm size has an impact (positive) on a business diplomacy dimension, as it affects policy clarity. However, we have found no significant relation between the age of a firm and the level of business diplomacy, suggesting firm age does not influence the level of business diplomacy approach or of responsibility.  Also, the institutional development of the host country (measured with the human development and democracy index) was not significantly related to the organization nor approach of business diplomacy.

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**Appendices**

# 1   Introduction

The globalization of markets is having enormous effects on how multinational corporations (MNCs) are organized nowadays. Figures from the United Nations Conference on Trade and Development show that Foreign Direct Investments (FDIs) have risen in the last 30 years (UNCTAD, 2011). Saner and Yiu (2005) argued that MNCs face various local pressures and requirements as they increase their presence in multiple countries. MNCs are exposed to different national laws and multilateral agreements, negotiated by the International Labour Organization, the World Trade Organization, and other international organizations. To survive, MNCs will need the ability to manage complex interactions with governments and non-governmental organizations (NGOs). Governments have power over the opportunities which are important for a MNC's survival (Hillman et al., 1999). Firms with access to these opportunities will enjoy a competitive advantage (Schuler et al., 2002).Therefore, companies need a 'license to operate'. Overall, this can be explained by the term 'legitimacy'. Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574).

Business diplomacy is of major importance in the current complex business environment (Saner & Yiu, 2005; Saner et al., 2000). Business diplomats should negotiate, renegotiate and make compromises with local authorities, and at the same time they should be sensitive to the wishes and demands of the increasing number of local and international NGOs that monitor global companies in conducting business (Saner & Yiu, 2005). Working conditions, environmental standards and employment practices should all be taken into account to prevent conflicts that can destroy the MNCs' reputation (Saner et al., 2000). To manage all these complexities MNCs can no longer keep commercial diplomacy at arm's length. "Instead, global companies need to seriously build up their own diplomatic competency" (Saner et al., 2005, p. 83). Ordeix-Rigo and Duarte (2009) argued that by engaging in business diplomacy, corporations can increase their power and legitimacy. Corporations that are involved in business diplomacy decide to satisfy a social public demand, rather than only a market demand.

Business Diplomacy is a part of the field of international business management which is still relatively under-explored, however. Since many subjects must be explored, there is a great need for quantitative and qualitative research in this field. Conducting research in this topic can contribute to the existing literature and might trigger other authors to explore the field of business diplomacy further.

This thesis is structured as follows. The remaining part of this chapter is concerned with the development of an adequate working definition of business diplomacy. Chapter 2 includes a structured literature review and the research direction. The research methodology that is applied in this study is presented in chapter 3. Chapter 4 presents the research findings, while the conclusion, discussion, research limitations and future research directions are covered in chapter 5.

The extensive literature review presented in chapter 2 is written in cooperation with another International Management student who also conducts research into business diplomacy. This empirical study is then continued individually, in a quantitative research direction, while the fellow student conducts a qualitative business diplomacy study.

## 1.1 Definition and framework

This section concerns the development of an adequate and delineated working definition of business diplomacy. For this purpose, business diplomacy and all its related concepts have been taken into account in section 1.1.1. The working definition is presented in section 1.1.2, as well as the theoretical framework that explains how other concepts are related to business diplomacy. This section is based on the structured literature review presented in section 2.

### 1.1.1 Definitions

In the international management literature the keyword Business Diplomacy is not widely recognized. To date, only a limited number of researchers have applied the term business diplomacy in their research articles.

According to Saner et al. (2000), *"*Business diplomacy management involves influencing economic and social actors to create and seize new business opportunities; working with rule-making international bodies whose decisions affect international business; forestalling potential conflicts with stakeholders and minimizing political risks; and using multiple international forums and media channels to safeguard corporate image and reputation" (p.85). The term "Business Diplomacy" is also explained by Saner and Yiu (2005): "Business diplomacy pertains to the management of interfaces between the global company and its multiple non-business counterparts (such as NGOs, governments, political parties, media and other representatives of civil societies) and external constituencies" (p. 302). According to London (1999), business diplomacy is a method of cooperating with people in an effective way to get things done. In the article, the researcher mentions that business diplomacy uses tact and understanding to build up relationships and trust. The author states, "Business diplomacy is most important when there are disagreements, interpersonal conflicts, and a lot at stake" (p.171).

Business diplomacy has a lot of related concepts. In order to develop an adequate working definition, it is important to examine how these different concepts are related to business diplomacy. By developing a complete and delineated working definition of 'business diplomacy', the focus of this research project will be clarified. For this purpose, the related concepts are discussed below.

**Corporate Diplomacy**
In the scientific literature, the related term "corporate diplomacy" is used to describe the same concept and can therefore be considered a synonym for business diplomacy. Corporate diplomacy is described as "a process to develop corporation's power and legitimacy" (Ordeix-Rigo & Duarte, 2009, p.561). In this light, a corporation is seen as a member within a network of stakeholders.

**Corporate Political Activity (CPA)**
Corporate political activity is broadly defined as a firm's efforts to influence or manage political entities (Hillman et al., 2004). The researchers argue that corporate political activities (such as lobbying, campaign contributions, operating a government relations office, trade political committees, etc.) are aimed at getting access to politicians to influence policymaking processes in favour of the firm. Indeed, Hansen and Mitchell (2000) argue that the dimensions of CPA are used to secure potential sales and to modify or fence off costly regulations. According to Hillman et al. (2004), CPA practices are expanding as commerce moves increasingly across borders, which in turn entail more political institutions and actors.

**Corporate Political Strategy (CPS)**
Corporate political strategies are also aimed at influencing public policymakers in order to shape a favourable business environment for the firm (Baron, 1997; Hillman, 2003; Hillman et al., 1999; Keim & Baysinger, 1988).

**Strategic political management (SPM)**
"Strategic political management refers to the set of strategic actions that are planned and enacted by firms for purposes of maximizing economic returns from the political environment" (Oliver & Holzinger, 2008, p.3). For this reason, strategic political management is seen as a synonym for corporate political activity (CPA) and corporate political strategy (CPS).

**MNC global governance**
"An indication that MNCs increasingly accept broader stakeholder obligation is the current emphasis many of them place on developing or renewing their public commitment to the broad domain of corporate social responsibility (CSR)" (Detomasi, 2007, p. 223). The researcher argues that the social commitments of MNCs go further than simply meeting legal requirements in jurisdictions. This exercise in stakeholder commitment improves the competitive advantage of MNCs; it reduces their political, media and social risk, provides them with better insight into local markets and improves the workforce quality. Muldoon (2005) describes the importance of the terms "corporate citizenship" and "corporate social responsibility" (CSR). The success of a company depends for a significant part on its capability to commit to a variety of stakeholders on social and environmental concerns (Muldoon, 2005). There is a growing interest in NGOs due to their increasing number and growth (Kourula and Laasonen, 2010).

**MNC-Host Government Relations**
The literature regarding this keyword entails many sides of relationship building. Luo (2001) introduces four building blocks which will improve the cooperative relationships between MNCs and governments; resource commitment, personal relations, political accommodation, and organizational credibility. MNC-host government relations are critical for a MNC's potential to grow and expand internationally since host governments influence the parameters of production, management, investment and localization (Boddewyn & Brewer, 1994)

## 1.1.2 Working definition of business diplomacy
We think that the aforementioned definitions of business diplomacy are rather unclear, too broad or too narrow. To focus our research better, it is necessary to develop a clear and delineated working definition of business diplomacy. For this purpose, we take several elements derived from existing definitions identified in the literature review as cornerstones: the purpose is to create and sustain legitimacy, the focus is on foreign business environments, it involves building and sustaining positive relationships with foreign government representatives and non-governmental stakeholders. This leads to the following working definition:

*Business diplomacy involves establishing and sustaining positive relationships (by top executives or their representatives) with foreign government representatives and non-governmental stakeholders (economic and non-economic) with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment. This can help businesses to create opportunities.*

As was already mentioned, in this project corporate diplomacy is seen as a synonym for business diplomacy; both concepts describe the same business process and associated elements. As indicated in the definition overview, the keywords CPA, CPS and SPM describe the same concept and thus can also be seen as synonyms. CPA, CPS and SPM are focused on influencing public policymakers (in the home country, and increasingly in foreign countries) in favour of the firm. In contrast, business diplomacy is concerned with the creation of long-term, positive relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic) in order to create legitimacy in a foreign business environment. Lobbying, which in Europe stands for "any proactive political strategy" (Hillman & Hitt, 1999), is an essential element of CPA and serves here as a mechanism for influencing public policy outcomes. It has a short-term, specific purpose and therefore falls outside the definition of business diplomacy in this project. Also, corporate political activities, such as campaign contributions for the purpose of influencing home government officials, are not considered part of business diplomacy.

These differences are shown in Figure 1, which displays how the other concepts relate to business diplomacy. Business diplomacy and CPA overlap in that they are both focused on influencing parties in the organization's external environment. The keywords MNC-host government relations and MNC global governance can be seen as important elements of business diplomacy. In order to gain legitimacy and create business opportunities around the world, it is necessary for a MNC to build upon positive relationships with multiple host government representatives and non-governmental stakeholders (economic and non-economic), such as NGOs. Committing to and negotiating with a variety of stakeholders (such as NGOs) on social and environmental matters in the international business environment are growing in importance (Kourula and Laasonen (2010).

**Figure 1: Business diplomacy and related concepts**
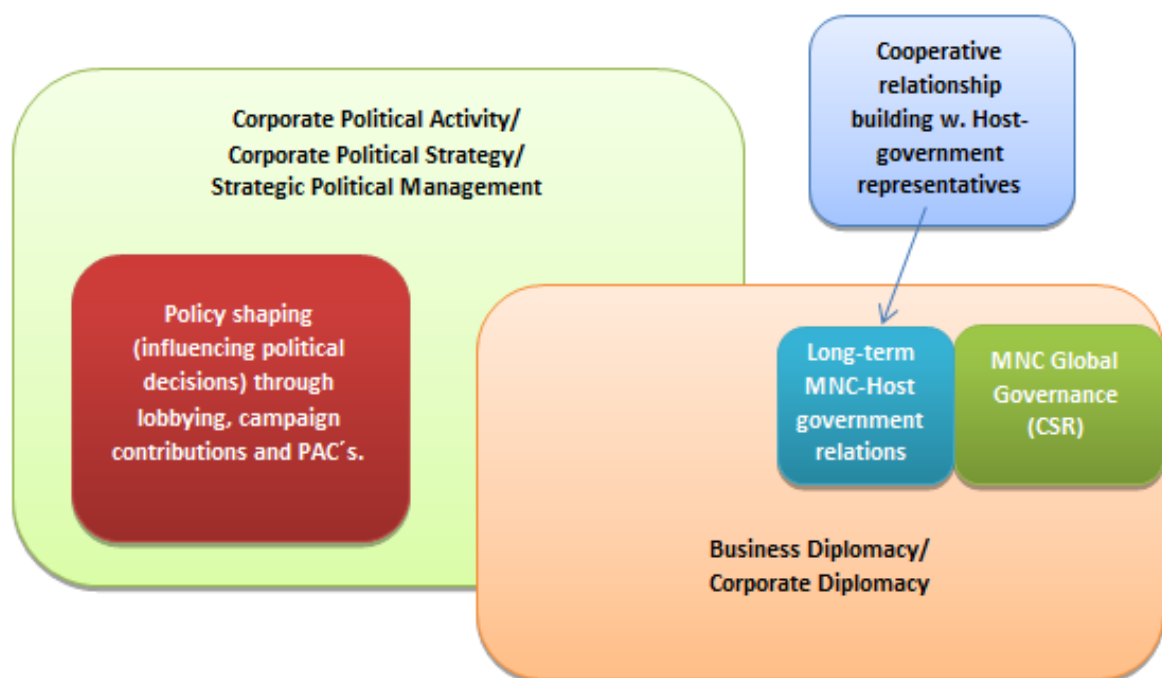
## 2 Structured literature review and research direction

This section includes a structured literature review and the research direction. Section 2.1 describes how various scientific studies were identified. Attention was paid to the theoretical perspectives, the methodological approaches and the levels of analysis the researchers used in sections 2.2, 2.3 and 2.4, respectively.  The articles were also reviewed for their important topics, findings and consequences. Various important research findings were discovered. Subsequently, these findings were summarized in a structured way (section 2.5). In section 2.6, a theoretical model concerning the antecedents, dimensions and outcomes of business diplomacy is presented. Section 2.7 covers the research direction.

### 2.1 Identification of studies

To identify the scientific literature regarding business diplomacy and related topics, only the Web of Science (WoS) was used as a search engine. Web of Science uses a database with only ISI (International Statistical Institute) journals that have a high impact level. The impact level is a measurement regarding the frequency with which the average article in a journal has been cited in a particular year or period. It covers all relevant scientific journals in the field of international business/management on a wide spectrum of business diplomacy. As search terms, we used "business diplomacy" and the six related terms given in section 1.1.1. WoS checks in the database for the presence of the keyword in the title, abstract or text of all articles. The relevant articles were selected based on the abstracts and research findings of the papers with consideration of the scope of our research. Subsequently a cross-reference check was made for each article which was selected.

**Table 1: Identification of scientific literature**

| Keywords (derived from literature) | No of selected articles | Articles through cross-reference check | Total articles per keyword |
|---|---|---|---|
| Business Diplomacy | 4 | 0 | 4 |
| Corporate Diplomacy | 1 | 0 | 1 |
| Corporate Political Activity | 7 | 5 | 12 |
| Corporate Political Strategy | 7 | 0 | 7 |
| MNC Global Governance | 4 | 0 | 4 |
| MNC Government Relation | 3 | 1 | 4 |
| Strategic Political Management | 1 | 1 | 2 |
| Total articles | 27 | 7 | 34 |

In total, 34 articles (Table 1) were selected of which 64.7% were published after 2000 (Figure 2). This suggests the growing relevance and interest in business diplomacy and political activities shown by businesses. Most of these articles were from management or business journals, with only a few from political, marketing and public relation journals.

**Figure 2: Publication years of the selected articles, expressed in percentage groups**



29.4%   5.9%   29.4%
35.3%

- 1990-1995
- 1996-2000
- 2001-2005
- 2006->
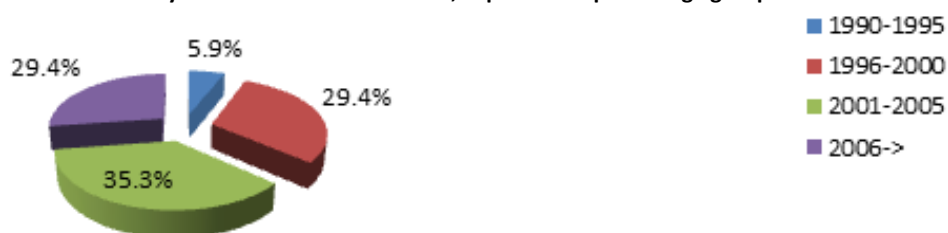
## 2.2 Theoretical perspective

A wide range of theories and conceptualizations were used in the selected articles. Twenty of the 34 studies rested on theoretical bases. In these articles, the researchers use these theories as a basis for studying business diplomacy and related concepts in different ways. In some articles, multiple theories were used at the same time.

Predominantly, in one-third of the articles that rest on theoretical bases, the resource-based view was used. In the article of Rizopoulos and Sergakis (2010), the resource-based view is used to determine a MNC's position in the home-country policy network which, in turn, determines its political strategy in host countries. Other examples include determining whether firms use different political tactics simultaneously (Schuler et al., 2002) and underpinning the importance of corporate political activities (Oliver & Holzinger, 2008). In approximately one-quarter of the articles, the institutional theory is applied. In the article of Hillman and Wan (2005), it is used to explain that the institutional norms within an environment determine to a large extent the political strategies of MNE subsidiaries that are active in these environments. In Richter (2011) the institutional theory is linked to the concepts of CSR. Researchers who used the resource-based view as their theoretical foundation employed the institutional theory in their study in some cases as well. This combination can be observed in the article of Hillman et al. (2004), which contains a literature review and a research agenda to corporate political activity. Other theories were also applied. For example, in the article of London (1999), the concept of principled leadership is combined with business diplomacy. The researcher argues that the application of business diplomacy is a way to make the strategy of principled leadership practical. In the article of Saner and Yiu (2005), the concept of CSR is used to explain the importance of business diplomacy. In Bonardi et al.(2005), political economy theory is used to describe the attractiveness of political markets. Furthermore, the stakeholder view (Ordeix-Rigo & Duarte, 2009), cooptation theory (Windsor, 2007), public choice theory (Lord, 2000), the policy network perspective (Dahan et al., 2006), the cooperative view (Luo, 2001) and the collective action theory (Schuler, 1996) were used as theoretical bases by researchers to study business diplomacy and related concepts.

## 2.3 Methodological approaches

There are several types of methodologies used in the research papers analysed: literature review, multiple case studies, surveys and quantitative data collection based on the internet and databases. Almost half (16 out of 34) used a theoretical literature approach. Seven articles used a literature review to design a model or framework (Bonardi et al., 2005; Detomasi, 2007; Hillman et al., 2004; Moon & Lado, 2000; Ramamurti, 2001; Rizopoulos & Sergakis, 2010; Windsor, 2007). Others used and discussed previously published papers in the fields of the related concepts of CPA, CPS and MNC-host government relations.

Surveys are the most common approach after literature reviews (n=8). The population, sample size and subject differ between them. They focused on emerging economies and developed economies. For example, Luo (2006) surveyed 350 randomly selected MNEs in China (response rate was 36%) consisting of firms originating from Europe, the US, Asia and other countries with wholly owned subsidiaries and majority-owned joint ventures in China. Others conducted surveys in developed countries, for example Hillman & Wan surveyed subsidiaries of US MNCs in Europe(Hillman & Wan, 2005). The focus of the studies lies on US subsidiaries (n=5) or subsidiaries in China (n=2). Only one survey had another population, consisting of congressional aides in offices of the US Congress (Lord,

2000). The survey data is often used for analysing hypotheses (derived from literature) but mainly to establish determinants or find relations in the approach and effectiveness of strategies. For example, Hillman (2003) investigated determinants for the political strategy approach, participation level, and strategy. Lord (2000) conducted research into the usage and effectiveness of different kinds of influence tactics. Schuler (1996) looked at internal and external firm factors and their influence on the strategic choice.

The third most commonly used methodological approach is the multiple case study (6 out of 34). In four of these articles, semi-structured interviews formed the data collection method. To include companies in the research sample, researchers explored all kinds of databases and websites (such as Unctad.  Saner and Yiu (2005), for example, conducted semi-structured interviews within global Swiss companies like Nestlé, Novartis Group, Roche Holding and Syngenta AG, three of which are ranked among the top 40 non-financial transnational companies in the world. Richter (2011) used six criteria to select companies, with two being companies operating in more than 100 countries and with more than 50,000 employees.

The final methodological approach was the analysis of data collected through databases and online information (n=4). For example, Hansen and Mitchell (2000) used several data sources for their research on PAC contributions such as the Federal Election Commission, US Department of Defence, and Congressional Information Services Incorporated. Schuler et al. (2002) also used information provided by the US government for a multivariate analysis to investigate whether firms use multiple tactics of political strategies.

## 2.4   Levels of analysis

In the selected articles, the researchers used different levels of analysis. In this section, the micro-macro dichotomy will be used to describe which levels of analysis were employed.

Most of the studies (18 out of 34) involved an analysis on the macro level. These studies had a more general focus for inquiry. Bonardi et al. (2005), for instance, identified the conditions that make a political market attractive for MNCs. Other examples of a macro-level analysis were the study of Hillman et al. (2004) in which the researchers provide a model of antecedents, types and outcomes of corporate political activity, or the article of London (1999) in which the researcher stresses the importance of business diplomacy and provides recommendations for how to integrate this concept into the business culture of the MNC. Other articles addressed the micro-level (10 out of 34). They had a more in-depth focus. For example, in the article of Hillman et al. (1999), the researchers focus purely on one specific aspect of corporate political activity, personal service, and investigated its effect on organizational performance. Finally, some of the selected articles in this literature review had both a micro- and macro-level focus simultaneously. Saner and Yiu (2005) stressed the importance of business diplomacy and gave recommendations of how to structure it in the organization, which suggests a macro-level analysis. However, in another section, they conducted empirical research into the organization of business diplomacy in 4 Swiss firms. The reason they chose Swiss firms is because the country is not a member of the EU, but still has to trade with EU members. This suggests that the researchers use a micro-level analysis as well, because this section involves a very specific, in-depth case study. Saner et al. (2000) also used a double level of analysis; on the one hand, the researchers explain generally why MNCs should nowadays have an integrated

business diplomacy function (macro), and on the other, they describe very specifically what knowledge, experience and skills business diplomacy managers should possess (micro).

## 2.5 Topics and findings

In this section, the most important topics, findings and consequences in the selection of articles are structured. First, general findings concerning political activity are addressed, followed by more specific findings regarding business diplomacy.

### 2.5.1 Political Activity

"Firms may enter political markets to seek new or to maintain existing policies that affect their current business operations or future opportunities" (Bonardi et al., 2005, p. 397). The political market is seen as a collection of individual markets, and its exchange is characterized by the interaction between demand and supply (Hillman & Hitt, 1999)*. Each different public policy concern has its own set of demanders and suppliers with its own competitive dynamics (Bonardi et al., 2005). Hillman and Keim (1995) present a rendering of the demanders and suppliers of public policy. The demand side includes individual voters, interest groups, firms, political parties, and occasionally other governments, either foreign or sub-national. All of these actors make different demands on public policy. Suppliers of public policy can include prime ministers, presidents and their staff, elected members of parliament, legislatures and their staff, members of the judiciary, and any number of appointed, elected, or career bureaucrats who staff government agencies.

#### 2.5.1.1 Importance

The fact that governments can have considerable impact on firms serves as a signal for firms to stay informed about policies, government regulations, and public policy issues (Hillman et al., 1999). Interaction with public policy suppliers and demanders is important. Public policies are the outcomes of a process in which new issues are put on the agenda continuously. Without overseeing this process, businesses would not be aware of changes regarding regulation and legislation (Hillman et al., 1999).

The importance of being politically competent in business is also described by Boddewyn and Brewer (1994). With competence in political activity, corporations have better knowledge and cognitive maps (Porac & Thomas, 1990) about non-market environments, better bargaining and non-bargaining skills, and more direct access to decision and opinion makers. From the perspective of the resource-based view, for a corporation to have a sustainable competitive advantage, these political competencies need to be non-imitable and non-substitutable. The political competences are necessary because sovereign governments do have control of the legitimate power, and companies that operate internationally need approval to enter and operate in a host country. Therefore, companies need a 'a license to operate' and legitimacy, which is "the extent that their activities are congruent with the values dominant in their nonmarket environments" (Miles & Cameron, 1982). The political behaviour of international organisations can be a source of efficiency, market power and legitimacy. Legitimacy facilitates the gaining of additional value in economic resources , grants access to policy makers, influences policy making, reduces the opposition of other stakeholders, and is therefore a political resource which international organisations want to secure. Sovereign governments present obstacles but also serve as incentives for cost efficiency and/or market effectiveness strategies of companies. Political competence is also important in dealing with various NGOs (Boddewyn & Brewer, 1994).

The research of Shaffer and Hillman (2000) provides empirical evidence of the importance of political activity. They found that CPA has a positive effect on firm performance. The performance measures they used involved gross profit margin, load factors, and changes in market share. The institution-based view is seen as the third arm of the strategic management field by Peng et al. (2009). Because institutional factors are important for understanding how firms obtain competitive advantage, the political activities of firms (how they manage and influence political entities) should be an important factor in determining firm performance (Baron, 1995, 1997). The results of Schuler (1996) are in accordance with these findings.

### 2.5.1.2    Factors influencing MNCs to become politically active

The decision for firms to engage in corporate political activity is often described as an investment decision (Lux et al., 2011). Firms assign resources to political activities when they expect to generate better returns. According to Baron (1995) and Mitchell et al. (1997), CPA is attractive when the benefits from obtaining beneficial policy outweigh the costs. "The government can be best viewed as a competitive tool to create the environment most favourable to a firm's competitive efforts" (Hillman & Hitt, 1999, p. 826). Several researchers (Lux et al., 2011; Hillman et al., 2004) investigated whether firm-, industry- or institutional-level factors influence firms to become politically active.

***Firm-level antecedents***

'Firm size' is a factor that provides an indication about the firm's ability to become politically involved (Hillman et al., 2004; Schuler, 1996; Schuler & Rehbein, 1997). Hillman and Hitt (1999) explain that firms with greater financial and intangible resources are more likely to engage in CPA alone, while on the other hand, smaller companies are forced to work collectively with others. The size of a company represents different values of organizational power such as economic and political power. That firm size is indeed an influencing factor in becoming politically active is empirically shown by Lux et al. (2011). who tested that the largest driver of CPA is firm size. This can be tested through revenue and/or the number of employees (Lux et al., 2011). Schuler (1996) identifies 'market share' as another factor that influences corporations to become active in CPA. He argues that firms with a large market share often employ many employees and many assets, which enables them to engage CPA. Another firm-level antecedent of CPA is 'resource dependency' (Schuler, 1996). This variable refers to the extent to which a corporation depends on governmental resources. Governments sometimes control resources that are critical for firms (Hillman & Hitt, 1999). Keim and Baysinger (1988) argue that securing and maintaining these resources is critical for firms, and thus it becomes necessary to become politically involved.

Another important factor that influences firms to become politically active is 'organizational slack' (Schuler, 1996). "Organizational slack is that cushion of actual or potential resources which allows an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment" (Bourgeois III, 1981, p.30).There are several ways to determine organizational slack. For example, through firm's debt to equity, current assets to current liabilities, and free cash flows (Hillman et al., 2004). Firms with a relatively high level of organizational slack will be more likely to become politically active since they possess the necessary financial recourses. This relation was demonstrated empirically in the study of Meznar and Nigh (1995). Also, 'business diversification level' is recognized as an antecedent of CPA (Hillman, 2003; Lux et al., 2011; Schuler, 1996). The researchers argue that the greater the diversification level of the firm, the more likely they are to use a relational CPA approach. CPA should be integrated with the corporate strategy (Aggarwal, 2001; Baron, 1995).

"Firms that pursue conglomerate diversification strategies come into contact with a greater number and diversity of society" (Lux et al.,2011, p.230). Because these diverse firms are exposed to greater social pressures, firms with diversification strategies are more likely to be politically active. 'Foreign ownership' is mentioned as an antecedent by Hansen and Mitchell (2000). They argue that foreign-owned firms are less likely to use certain activities of CPA, such as PACs and Congressional hearings. 'Firm age' is also mentioned to be related to CPA. 'Age of the firm' has often been seen as a proxy of 'visibility of the firm' (Hansen & Mitchell, 2000). It has also been argued that firm age indicates 'experience' and 'credibility' (Hillman, 2003; Hillman & Hitt, 1999). According to Hart (2001), young firms have larger PACs than older firms. Schuler and Rehbein (1997) state, "Managers (who are boundedly rational by definition) establish programs, routines, and structures to assist personnel in making decisions. These factors influence profoundly how the firm interprets and responds to environmental cues". CPA is then affected by the 'formalized structure' of a firm. Schuler (1999) states that the organizational structure mediates the relationship between political (environmental) variables and CPA.

### *Industry-level antecedents*
Industry-level variables also affect CPA. Hillman et al. (2004) argue that industry-level variables, such as 'industry concentration', affect the ability to organize political action. Firms can obtain certain advantages when working together with other firms to influence public policy outcomes (Olson, 1965). In concentrated industries, it is easier for firms to organize cooperation, and firms are more likely to influence legislators (Schuler et al., 2002). Several researchers (Grier et al., 1991; Schuler et al., 2002) argue that there is a positive relationship between industry concentration and CPA. Dominating firms in a highly concentrated industry will receive a higher net return on their political investment (Olson, 1965). However, according to Grier et al. (1991), there is little evidence of a relationship between industry concentration and CPA. 'International competition' is another industry-level antecedent of CPA. When international competition is high, governments create entry barriers for foreign MNCs in order to protect domestic firms (Lux et al., 2011). When firms are affected by foreign-owned competition, they will try to increase entry barriers and/or tariffs through CPA. However, Lux et al. (2011) found a negative relationship between international competition and CPA. The 'relative size of a firm within an industry' also determines CPA. Schuler (1996) argues that relatively small firms free ride on the political efforts of larger companies in the industry. This would suggest a positive relationship between firm size and CPA. Another important CPA antecedent is 'economic opportunities' (Lux et al., 2011). The researchers propose that economic opportunities in a market are negatively related to CPA. When firms access rapidly growing markets, they will focus their efforts on economic returns rather than on political activities. However, in their study Lux et al. (2011) found no relationship between economic opportunities and CPA.

### *Institutional-level antecedents*
Institutional variables also influence the extent to which MNCs engage in CPA. Researchers have focused mainly on how institutional differences between countries drive political action (Blumentritt, 2003). Lux et al. (2011) examined the influence of six institutional variables on CPA: politician incumbency, ideology, political competition, government regulation, government sales and government dependency. Research showed that all variables were positively related to CPA. With regard to politician incumbency, firms should evaluate a politician's ability to deliver the demanded policies (Lux et al., 2011). Evans (1988) argues that the ability of politicians to deliver the demanded policies is part of their ability to get legislation passed. Lux et al. (2011) therefore suggest that

political incumbency is positively related to CPA. Ideology, also positively related to CPA, concerns whether politicians are willing to provide the desired policies. According to Lux et al. (2011), political competition refers to the number of parties that are interested in and competing for a policy. "Because politicians are less likely to supply policy when competing demands exists, firms are likely to engage in CPA whenever other competing firms or special interest groups seek policy that will negatively affect the firm's business activities" (Lux et al., 2011, p. 227). Governmental regulation regarding economic activities can also be seen as an antecedent of CPA. Lux et al. (2011) suggests that when these regulations constrain operations and are costly for firms, they are more likely to engage in CPA. With regard to government sales, firms that conduct sizeable business with governments are more likely to engage in relationships through CPA (Boies, 1989). Lux et al. (2011) mention that politicians depend on firms as resources (e.g. votes and campaign contributions). Firms, in turn, want to exploit these government dependencies and are more likely to engage in CPA.

Bonardi et al. (2005) argue that a firm's decision to become politically active depends also on the 'attractiveness of the political market'. An aspect of this is the degree of competition. However, there is no consensus about the relation between degree of competition and a firm's decision to engage in CPA. Relatively new studies have reported a negative relationship (Kim, 2008), whereas older studies reported a positive relationship (Schuler, 1996). Bonardi et al. (2005) argue that when the demand-side and supply-side attributes of a political market make it attractive, firms will be more likely to engage in political activities. They state that firms will take the lead in political activities when the supply side is attractive and the demand side unattractive; when it is the other way around, they will not be the first to enter the political market, and thus they become followers. The attractiveness of the demand side is measured with three characteristics: (1) election or non-election issues (firms are expected to have a relative advantage in shaping decisions on non-election issues because of the reduced rivalry among the demanders), (2) the attractiveness of the political market (political markets in which the benefits of policy issues are concentrated and costs are spread are attractive for MNCs that  promote these issues) and (3) whether the issue is new or concerns an existing policy (political markets are more attractive for firms when defending existing regulations or policies) (Bonardi et al., 2005). The attractiveness of the supply side is measured with two characteristics: bureaucrats and elected officials. "When there is high rivalry between bureaucratic suppliers and no one agency has full regulatory power, this reduces the likelihood of changing the policy status quo and makes a political market less attractive for demanders like firms" (Bonardi et al., 2005). When the competition is high during elections of officials, each representative will be especially responsive to the needs of firms in order to collect votes; the attractiveness is high.

According to Lux et al. (2011), firms with a higher level of CPA will reap better performance. The researchers showed that CPA is positively related to performance measures such as returns on investment, returns on assets and government-derived revenues.

### 2.5.1.3   *Political strategy choices*

Firms appear to make politically strategic choices based on internal firm characteristics and external environment characteristics (Hillman, 2003; Schuler, 1996). According to Rehbein and Schuler (1999), internal firm characteristics significantly influence the firm's political strategy. A political strategy, which is part of the non-market strategies, is intended to influence governmental decisions that affect the firm's operations (Baron, 1997). It might help firms to gain access to a political market and influence local regulation in favour of the firm (Hillman et al., 1999). The study of Zardkoohi (1985)

showed that the more a firm is affected by regulators, the more it will try to influence policy makers. The political strategy adopted by an organization should be aligned with the external environment and its internal capabilities (Galbraith & Kazanjian, 1986).

### *Approach*

According to Hillman et al. (2004) there are two different types of CPA: proactive and reactive. This distinction is an element of the classification of Blumentritt (2003) who describes the terms buffering and bridging. Buffering behaviour concerns the proactive political actions of corporations, which involves informing policy makers about the effects of legislation on firms and trying to influence these regulations. Methods include lobbying and campaign contributions. Bridging behaviour is a reactive approach, which includes activities like exceeding compliance levels of regulation, and following the development of regulation in order to have compliance ready when approved. A reactive political approach is not sufficient for firms that want to influence regulation in their favour (Hillman & Hitt, 1999). In order to achieve these objectives firms must be proactive (Keim, 1981).

Concerning approaches towards political strategy, Hillman and Hitt (1999) distinguish between transactional and relational ones. In a transactional approach, firms wait for a new public policy to develop before creating a political strategy. It is an approach in which the strategy is responsive to specific, relevant issues. A transactional approach is not often used because firms tend to pursue long-term political strategies instead of issue-based ones (Hillman & Hitt, 1999). For a long-term strategy the relational approach is more appropriate. It tends to build long-term relationships with governments. Firms can use these ties to influence policy-making in their favour (Hillman & Hitt, 1999). The use of a relational approach is growing for both domestic and multinational firms. Hillman and Hitt (1999) argue that this is emphasized by the increased importance of a firm's governmental relationship.

Whether a firm decides to adopt a relational or a transactional approach depends on several variables (Hillman and Hitt, 1999), for instance the extent to which firms are affected by the government policies. The researchers propose that firms with a high level of government policy dependency are more likely to use a relational approach. Another variable is the product diversification level of the corporation. The researchers propose that firms with more diversified products are more likely to adopt a relational approach towards political strategy since they are often concerned with multiple policy domains (corresponding to diverse business units and product markets). Firms whose products are more standardized are more likely to use a transactional approach towards political strategy, because they are often concerned with limited policy domains. The researchers propose that the degree of corporatism/pluralism in the country in which firms are operating also influences the approach towards political strategy. In corporatist countries, firms are more likely to use the relation approach, while the transactional approach is preferred in pluralist countries. Hillman (2003) argues that the number and tenure of employees working in a firm also determine the approach adopted towards political strategy. Firms with greater credibility and a larger employee basis will adopt a relational approach, because relationships with political actors might develop faster when firms have a large number of experienced employees.

### *Participation level*

Olson (1965), a political scientist, delimits two participation levels that can be applied by a firm that is active in the public policy arena: individual action and collective action. Individual action refers to

private efforts of individual companies to affect public policy. Hillman et al. (1999), Olson (1965), and Schuler (1996) describe the collective action theory as collective activities that may be beneficial for multiple firms. The collective action theory focuses on the collective goods of political actions, which can be categorized as collective or selective benefits (Olson, 1965). The collective benefits favour multiple actors and those firms that haven't participated in the political efforts to shape a policy. These benefits could consist for example of quotas, standard settings, and trade barriers (Hillman et al., 1999). Selective benefits accrue only for those firms that participated in the policy-shaping. Schuler (1996) argues that politically passive firms can free ride on the efforts of politically active firms and benefit from favorable policy outcomes.

Hillman and Hitt (1999) propose several influential factors that determine whether firms participate individually or collectively. They propose that firms with good resources, including intangible ones, are more likely to influence public policy outcomes individually. Firms that lack these resources are more likely to use collective participation. According to Hillman and Hitt (1999), the degree of corporatism/pluralism in a country plays a role in the firm's choice between individual and collective participation. In general, corporatist nations promote positive-sum policies in the constituency and not specifically for the interest of one group (Hillman & Keim, 1995). Therefore, firms in pluralist countries are more likely to use individual participation, whereas firms in corporatist countries are more likely to participate collectively in the public policy arena. Hillman (2003) recognized a significant and positive correlation between the approach and participation level of political strategy. She argues that firms adopting a relational approach are more likely to participate collectively in the public policy arena. According to Schuler (1996), market share is another important determinant. Firms with a high level of market share are more politically active than smaller firms, which are more likely to engage in free-riding behaviour.

### *Political Strategies*

Next to approach and participation level, Hillman and Hitt (1999) also mention several types of political strategies as a third dimension. These three dimensions represent the sequence of firm decisions when formulating a political strategy. The researchers distinguish between the information strategy, the financial incentive strategy, and the constituency-building strategy. Firms can use multiple strategies simultaneously; using a certain strategy does not preclude the use of another one. Firms that apply the information strategy try to influence political decision makers by providing information (Hillman & Hitt, 1999). This can be done by means of lobbying or supplying position papers or technical reports. This offers the opportunity to create information asymmetries between the firm and public policy makers. Public policy makers need information for measuring public opinions and voting behaviour concerning particular policies. In the financial incentive strategy, firms use financial incentives such as contributions to political parties to influence political decisions. In the US campaign contributions are often employed in this way. In the constituency building strategy, firms try to influence decision makers indirectly through constituent support. This includes a firm's efforts to become politically active on public policy issues in which both the firm and multiple corporate stakeholders share strong mutual interests (Baysinger, Keim, & Zeithaml, 1985; Lord, 2000).The information strategy and financial incentive strategy aim to influence public decision makers directly, whereas firms that apply a constituency-building strategy attempt to influence public policies indirectly, by raising the support of individual voters, citizens and NGOs (Baysinger et al., 1985; Hillman & Wan, 2005).

According to Hillman and Hitt (1999) the strategy that a firm adopts depends on the political strategy approach. If a firm has a transactional approach, the life cycle stage of the particular policy issue becomes relevant. The first two stages of the life cycle by Ryan et al. (1987) include public opinion formation and public policy formulation respectively. In the first stage, public opinions regarding the policy issue are developing. In this stage, a firm can use a constituency-building strategy to communicate and shape opinions with the public in order to influence public policy makers. In the public policy formulation stage, in which policies or regulations are introduced, firms can oppose or support the new issue through the information or financial strategy. Firms with a relational approach adopt a political strategy, based on their own firm-specific recourses. Information must be perceived as credible in order for a firm to influence political decision makers (Boddewyn & Brewer, 1994). A firm's credibility determines the success of political its political actions. Hillman and Hitt (1999) propose that firms with higher credibility levels adopt either an information strategy or a constituency-building strategy. A constituency-building strategy is easier to use in firms with a large number of employees (Boddewyn & Brewer, 1994; Hillman, 2003). A firm can decide to educate its employees to become politically active and impact the political arena. The information strategy is correlated with the financial incentive strategy. US firms are most likely to combine these two strategies (Hillman, 2003; Schuler et al., 2002). Information strategy and constituency building are negatively correlated, which could be explained by the difference in perception (Hillman, 2003). The extent of corporatism in a country is positively related to the use of a relational approach towards political activity, and thus towards using a constituency-building strategy. The information strategy will be used more when firms are larger and employ methods such as lobbying, testifying, and so on (Hillman, 2003). Strategies that accentuate effective constituency-building determinations are likely to be more successful than financial strategies (Lord, 2000).

Oliver and Holzinger (2008) also developed a classification of political strategies. They examined the strategies that firms undertake to create or maintain value in political environments, and the dynamic capabilities that contribute to their effectiveness. Four firm-level strategies were proposed: anticipatory, reactive, anticipatory, defensive and proactive. The researchers argued that the firm-specific assets and competences determine which strategy will be adopted. In the reactive political strategy, firms try to protect or increase their strategic assets actively by aligning their internal processes efficiently and effectively with the public policy demands. In the anticipatory political strategy, firms live up to the public policies by combining and reconfiguring internal and external resources, in order to improve their external scanning and timely knowledge ability. This strategy is used when firms try to gain first-mover advantages. In the defensive political strategy, firms try to influence the political environment by discouraging policies that are not favourable for them (e.g. by means of lobbying). In the proactive political strategy, firms try to shape the fundamental nature of how public policies are defined or developed (Oliver & Holzinger, 2008).

MNC subsidiaries are directly affected by the host country's political environment because they are exposed to multiple sources of sovereign authority (Sundaram & Black, 1992). Blumentritt and Nigh (2002) state, "the coordination of political activities among MNC subsidiaries, is influenced by characteristics of the individual subsidiaries and their host country environments" (p. 61). The researchers argued that MNC subsidiaries attempt to produce a unified and consistent approach towards environmental actors. However, there are factors that force MNC subsidiaries to deviate from standard procedures in order to interact with political actors (Blumentritt & Nigh, 2002). The researchers argued that structures and procedures of governments often differ substantially

between countries in which MNC subsidiaries are active. Second, they argued that MNC subsidiaries face various types of political policy issues (Brewer, 1992), and third, the recourses of a subsidiary and the strategic role it plays has an impact on the political strategy decisions. A MNC together with its subsidiaries needs to respond to the political contingencies of the host countries, along with their own imperatives. Blumentritt and Nigh (2002) empirically showed that subsidiaries integrate their political activities with partners, based on the influence of inter-subsidiary strategic factors and on host-country environments. Hillman and Wan (2005) argued that the foreign subsidiaries of a MNC have their own strategic patterns, specifically concerning a certain domain. In their study, Hillman and Wan (2005) conducted research into the determinants of political strategies of MNC subsidiaries. The focus of their study was to examine the dual institutional factors: MNC subsidiaries need to conform to external legitimacy forces in the host country and the internal legitimacy forces of the parent firm. Hillman and Wan (2005) used the political strategy taxonomy of Hillman and Hitt (1999). Research findings revealed that legitimacy forces such as the tenure in a country, subsidiary size, the degree of corporatism in the host country, and the parent's level of diversification influence the political strategy of MNC subsidiaries. For example, the researchers concluded that "in pluralist countries, the information and financial incentive strategies were used more often, whereas in corporatist countries MNE subsidiaries used constituency building more often" (Hillman & Wan, 2005, p.336).

### Activities

Firms adopt multiple political activities to influence legislative decisions (Schuler et al., 2002). Political activity committees (PACs), campaign contributions, constituency building, executive lobbying, use of professional lobbyists, and advocacy advertising were mentioned as political activities of MNCs by Lord (2000). Direct influence activities involve lobbying, campaign financing, and illegal corruption (whether bribery or extortion). Indirect influence activities involve grassroots mobilization, non-governmental stakeholder management, and media relations (Windsor, 2007). Firms practise several types of political behaviour simultaneously to achieve favourable policy outcomes (Mahon, 1993). PACs and campaign contributions are mentioned as typical activities often used in the US (Keim & Zeithaml, 1986). Lobbying is described as an instrumental activity in which information regarding a firm's policy preferences is transferred to public policymakers (Hansen & Mitchell, 2000). Lord (2000) describes lobbying as an activity that can be conducted by external professional lobbyists or internal lobbyists. The aim of lobbying is to obtain exclusive benefits as a firm, such as regulatory relief or government contracts. Hansen and Mitchell (2000) argued that lobbying is the most common political activity for firms. Lord (2000) mentioned that constituency building is ranked as the most effective activity according to congressional respondents. Baysinger (1984) and Keim and Baysinger (1988) support the notion that corporate constituency building is a highly effective activity of creating political influence. Lord (2000) found that PAC contributions and advocacy advertising are the least influential activities of CPA. Hart (2001) concluded that firm age has no relation to the formation of PACs, although young firms are more likely to have larger PACs than older firms. Schuler et al. (2002) argued that to gain access to political markets, firms often combine campaign funding with lobbying. In the analysis of the empirical findings, the researchers showed that large firms were more likely to combine lobbying activities and PACs. Firms that operate in industries where political involvement is high are also more likely to become politically active. Schuler (1996) argued that firms in concentrated industries are more likely to engage in lobbying and campaign contributions than those in fragmented industries.

### 2.5.1.4    Policy networks

According to Rizopoulos and Sergakis (2010), the political influence of MNCs also depends on the possibility of getting involved in policy networks. According to Dahan et al. (2006), the current literature is overly focused on dyadic MNC-government relations, and should be more focused on policy networks. Policy networks refer to the interactions of different interest groups in public decision-making and their collective actions (Rhodes & Marsh, 1992). Such a network "stresses the exchange processes between organizations and the complexity of ties binding major stakeholders (firms, bureaucrats and politicians) by resource interdependencies" (Rizopoulos & Sergakis, 2010). Firm-specific assets (e.g. employment, technological knowledge, and financial power) enable MNCs to influence public policies that are aligned with their operational objectives. Resource exchange relationships must be developed between all the actors within a policy network. MNCs must possess valuable resources that other actors seek (Dahan et al., 2006). The perception of MNCs and their strategic goals are created in reference to the policy networks in which they are involved (Rizopoulos & Sergakis, 2010).

There are two different types of policy networks, open and closed (Schaap & van Twist, 1997). A closed policy network consists of a dense relationship between a small number of actors (public or private) who share the same interests, preferences, values and ideologies. A closed policy network is characterized by cohesion, centralization, convergence, exclusivity, and constitutes an institutional environment. It is suitable for building up a dominant position inside a specific issue area (Rizopoulos & Sergakis, 2010). An open policy networks consists of weak ties among many participants with well-balanced bargaining power and little interdependence. It is characterized by low centralization, density and cohesion. The interconnectivity is lacking, and interactions are based on consultation and exchange of information.

Rizopoulos and Sergakis (2010) argue that the type of policy network and a firm's position in it (which is determined by the firm's resources) determines the political leverage. When firms have significant, valuable resources in a closed policy network, they will have greater influence on the political actions. Strong support from home governments could arise when firms have dominant positions in closed home policy networks, or if firms have the capacity to constitute alliances with stakeholders in open networks. MNCs have a dominant position when they provide the resources on which public decision-makers depend (Dahan et al., 2006). A dominant position in a home country enables expansion to international markets.

Dahan et al. (2006) describe the use of epistemic communities along with policy networks. In epistemic communities the focus lies on the production and distribution of usable knowledge, which is used as the main resource provided to policy decision-makers. Activities of epistemic communities include writing export reports, commissioning scientific studies, setting up debates and publishing documents among officials and the media (Dahan et al., 2006).

### 2.5.2    Business diplomacy

According to Muldoon (2005), survival in today's complex business environment does not solely depend on MNCs' competitiveness and efficiency. Additional factors that determine long-term organizational success involve managing dynamic and complex interactions with multilateral institutions, governments and social movements. The researcher argues that MNCs should build upon long-term relationships with multiple stakeholders, thereby implementing cooperative

strategies that address environmental and social concerns. In the article, Muldoon (2005) recognizes the corporate public affairs function as the diplomatic machinery that coordinates a firm's representation in the global system. The researcher states that "The corporate public affairs profession has evolved over the last decade or so from its traditional role as an internal 'PR' agency focusing primarily on corporate communications and media relations to a multifaceted and strategic corporate function that encompasses public policy and issues management, government and investor relations, corporate philanthropy and community relations, business ethics, corporate social responsibility and citizenship, and crisis management". Saner et al. (2000) characterizes business diplomacy management as the process of creating legitimacy and power with host governments and other non-business stakeholders in order to create business opportunities.

*2.5.2.1*    Importance

According to Saner et al. (2000), the actual situation that MNCs face is complex; global companies need to manage rapidly changing political/economic business environments, thereby dealing with multiple stakeholders such as host governments and NGOs. These difficulties have three causes. First of all, the public has more access nowadays to information regarding corporate governance. Their opinion and voice have a strong influence and cannot be ignored by MNCs. Second, emerging markets such as India and Brazil have many difficulties that MNCs should take into account, such as cultural aspects and governmental rules. The third cause refers to the emergence of all kinds of NGOs and communities. Working conditions, environmental standards and employment practices should all be taken into account to prevent conflicts that can destroy the MNC's reputation (Saner et al., 2000). To manage all these complexities, MNCs will need to develop diplomatic knowhow. Only a few MNCs recognized the importance of business diplomacy. Instead of training their managers in business diplomacy, most MNCs hire political diplomats and rely on their experience in managing complex relationships with host governments. MNCs need to anticipate stakeholder conflicts, communicate with non-business pressure and interest associations, influence host-government decision-making and maintain constructive relations with external constituencies. Therefore, MNCs cannot rely on advisors but should develop their own business diplomacy competences. Knowhow regarding business diplomacy should be shared through the company by global managers. "In order to realize this core competence, global companies should create a business diplomacy management function consisting of a business diplomacy office, similar to the public affairs office but expanded to include diplomatic functions and placed under direct supervision of the CEO" (Saner et al., 2000, p. 90). The function of such a business diplomacy office is scanning the business environment, interacting with multiple stakeholders, and engaging in diplomatic missions under the supervision of the CEO.

Saner and Yiu (2005) stressed the importance of business diplomacy management in today's business environment. They argued that MNCs have increased their presence in many countries and thereby face various local pressures and requirements. They are exposed to different national laws and multilateral agreements, negotiated by the International Labour Organization, the World Trade Organization, and other international organizations. Business diplomats should negotiate, renegotiate and make compromises with local authorities (Saner & Yiu, 2005). They should also be sensitive to the demands and expectations of the increasing number of international and local NGOs that monitor global companies in conducting business. The researchers mention that it is not clear how MNCs around the world organize and structure business diplomacy. In their research, Saner and Yiu (2005) investigate how four major Swiss MNCs developed their business diplomacy competency.

They argued that Swiss MNCs need to manage multiple business and non-business stakeholders in Europe, and business diplomacy is a crucial factor for successfully doing business in Europe. Results showed that the organization of the business diplomacy function in the Swiss MNCs was very divergent. It was conducted by different departments in different companies. The diplomacy managers also reported to a wide variety of departments: government affairs, public relations, product division, legal division, etc. Respondents of these Swiss firms indicated that the knowledge base of business diplomacy should be strengthened, especially in the field of international crisis and the ideological implications of non-Western models of business. All four Swiss MNCs stressed that in-house training was the best tool for the development of an in-house business diplomacy competence. Another tool, mentioned to a lesser extent, was partnering with MBA schools. Tools such as hiring former diplomats, partnering with diplomatic academies and outsourcing weren't mentioned at all. All respondents recognized the value of the function; it helps with developing social networks and building upon good relationships with the local authorities, and it can enlighten negative interactions with all stakeholders involved.

London (1999) combined business diplomacy with the theory of principled leadership. He argues that business diplomacy and principled leadership (the application of mutual respect, doing good, honesty and fairness in business values) are reciprocally supportive management styles. They are mutually supportive in establishing and improving working relationships and valuable in negotiating deals, resolving emotional conflicts and making important decisions. One of the non-Western concepts on which principled leadership is built is Kyosei. This involves fair and honest leadership. "Firms that practice Kyosei care about the interests of all stakeholders, including employees, suppliers, customers, and the local community, across professions, nationalities, and political regimes" (London, 1999). These corporations operate in a diplomatic way.

Ordeix-Rigo and Duarte (2009) mentioned the move from a shareholder model to a stakeholder view of firms. They emphasize that it is important for modern corporations to respond to the expectations of various stakeholders in order to obtain a 'license to operate'. This can be realized by engaging in corporate diplomacy (a synonym for business diplomacy). In this article, corporate diplomacy is seen as a process towards a state of engagement with publics. Corporate diplomacy entails that a corporation actively participates in society, which adds new dimensions to their role of creating wealth, quality products or services, and employment. By means of engaging in corporate diplomacy, corporations can increase their power and legitimacy. Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574). Corporations involved in corporate diplomacy decide to satisfy a social public demand rather than complying solely to a market demand (Ordeix-Rigo & Duarte, 2009).

London (1999) provides recommendations for making business diplomacy more effective. First of all, diplomacy should be integrated in the organizational culture. Management should ensure that a diplomatic style of operation is applied, as opposed to an aggressive closed-door style. Second, leaders within the organization should show the value and relevance of business diplomacy to others in the process: to peers, subordinates, customers, etc. Third, it is important that diplomatic managers take time to reflect on and reconsider the functioning of the diplomatic process. Further, the researcher states that diplomatic managers should learn from their mistakes and that diplomacy

should become the natural way of life for the organization. Finally, a crisis should be managed carefully in a diplomatic way; don't overuse power, widen the community of those concerned, and keep objectives restricted (London, 1999). Saner and Yiu (2005) argue that in order to make business diplomacy effective, the CEO should provide policy directives. According to the researchers, the CEO should delineate the business diplomacy domain in which non-specialists are involved on an operational basis while specialists are put in charge of the other domains; shape a link between business diplomacy management and strategic planning to create a socio-political-economic view in exercises regarding scenario planning; provide the necessary resources to maintain relationships with non-business stakeholders and to scan the business environment continuously; develop competencies for analysing environmental and social issues; initiate a knowledge system for business diplomacy management to capture cumulative learning; provide business diplomacy training to middle managers.

### 2.5.2.2    *MNC-host government relations*

MNC-host government relations are critical for the MNC's potential to grow and expand internationally since host governments influence the parameters of production, management, investment and localization (Boddewyn & Brewer, 1994). Luo (2006) distinguishes two dimensions that describe how MNC-host government relations are managed: assertiveness and cooperativeness. Assertiveness describes the extent to which an MNC approaches a host government on its own initiative, uses bargaining power to influence the host government, gains negotiation control, and does not avoid conflicts with the host government. Cooperativeness, on the other hand, describes the extent to which an MNC works together with a host government and develops an environment for business growth. Cooperativeness and assertiveness should not be seen as opposite ends, but rather as political dimensions that coexist (Luo, 2006).

Dunning (1998) emphasizes the incremental shift from a conflictual-adversarial (assertiveness) nature towards a cooperative-complementary nature of MNC-host government relationships. The conflictual view assumes that MNC-host government relations are bargaining games in which each party exploits its balance of power (Fagre & Wells, Jr, 1982). According to Boddewyn (1988) the MNCs' bargaining power was dependent on firm-specific resources and ownership advantages, while a government's bargaining power was dependent on location-specific advantages and market access control. The bargaining power of a MNC decreased over time as it had uncovered its assets in the host country, and thus the host government became more independent (Vachani, 1995).

Moon and Lado (2000) criticized the existing literature on bargaining power relationships between MNCs and host governments. Several studies relied on the bargaining power framework in analysing this relationship (Doz et al., 1981; Fagre & Wells, Jr, 1982). According to this framework MNCs that have greater bargaining power will probably receive more favourable outcomes in negotiations. The choices of sources and outcomes of bargaining power are motivated by the idiosyncrasies of researchers, instead of being grounded in a consistent theoretical framework (Moon & Lado, 2000). They emphasize the need for a comprehensive theory that thoroughly specifies the relations between antecedent, intervening and outcome variables regarding the bargaining power relationship between the MNC and host government. Moon and Lado (2000) provide an integrative theoretical model of MNC-host government bargaining power which is based on the resource-based view. In this model, firm-specific resources (e.g. technological knowhow and managerial resources) are represented as determinants of MNCs' bargaining power with respect to a host government. In turn,

bargaining power is propounded to generate economic rents. The researchers describe economic rents as returns attributable to firm-specific resources that are hard to copy. Additionally, Moon and Lado (2000) propose that the relationship between bargaining power and firm-specific resources is moderated by industry-specific factors (e.g. industry concentration) and country-specific factors (e.g. cultural distance and level of economic development).

Ramamurti (2001) also criticized the existing literature regarding the bargaining power relationships between MNCs and host governments. Criticized for example is the bargaining power model of Fagre and Wells Jr (1982). Developing countries possess mechanisms for screening the entries and regulating operations of MNCs. It is in this context that existing models assume that the bargaining process is a static two-party negotiation between the MNC and the host government (Fagre and Wells, Jr, 1982; Gomes-Casseres, 1990). Ramamurti (2001) emphasizes that this traditional model of bargaining in MNC-host developing country relations has become outdated. These relationships are understood better as the outcome of a two-tier bargaining process. Tier 1 refers to the bargaining process between host developing countries and home countries. This process can take place on a bilateral level or throughout multilateral institutions such as the World Bank, the WTO and the IMF. Tier 2 refers to the original bargaining process between MNCs and host governments. According to the researcher, this two-tier model creates added value for MNCs since home governments connect them with host governments through Tier 1. Ramamurti (2001) argues that bargaining in Tier 1 produces macro-principles on FDI which, in turn, influence the micro-negotiations in Tier 2. The degree of FDI liberalization that results from bargaining in Tier 1 varies across home-host country matches and industries.

According to Luo (2001), the cooperative view towards MNC-host government relations differs in six aspects from the conflictual (assertiveness) view. First, the cooperative view is built upon resource sharing. In today's complex world economy, MNCs and host governments depend on each other's resources; because their resources are often supplementary and their interests congruent, this cooperation can result in synergies (Dunning, 1998). Second, the conflictual view is mainly focused on the entry stage of MNC-host government relations, while the cooperative view is also concerned with the after-entry stage (Luo, 2001). The MNCs' on-going involvement is increasingly crucial to the host country (e.g. input localization, R&D and re-investment). According to the researcher, MNCs-host country operations increasingly depend on industrial, technological and educational infrastructures which are built by the host government. Furthermore, host governments can also function as customers, partners or suppliers of MNCs. It is for these reasons that both host governments and MNCs are motivated to engage in reciprocal cooperation. Third, the conflictual view associates MNC-host government relations with governmental intervention, while the cooperative view regards it as the strength of a MNC's relationships with foreign authorities (Luo, 2001). By engaging in cooperative relationships, the MNC can benefit from several institutional supports. Fourth, in contrast to the conflictual view, the cooperative view recognizes the importance of networking with host government officials. Networking with local officials, which leads to institutional support, can help MNCs circumvent bureaucratic rules, balance market uncertainty in underdeveloped legal systems, and facilitate information exchange (Luo, 2001). Fifth, the conflictual view sees MNC-host government relations from a bargaining perspective, while the cooperative view sees these relationships from a legitimacy perspective. Organizational legitimacy and adaption are determinants that will initiate cooperative relationships between MNCs and host governments (Luo,

2001). Finally, the conflictual view focuses on ownership shares and treatment changes as outcomes of MNC-host government relations. According to Vachani (1995) this view is mainly focused on the share of foreign ownership that is retained by the MNC over a certain period of time. The cooperative view, however, focuses on a firm's operational and financial performances as outcomes of MNC-host government relations (Luo, 2001). The researcher argues that due to the on-going reduction of entry barriers, accompanied by increasing competition, the strategic focus of MNCs has shifted from entry to operations. Hence, evaluating operational and financial effects of MNC-host government relations have become crucial in any outcome analysis regarding these relations. Luo (2001) proposes four building blocks for improving a MNC's cooperative relationship with host governments: political accommodation, resource complementarity, organizational credibility and personal relations. Political accommodation covers a MNC's ability to be responsive to governmental and social needs (e.g. pollution control, education, hospital facilities, etc.). The researcher argues that without this accommodation, the MNC runs the risk of being stereotyped as "exploiter" by the local society or government. Resource complementarity refers to the extent to which a MNC's contributed assets fit the governmental pursuit for national economy development. The third building block, organizational credibility, considers MNC's trustworthiness as observed by local officials and the public. The researcher argues that this credibility is important for MNCs to establish and maintain long-term cooperative relationships with host governments. He emphasizes that MNCs can also use personal relations with major officials to improve their relations with governmental authorities. A party's trustworthiness helps to improve corporate image and credibility. In the study, Luo (2001) conducted an empirical analysis of 131 MNCs in China and found evidence that all four building blocks were significantly associated with MNC-host government relations.

### 2.5.2.3    *Corporate Social Responsibility (CSR)*

Globalization has reshaped CPA at levels below and above national governments (Windsor, 2007). Windsor argued that business is affected by international policy regimes, supranational NGOs, subnational communities and supranational quasi-governmental institutions. MNCs are nowadays exposed to a variety of non-market institutions, corruption policies, and stakeholder demands for CSR. Teegen et al. (2004) also argues that the global political-economic environment has changed dramatically due to the rise of organized civil society and NGOs. "NGOs are private, not-for-profit organizations that aim to serve particular societal interests by focusing advocacy and or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights" (Teegen et al., 2004, p. 466). NGOs advocate in several ways: holding conferences, conducting research, staging citizen tribunals, lobbying, serving as advisory experts and representatives for decision-making, monitoring actions of others, promoting codes of conduct, setting agendas, organizing boycotts, and distributing information to constituencies (Hudson, 2002). Teegen et al. (2004) stressed that in this era, characterized by increasing globalization, international business (IB) researchers should respond more effectively to the challenges due to the emergence of social movements and NGOs. The researchers mentioned that the main schools of IB theories (e.g. the MNC-host government bargaining model, or the institutional perspective on MNCs) should be adjusted to better account for these increasingly meaningful new actors. NGOs do substantially influence governments and MNCs in national and global contexts. In turn, they are also influenced by the global political-economic environment, which creates a dynamic co-evolutionary phenomenon. According to Teegen et al. (2004), collaborations among NGOs and corporations emerged as new

organizational vehicles to supply social services like environmental protection and poverty alleviation.

According to Richter (2011), there are seven categories of institutional entrepreneurs in the CSR field that influence corporate behaviour and its environmental and social impact. The first category concerns civil society actors that try to impact corporate behaviour by setting the CSR agenda of firms (Arevalo & Fallon, 2008). The most prevalent obes are activist movements, in most cases NGOs whose aim is to institutionalize CSR (Den Hond & De Bakker, 2007). The second category includes the local, national and international media, which can inform and educate the public with new issues such as labour rights violations or environmental pollution (Stadler, 2004). According to Scammell (2000) the internet has been a powerful tool for shaping public opinions in the CSR field. The third category concerns national and supranational governments. They are equipped with substantial power to influence corporate behaviour through governmental action and legislation (Matten & Moon, 2008). The fourth category covers the new discursive arenas (e.g. the UN Global Compact or the Global Reporting Initiative) that have emerged to develop guidelines and standards for MNCs (Ruggie, 2004). Ethical investment is identified as the fifth category. In recent years, the traditional investment dogma has been replaced by ethical investments, emphasizing responsible supply chain management, transparency in corporate governance codes, ethical business practices and appropriate profit utilization (Petersen & Vredenburg, 2009). During the 1980s, in a reaction to the shareholder value dogma, new types of investment funds emerged that added environmental and social performance to their selection criteria. These investment funds underlined the importance of non-financial criteria in assessing firm value. As the sixth category, Richter (2011) argues that large customers and suppliers have the ability to influence corporate behaviour. These institutional entrepreneurs are concerned with product quality and safety, which directly affects financial performance (Berman et al., 1999), and use their bargaining power to pressurize their clients to institutionalize ethical corporate practices (Richter, 2011). The seventh category concerns consumer activism, which is increasingly influencing consumer buying decisions (Klein et al., 2004). Consumer organizations create awareness in the field of responsible buying, which means that consumers should consider the way products are produced and sold.

According to Windsor (2007), MNCs aim to maximize both sustainable competitive advantage and corporate reputation for wealth creation through the deployment and assignment of scarce resources across multiple jurisdictions. The corporation attempts to implement an integrated strategic management approach (Baron, 1995). Windsor (2007) sets out four key dimensions of this integrated strategy: market, political, corruption and responsibility. The market dimension concerns the relationships with economic stakeholders and competitors. The other three dimensions, which represent non-market strategies, deal directly or indirectly with non-economic stakeholders, economic stakeholders and competitors. The political dimension addresses the relationships with governments and governmental relevant stakeholders. It judges whether these relationships are ethical and legal, involving stakeholders, competitors, international institutions, NGOs and governments. The corruption dimension concerns how to react and what attitude to adopt as a firm when there are bribery or extortion opportunities. The researcher mentions that an anticorruption attitude affects a MNC's reputation. Indeed, Luo (2006) describes that MNCs that preserve legitimacy move away from political corruption. With regard to responsibility, Windsor (2007) describes that global CSR involves an anticorruption attitude and includes normative boundaries in corporate political activities. "CSR strategy deals with non-market resource commitments expected by or

voluntarily provided to societies and stakeholders" (Windsor, 2007, p. 265). These four integrated strategy dimensions occur at multiple levels and in multiple countries. Schuler and Cording (2006) argue that each strategy dimension eventually affects both sustainable competitive advantage and corporate reputation.

Detomasi (2007) also emphasized that globalization has enlarged the economic power of MNCs, calling for greater CSR from these corporations. He introduced Global Public Policy Networks (GPPN) as a mechanism through which corporations can positively impact CSR. This model relies on the individual strengths of governments, NGOs and MNCs in creating behavioural standards in areas such as working conditions, environmental standards and labour rights.

The policy inputs from several actors (national governments, activists and NGO groups, and MNCs) represent the first level of the GPPN. Each actor has a clear interest in joining these networks. "For MNCs, GPPN provide a mechanism for dialog and for input into the CSR expectations that they will be expected to fulfil" (Detomasi, 2007, p. 328). These networks will provide each individual MNC with an understanding of what they can and cannot expect to achieve in the field of CSR. The researcher argues that GPPN allows national governments a middle road between the relaxation of regulatory control for encouraging FDI and aggressively adhering to control to the point of damaging economic development. GPPN can create common CSR standards across countries and industries which can provide states and corporations with more transparency and clarity. As a result of participating in GPPN, activist and NGO groups can acquire a strengthened position in influencing long-term corporate planning. This group of actors can generate a long-term effect by working together with corporations to create higher environmental and labour standards.

The second level of the mechanism includes all GPPN activities themselves (Detomasi, 2007). GPPN creates a forum for dialogue and discussion in which various actors can participate, it functions as a storage place of information, and it acts as a body of reference and dispute resolution.

The third level of the model concerns the policy outputs of GPPN. Detomasi (2007) mentioned that the first policy outcome is standard setting in expectations around areas such as wage, labour and environmental conditions. The second outcome concerns enforcement mechanisms for transgressors, which can range from group sanctioning to outright expulsion from the network. According to the researcher, a third policy outcome of GPPN can be seen as an on-going evaluation of its effectiveness in global governance. In this respect, GPPN identify areas in which current performance is inadequate and respond to new governance challenges. "GPPN offer one potential framework for overcoming the weakness in the current system of global governance" (Detomasi, 2007, p. 332).

## 2.6 Theoretical Model

Based on the structured literature review and the potential factor of our expectations, a theoretical model concerning business diplomacy is proposed in this section. This theoretical model attempts to give an overall picture of business diplomacy by including its antecedents, dimensions and outcomes.

**Figure 3: Theoretical model**
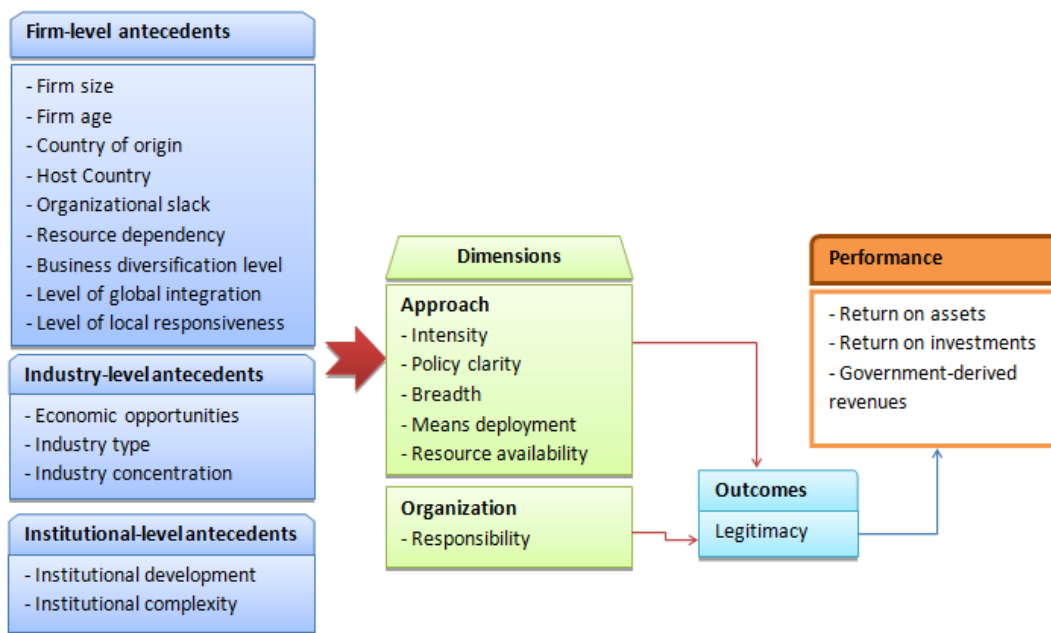


### 2.6.1 Dimensions

The theoretical model distinguishes between two dimensions of business diplomacy, approach and organization. The approach dimension consists of business diplomacy intensity, policy clarity, breadth, means deployment and resource availability. The organization dimension consists of responsibility. Based on our working definition of business diplomacy, we expect that by measuring these six sub-dimensions, a complete picture of how business diplomacy is approached and organized within a MNC can be created.

**Approach**

The approach dimension concerns business diplomacy intensity, policy clarity, breadth, means deployment and resource availability within MNCs employed in establishing and sustaining positive relationships with foreign government representatives and non-governmental stakeholders (economic and non-economic) in a foreign business environment.

Business diplomacy intensity reflects the extent to which a company actively establishes and sustains positive relationships with FGreps and NONg stakeholders. It indicates how intensively the company executes business diplomacy. The second sub-dimension, policy clarity, reflects the extent to which a MNC has a clear and organization-wide policy on how to establish and sustain these relationships. It indicates whether there are formal/written rules for business diplomacy or informal/unwritten guidelines. Business diplomacy breadth reflects the extent to which establishing and sustaining these relationships is done by every company representative. It also indicates whether employees consider themselves as representatives of the organization when they are in contact with FGreps and NONg stakeholders. As described in the literature review, London (1999) provides recommendations for making business diplomacy more effective in organizations. He suggests that managers should apply a diplomatic style of operation and that leaders should show the value of business diplomacy to peers, subordinates, customers, etc. The fourth sub-dimension, means deployment, reflects the extent to which the company deploys a diversity of means for establishing and sustaining positive relationships with FGreps and NONg stakeholders. It indicates which means, methods and channels (e.g. social meetings, public forums, seminars, local government debates, media, ethics, sponsor

activities, etc.) are used by the firm for business diplomacy. Input for this sub-dimension is derived from the scientific work of Luo (2001), included in the literature review. The researcher proposes four building blocks for improving a MNC's cooperative relationships with host governments: political accommodation, resource complementarity, organizational credibility and personal relations. Business diplomacy resource availability reflects the extent to which the company uses multiple firm resources (e.g. financial, time, knowledge) to establish and sustain these relationships. Input for this dimension is partly derived from the work of Saner and Yiu (2005), included in the literature review. The researchers provide recommendations for how the CEO should be involved in providing all kinds of policy directives (e.g. a knowledge system for cumulative learning, business diplomacy training for middle managers, etc.) in order to make business diplomacy more effective.

**Organization**

The organization dimension concerns the responsibility within MNCs for establishing and sustaining positive relationships with FGreps and NONg stakeholders (economic and non-economic) in a foreign business environment. Business diplomacy responsibility reflects the extent to which the company's responsibility for establishing and sustaining positive relationships with FGreps and NONg stakeholders lies on the headquarters level or within the foreign subsidiaries, or whether they are both partly responsible. This dimension indicates whether business diplomacy is set by the headquarters for the whole organization (centralized), a framework of guidelines has been set by the headquarters but a foreign subsidiary has some degree of freedom to decide upon implementing them, or whether subsidiary executives are free to decide upon how to execute business diplomacy (decentralized).

## 2.6.2 Firm, industry and institutional-level antecedents

There is a lack of research towards the antecedents of business diplomacy specifically; it is not exactly clear what determines the approach and organization of business diplomacy in MNCs. However, several researchers (Bonardi et al., 2005; Hillman et al., 2004; Lux et al., 2011; Schuler & Rehbein, 1997) conducted research on the firm-level, industry-level and institutional-level antecedents of CPA. Most antecedents of business diplomacy, as presented in the theoretical model, are based on findings in the CPA field. The theoretical framework that describes how CPA is related to business diplomacy can help explain why certain antecedents of CPA can also be applied to business diplomacy, and thus are included in the theoretical model. Although business diplomacy is focused on creating long-term relationships with FGreps and NONg stakeholders (economic and non-economic) to create legitimacy in a foreign business environment and CPA is aimed at influencing public policy makers (in the home country, and increasingly in foreign countries) in favour of the firm, both are focused on influencing parties in the organization's external environment.

As firm-level antecedents of business diplomacy, firm size (Hillman & Hitt, 1999; Hillman et al., 2004; Schuler, 1996; Schuler & Rehbein, 1997), firm age (Hansen & Mitchell, 2000), organizational slack (Schuler, 1996), resource dependency on the host government (Schuler, 1996) and the business diversification level of the firm (Hillman, 2003; Lux et al., 2011; Schuler, 1996) are derived from the CPA literature. We expect that these antecedents influence business diplomacy in the same way as described in the literature review in the CPA context. Firm size: bigger firms have more resources to engage in business diplomacy alone, whereas smaller firms are more likely to work collectively. Firm age: firms which have been in business for a relatively long time are more experienced and have more credibility (Hillman, 2003; Hillman & Hitt, 1999). Older firms can be expected to need a less

advanced approach for business diplomacy as they have already gained more legitimacy. Organizational slack: firms with a relatively high level of organizational slack are more likely to engage in business diplomacy since they possess the financial resources. Resource dependency: the greater the extent to which a firm depends on host government resources, the more likely it is that the firm will engage in business diplomacy. Business diversification level: firms that pursue diversification strategies are exposed to a greater number and variety of social pressures, and hence are more likely to engage in business diplomacy. For these reasons, we expect that the approach and organization of business diplomacy will be characterized with a higher intensity, a more sharply defined policy, greater breadth, a higher deployment of means, a greater availability of resources if companies are larger, and a more decentralized responsibility if firms are relatively larger, relatively younger, have a relatively high level of organizational slack, depend more on host government resources and pursue diversification strategies.

In addition, global integration and local responsiveness are included as firm-level antecedents in the model. The approach and organization of business diplomacy might depend on the type of MNC. In their article, Bartlett and Ghoshal (1989) proposed a typology of firms in which the level of global integration and local responsiveness determines whether a firm is typified as international, multinational, global or transnational. We expect that locally responsive firms approach and organize business diplomacy in a different way than centrally integrated firms. We describe below how we expect the approach and organization of business diplomacy to be characterized for each type of MNC in the typology of Bartlett and Ghoshal (1989).

*1. International firm (scores low on both global integration and local responsiveness)*
International firms are characterized as domestic corporations with foreign appendages (Bartlett & Ghoshal, 1989). They have an opportunistic approach towards FDIs. Building up long-term positive relationships with FGreps and NONg stakeholders (economic and non-economic) has no priority for them. Thus, we expect that these firms will have no policies or guidelines for business diplomacy and will not be intensively active in seeking contacts and building these relationships. The extent to which all employees engage in business diplomacy is low, and since international firms are operating from their home country (headquarters), there are no subsidiaries with a differentiated business diplomacy function. For international firms, creating and sustaining legitimacy in foreign business environments have a much lower priority than taking advantage of economic opportunities that arise. For these reasons, we also expect a low deployment of means and a low availability of resources for business diplomacy.

*2. Multinational firm (scores low on global integration, high on local responsiveness)*
Multinational firms have a better realization of the importance of international markets (Bartlett & Ghoshal, 1989). As opposed to a clearly defined, organization-wide policy, we expect that multinational firms have developed some basic policies and informal guidelines for business diplomacy, as they are attempting to be locally responsive to the specific needs and demands of each individual business market. Since corporate image and reputation are perceived as important, the multinational firm intensively seeks contacts and builds positive relationships with FGreps and NONg stakeholders (economic and non-economic) in each local business market. For these reasons, we expect that the extent to which all employees engage in business diplomacy will be high, and that the responsibility is decentralized. Each foreign subsidiary is free to adapt business diplomacy to the specific characteristics of its local business market. Furthermore, we expect a high deployment of means and a high availability of resources for business diplomacy.

*3. Global firm (scores high on global integration, low on local responsiveness)*
According to Bartlett & Ghoshal (1989), global firms are increasingly concerned about international competition. This type of firm strives for cost competitiveness by means of product standardization and organizational centralization. We expect that it realizes the importance of establishing and sustaining positive relationships with foreign stakeholders, but doesn't perceive local business markets as different in terms of specific stakeholder expectations and demands. Probably, a strict formal policy for business diplomacy is set by the headquarters, and standardized for all foreign subsidiaries. Therefore, the approach and organization of business diplomacy are characterized by a low intensity, narrow breadth, centralized responsibility, moderate deployment of means, and moderate availability of resources.

*4. Transnational firm (scores high on both global integration and local responsiveness)*
According to Bartlett & Ghoshal (1989), transnational firms need to respond to global competition and specific host-country pressures simultaneously. We expect that this firm recognizes specific stakeholders' expectations and demands in each local business market, suggesting a decentralized business diplomacy responsibility in which subsidiary executives intensively seek contact and build relationships with foreign stakeholders in each local business market. Along with local responsiveness, this type of firm also strives for global efficiency, suggesting a centralized business diplomacy responsibility in which a strict and clear business diplomacy policy is set by the headquarters, standardized for all subsidiaries in all local markets. Therefore, we expect a combined approach and organization of business diplomacy, for example, the use of regional headquarters. The main headquarters can allow its regional headquarters to include elements of differentiation in their approach and organization of business diplomacy to deal with the specific characteristics in that local region (e.g. Asia). Subsequently, each regional headquarters will set a clear business diplomacy policy for all its subsidiaries. In that case, the responsibility for business diplomacy is partly decentralized. In this combination we expect that business diplomacy intensity, policy clarity, breadth, means deployment, and resource availability are all at a moderate to high level.

As industry-level antecedents of business diplomacy, industry concentration (Hillman et al., 2004; Olson, 1965; Schuler et al., 2002) and economic opportunities (Lux et al. (2011) are derived from the CPA literature. For business diplomacy, we also expect a positive relationship with industry concentration in the markets in which the firm operates, since the firm has a greater need to distinguish itself from its local competitors in order to create legitimacy in a foreign business environment. Economic opportunities: when firms enter rapidly growing markets in which economic opportunities exist, the firm is less likely to engage in business diplomacy since it will focus more on economic returns. Furthermore, we expect that the type of industry in which the firm is active will influence the commitment to business diplomacy. Especially firms that engage in business operations that directly affect the population are expected to engage in business diplomacy to safeguard their corporate image and reputation. In their article, Saner et al. (2000) give some examples of a firm in the oil industry. Environmental disasters and air pollution, resulting from oil spills, have led to a massive deterioration of the living conditions of a local population group. This firm lacked the diplomatic skills to deal with a population directly affected by its business operations. As a consequence, many NGOs have openly accused the firm of negligence (Saner et al., 2000). For these reasons, we expect that the approach and organization of business diplomacy will be characterized by a higher intensity, more sharply defined policy, greater breadth, higher deployment of means, higher availability of resources and more decentralized responsibility when companies operate in

industries with relatively lower economic opportunities and in which business operations affect populations more directly. For an industry type of organization, we expect to see a difference between the primary, secondary and tertiary sector for its approach and organization.

Chan et al. (2008) recognized that, depending on the institutional setting, companies will act differently in different countries. Kostecki and Naray (2007) also mentioned that the institutional characteristics of a host country determine a commercial diplomat's activities. When the institutional structure of a country is characterized by instability and vulnerability, a company can be scared off (Tsui-Auch & Möllering, 2008). The company runs the risk of incurring losses due to institutional insecurity. Institutional development, the first institutional-level variable, indicates a country's openness towards international trade. North (1991) mentioned that companies rely heavily on personal networks in host countries in which the institutional infrastructure is weak. We therefore expect that companies operating in such countries will recognize the importance of business diplomacy better. They will consider establishing and sustaining positive relationships with FGreps and NONg stakeholders (economic and non-economic) as essential for creating business opportunities. Institutional complexity, the second institutional-level variable, indicates the extent to which the decision powers in a country are dispersed. According to Mahoney and Baumgartner (2008), diplomats have to address more layers of governance when decision powers are widely dispersed, and there are many levels of decision-making. We expect that companies operating in countries in which the institutional complexity is high will recognize the importance of business diplomacy better since they have to establish and maintain relationships with many parties on many levels in order to create business opportunities. Especially if the institutional system of a country reflects a classic corporatist structure, the company will be able to collaborate with decision-makers (Mahoney & Gartner, 2008). When the institutional complexity is low and the decision power is held by one single party, we expect that companies will regard business diplomacy as less important since they will focus on the one party in charge. Thus, we expect that as companies operate more in countries in which the institutional development is weak and the institutional complexity is high, their approach and organization of business diplomacy will be characterized by a higher intensity, more sharply defined policy, greater breadth, more decentralized responsibility, higher deployment of means, and higher availability of resources.

### 2.6.3 Outcomes

Ordeix-Rigo and Duarte (2009) argue that by engaging in corporate diplomacy, corporations can increase their power and legitimacy. Hillman et al. (1999) suggest that interacting with governments can provide MNCs with more influence over legislative and regulatory processes. Hillman and Wan (2005) mention that without legitimacy, MNCs won't be able to influence public policy outcomes. Given these insights from several different researchers, it can be argued that legitimacy, as a direct outcome of business diplomacy, creates business opportunities for MNCs. Firms that have access to these opportunities will enjoy a competitive advantage (Schuler et al., 2002). Lux et al. (2011) mention that CPA leads to better firm performance, higher return on investment, return on assets and government-derived revenues. Although this falls outside our research scope, we expect that business diplomacy eventually leads to better firm performance as well. The theoretical model shows that business diplomacy leads to legitimacy and, in turn, to better firm performance.

## 2.7   Research direction

In today's dynamic business environment there is a growing  business diplomacy managers and BD function(s) within organisations (Saner & Yiu, 2005). We defined business diplomacy as follows: *"Business diplomacy involves establishing and sustaining positive relationships (by top executives or their representatives) with foreign government representatives and non-governmental stakeholders (economic and non-economic) with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment"*. The field of CPA, which is focused on firms influencing governmental policies in home countries, is a popular field of study as the amount of scientific literature published in the last few decades suggests. In the CPA literature, firm-, industry- and institutional-level variables in home countries are tested by several authors as described in section 2.5.1. Furthermore, various types of corporate political strategies have already been developed, but for business diplomacy there is still a lack of proper studies.

Business diplomacy research that is focused on the determinants for business diplomacy has not yet been conducted. The quantitative business diplomacy gap needs to be filled. The theoretical model, as proposed in the previous section, is part of the research model of the business diplomacy study. Our study focuses on firm-level characteristics, type of industry and institutional development and their influence on the approach and organization of business diplomacy within multinationals. In our definition we distinguished between FGreps and NONg stakeholders, as we expect that differences in the stakeholders will also lead to different business diplomacy approaches. The antecedents described in the theoretical model, derived from several CPA studies and our expectations, could affect a firm's business diplomacy approach and organization. This study provides the opportunity, in this still under-explored field, for a better understanding of approaches and the organisation of business diplomacy with independent antecedents in multinational organizations.

The research question of our study is formulated as: *"To what extent do firm characteristics, the type of industry and institutional-development determine the approach and organization of Business Diplomacy within MNC's?"*

**Figure 4: Research model**
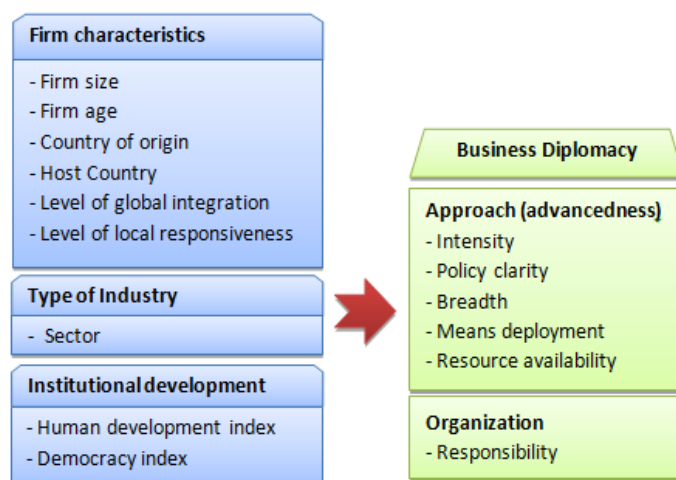
# 3   Methods

In this chapter the data collection methods (3.1) and the sample technique and procedures are described (3.2). Then the internal consistency for the scaled items (3.3) and the recoded independent variables in our research are briefly discussed. Finally, we conclude with the sample distribution (3.4) and the analysis techniques used in this research (3.5).

## 3.1   Data collection methods

To determine the relations between firm-level characteristics, type of industry and institutional development and the business diplomacy approach and organization, the following data is required: (1) the business diplomacy level of firms for the approach and organization dimensions, measured with the sub-dimensions of business diplomacy and (2) the independent variables, measured with nominal, ordinal and scale data. An online questionnaire was used as the data collection method for the data which was not included in the corporate websites, annual reports, the Human Development Report (Klugman et al., 2011) and the Democracy Index Report (Economist Intelligence Unit, 2011) consulted. Quantitative research has the drawback that the data is limited in depth (Babbie, 2010).

### 3.1.1   Questionnaire construct

Business diplomacy intensity, policy clarity, breadth, resource availability, means deployment, and responsibility are measured by the self-constructed questionnaire. For each sub-dimension six to seven items were created based on the structured literature review and potential antecedents created by us. The items formed the input for the questions in order to determine a respondent's score for each sub-dimension (Appendix A). The questions (items) for determining the scores for a sub-dimension are based on theory discussed by previous researchers as mentioned in the literature review, along with items which we considered important (Appendix B). The questions are measured on a 7-point Likert scale for which the value of each question was: strongly disagree (1),  disagree (2), disagree somewhat (3), neither agree nor disagree(4), agree somewhat (5), agree (6), strongly agree (7). Each sub-dimension was measured for FGreps and NONg stakeholders except for the resource availability sub-dimension. In the questions, abbreviations are used for both foreign government representatives (FGreps) and non-governmental stakeholders (NONg). For all questions the grammar and the presence of unambiguous questions were checked by people specialized in English.

To determine the level of global integration and local responsiveness (Bartlett and Ghoshal,1989), five questions derived from the research of Leong and Tan (1993) were inserted in the questionnaire. In the study of Leong & Tan, twelve questions were asked of 131 top management personnel of MNCs in order to evaluate the typology of Bartlett and Ghoshal. In our identification of the typology of the firms, the questions with the greatest differences between the four different types of MNCs (5 points likert scale) were used. These questions (see appendix A) indicate the extent to which a firm is globally integrated and locally responsive, which is linked to the four types of MNCs (international, multinational, global and transnational). Questions for determining the antecedent host country (country in which the respondent is situated) and the industry type were included in the questionnaire. The independent variables firm size, firm age and home country (country of origin) were collected from the corporate websites and annual reports. The institutional development variables of a host country were collected from the Human Development Report (Klugman et al., 2011) and the Democracy Index Report (Economist Intelligence Unit, 2011). The questions for measuring the host country, sector, level of global integration, local responsiveness and level of business diplomacy approach and organization towards FGreps were presented in the questionnaire

(Appendix A). An overview of the construct, dimension, indicators, sources and output types of each variable for the measurement of the (sub)dimensions is given in appendix B, and in appendix C the nine independent variables are described.

NetQ was selected as the online tool for creating and editing the questionnaire. The criteria used for the selection of the online tool was the number of possible respondents (at least 500), a manageable tool, data which could easily be transferred to SPSS, and professional looking questionnaire. Net-quest as a tool offered students the easy creation of questionnaires, up to 1000 respondents, professional look of the questionnaire, and data results could be saved within an Excel file. Other tools such as Survey Monkey, surveys, etc. were also considered but did not meet some criteria.

## 3.2 Sample techniques

As our definition of business diplomacy describes, business diplomacy aims at establishing and sustaining relationships with FGreps and NONg stakeholders (economic and non-economic) in host countries. The sample used in our research was purposively chosen as we expect that the environment of an emerging economy influences the way business diplomacy is organized within European companies. In emerging economies, where the institutional development is categorized as flawed or even authoritarian, firms need to create legitimacy to be competitive. The purposive sampling technique is used to conduct research when the host country of a firm is an emerging economy. Our sample consists of managers of public affairs, government relations, communication, or regulatory affairs or the country director of European multinationals with a subsidiary in Indonesia, Vietnam or Taiwan. The latter three countries are considered emerging economies. We expected that companies need to build relationships with FGreps and NONg organisations to create a license to operate (legitimacy) in order to survive. As emerging economies are rapidly changing, the host country can be expected to influence business diplomacy. For European businesses in Indonesia, the book *Eurobusiness directory* (Eurocham, 2012) is used as a resource. It contains the names of European companies and private investors, including the names of the country directors and his/her e-mail address or the general e-mail address. Regarding the respondents of subsidiaries operating in Vietnam (European Chamber of Commerce in Vietnam, 2012) and Taiwan (ECCT, 2012), websites of the European Chamber of Commerce were used as sources. Then, the first 500 of the world's biggest companies (as determined in the Forbes 2000 list) were selected as respondents for the study. This was due to the low response rate from European businesses in the emerging economies. Forbes generates a list of the "world biggest public companies" each year, with the ranking based on four metrics: sales, profits, assets and market value (Forbes, 2012). The purposive sampling method was also applied to the Forbes 2000 list, as we sent the questionnaire invitations only to subsidiaries of firms in developed countries. In this way we are able to determine whether there is a difference in the level of business diplomacy between firms whose subsidiary is located in an emerging economy or in a developed economy.

We set some criteria for inclusion in the sample. For the emerging economies there were three criteria. The first was that the firms must be European (the headquarters in a European country); second the companies should have a subsidiary in one of the three named countries; third, it has to be a company with more than one subsidiary. The last requirement was meant to exclude firms which only use emerging economies to produce their product for the European market, as business diplomacy in that case is only oriented to the European market. The two criteria for the companies on the Forbes list are that it has to operate internationally and may not be state/nation-owned.

### 3.2.1 Invitation procedure

Invitations were sent directly by e-mail, where possible, to managers of public affairs, government relations, communication, regulatory affairs or the country director (with name and personal e-mail address) as they are in most cases responsible (partly) for business diplomacy in their subsidiary. When no e-mail addresses and/or names of people in the relevant functions were available, the mails were sent to corporate e-mail addresses and accompanied by a contact form.

The invitations contained a header with the subject and the value of the research, explaining who we (the researchers) are, the person we would like to have respond, the confidentiality of the data, the time completion of the questionnaire approximately takes and the URL (see appendix D). Reminders regarding the questionnaire were sent between 7 and 10 days later, to avoid inundating firms with reminders in a short period of time.

### 3.2.2 Response

The response rate was low, with an average return rate of 5.05%. Only 61 (50 useful) questionnaires of the total of 1207 were returned.

**Table 2: Response to questionnaire**

|  | Total invitations sent | Returned invitations (total after 3 reminders) | Response rate |
|---|---|---|---|
| Indonesia | 330 | 17 (of which 7 useful) | 5.15% |
| Vietnam | 282 | 18 (of which 17 useful) | 6.38% |
| Taiwan | 137 | 4 | 2.92% |
| Forbes 2000 | 458 | 21 | 4.59% |
| **Total** | 1207 | Total 61 (50 useful) | 5.05% |

We had hoped that at least a 10% response rate would be feasible. However, due to time restrictions, we decided to analyse the 50 useful questionnaires. The other 11 completed questionnaires did not meet the criteria we set.

## 3.3 Internal consistency

Consistency of the scales for the business diplomacy approach and organization dimensions, global integration and local responsiveness was tested with Cronbach's alpha reliability test ($\alpha$). Reliability tests for the dimensions of business diplomacy approach and organization were considered good (Approach advancedness FG Reps $\alpha$ =.804, NONg $\alpha$ =.745) (Organization FG Reps $\alpha$ =.734, NONg $\alpha$ =.822). Business diplomacy approach advancedness is based on the means of the five sub-dimensions, intensity, policy clarity, breadth, means deployment and resource availability. These sub-dimensions individually showed 'good' reliability scores or better. The lowest reliability score was $\alpha$ =.777 for resource availability, which is considered a good coefficient score according to George and Mallery (2003). The mean deployment sub-dimension scores $\alpha$ =.804 for FG reps and $\alpha$ =.842 for NONg. The policy clarity, intensity and breadth sub-dimensions have excellent reliability scores ($\alpha$>.900) for FGreps as well as for NONg stakeholders. There is thus no reason to suggest that the questions and scales used for measuring the dependent variables are unreliable.

For global integration ($\alpha$ =.518) the consistency is considered poor, and the scale for local responsiveness ($\alpha$ =.680) is considered questionable. Although these are low coefficients, it was decided to retain the measurement as the questions complement each other and will give a better

insight into whether firms are globally integrated and local responsive than when that item/question is deleted.

### 3.3.1 Independent variables recoded.

Due to the small sample size and the large variation between firms, it was decided to recode the following variables: firm size, firm age, home country, host country, type of industry, and HDI. Firm size was recoded into four ordinal scales: small MNCs (up to 5,000 employees), medium MNCs (5,001 to 25,000 employees), medium-large MNCs (25,000 to 100,000 employees) and large MNCs (more than 100,000 employees). The main reason for this recoding was the wide distribution (SD=103,125 employees).

Firm age was taken to indicate 'experience' and 'credibility' as suggested by Hillman (2003; Hillman et al., 1999). This was recoded into five ordinal categories: up to 25 years, 26-50 years, 51-100 years, 101-150 years, and over 150 years. The home country (country of origin) of a firm was ascertained by consulting the corporate websites for the location of its headquarters. To make the dependent variable 'country origin' measurable, a distinction was made between the regions as the locations and cultural differences could influence business diplomacy. Four main regions were defined: northwest Europe, south Europe, Anglo/US and Asia. Countries which are not represented in those four regions were categorized as "other". In the questionnaire eight different industries were distinguished for the variable sector. Of our sample, 30% (n=15) was mainly operating in the service industry and only 4% (n=2) in the financial sector. To test possible differences in business diplomacy between firms operating in different sectors, the number of each category should exceed two. New categories were created of firms operating in the primary, secondary or tertiary sectors. The primary sector includes firms with basic production (oil, fishery), the secondary sector involves the production of goods (food, industry, etc.), and the tertiary sector is the service sector (financial, consultancy, etc.). Each of the eight industries in the questionnaire was recoded to this new distinction.

The different human development indices of the host countries were divided into two groups. The group distinction is made upon the aggregating ratios of the host countries. The first group consisted of HDI values between .500 and .750, which corresponds to a medium score, the second group consisted of HDI values from .750 up to 1 and corresponds to a high/very high score.

## 3.4 Sample distribution

In our sample, 38% (n=19) was considered small MNCs with up to 5,000 employees, and 26% each (n=9) for medium and medium-large firms. Our sample consisted of firms mostly up to 50 years old and between 100 and 150 years in business. Thus, for firm size and firm age, the most extreme categories are represented the best. The sample technique, use of emerging economies and the Forbes 2000 list, has influenced the distribution of the firm-level variables host and home countries and the institutional development of host countries, HDI and Democracy Index. West Europe is highly represented in the home-country variable with 38% (n=19). This region includes the Netherlands, Germany, Belgium and countries from Scandinavia. Asia has the highest number of representatives for the host-country variable as Vietnam, Indonesia and Taiwan are part of this region. The authoritarian regime has the highest frequency as it includes the regime state of Vietnam (n=18) followed by flawed democracies (Taiwan and Indonesia, n=15) and full democracies (Forbes 2000, n=17). Not represented in our sample are countries characterized with a hybrid regime as they mostly occur in the African continent. The distribution of HDI is equally divided with 52% (n=26)

subsidiaries in a host country with a medium HDI index (Vietnam, Indonesia and Taiwan) and 48% (n=24) subsidiaries in a host country with a high to very high HDI index. In our sample, the primary sector was relatively small with 8%, and the secondary sector was the largest with 58% represented. The measurement of global integration and local responsiveness showed relatively high means (5-point Likert scale; Global integration M=3.66 and Local responsiveness M=3.7), suggesting that firms in our sample are considered to be mainly transnational. Transnational companies are considered globally integrated and responsive to local demands.  The least present type of firms in our sample is the international firm, which scores low on both global integration and local responsiveness. The sample distribution based on the typology of Bartlett and Ghoshal (1989) is displayed in Figure 5.

**Figure 5: Sample distribution based on typology of Bartlett and Ghoshal (1989)**
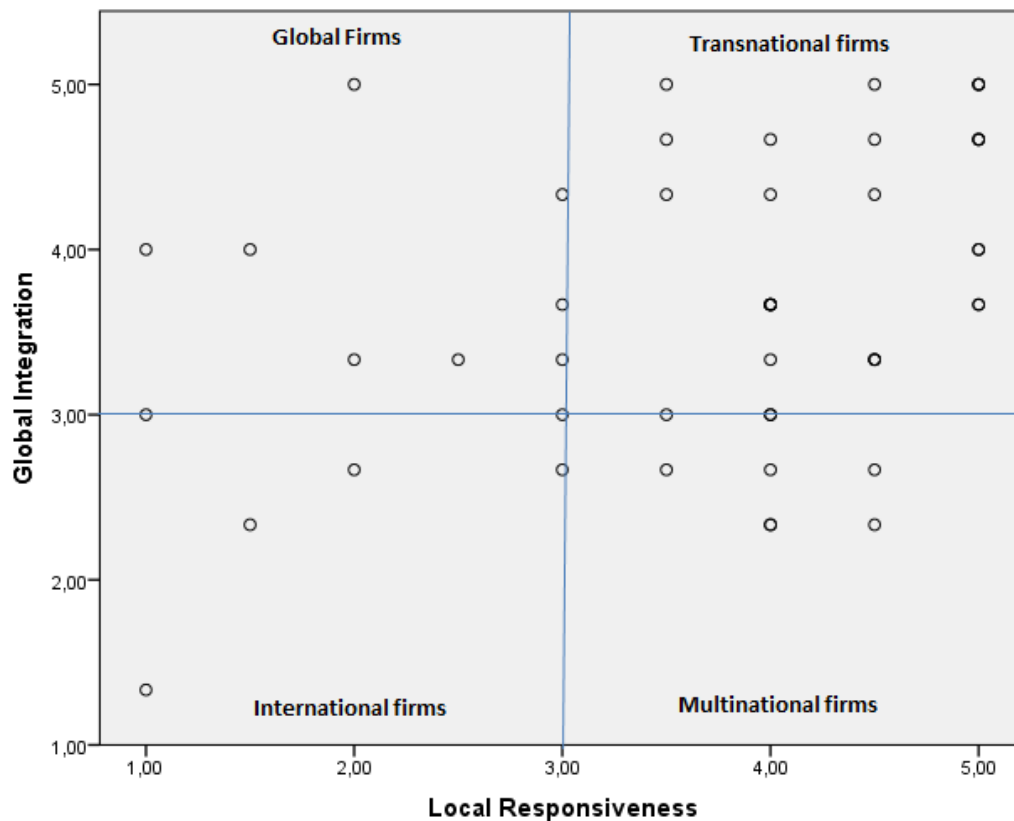


## 3.5  Analysis methods

The quantitative data as well as the data from the corporate websites, annual reports, the Human Development Report (Klugman et al., 2011) and the Democracy Index Report (Economist Intelligence Unit, 2011) were used for a statistical analysis with the SPSS program. The questionnaire data collected with the NETQ online tool can be saved in an Excel document, which can be imported in SPSS.  In SPSS the data were transformed from string data to numerical data. At all-times the analysis script codes are put in the syntax, so SPSS can calculate and transform the data faster when new data is inserted. An exploratory analysis was done, resulting in a table with the number of cases (n), the minimum (Min), maximum (Max), mean (M), standard deviation (SD), scale reliability by measuring the Cronbach's alpha ($\alpha$), and the number of items of which the constructs are composed (Appendix E, Table 5). The following significance levels will be used for the findings:  highly significant when

P<0.01 and significant when 0.01 < P < 0.05. The distinction for the interpretation of each sub-dimension is applied.

A score of:    1 - 1.5 = Very low
                1.5 - 2.5= Low
                2.5 - 3.5 = moderately low
                3.5 - 4.5 = Medium
                4.5 - 5.5 = moderately high
                5.5 - 6.5 = High
                6.5 - 7 = Very high

# 4 Findings

In this chapter the findings from our questionnaire are presented. First we present the results on the business diplomacy approach (consisting of the sub-dimensions intensity, policy clarity, breadth, means deployment, and resource availability), followed by the results on business diplomacy organization (responsibility). In the third section, we present the results of our attempt to explain the variance in business diplomacy approach and organization based on the independent variables we identified from the literature (chapter 2). This chapter concludes with tests concerning the impact factors of business diplomacy.

## 4.1 Business Diplomacy Approach

The business diplomacy approach of multinational firms is moderately high advanced (FGreps: *M*= 4.57, SD= 0.97; NONg: *M*=4.56, SD=0.90).There is no mean difference in how advanced the approach is for FGreps and NONg stakeholders, though the distribution of the advanced level of firms for establishing and sustaining relations towards FGreps and NONg varies (Appendix F, Figure 6). The approach for establishing and sustaining relations regarding FGreps is concentrated mainly between a medium to a highly advanced one (scores 3.5 - 6), while that for NONg stakeholders is mainly distributed around a medium to a moderately highly advanced (scores 4 - 5.5). The advanced approach towards FGreps is more broadly dispersed than that towards NONg stakeholders, suggesting that firms vary more in the level of advancedness for FGreps than for NONg stakeholders regarding business diplomacy.

Firms score moderately high on average on the level of business diplomacy intensity and policy clarity, but the differences between the firms are relatively large (Intensity: FGreps *M*= 5.27, SD= 1.41; NONg *M*=5.18, SD=1.39) (Policy clarity: FGreps *M*= 5, SD= 1.45; NONg *M*=4.9, SD=1.4). This means that the firms in our questionnaire say they have a rather clear policy on business diplomacy and their intensity of conducting business diplomacy is moderate to high. Firms score for business diplomacy intensity towards FGreps mostly moderately high to high (scores 5 - 6.5), while that towards NONg stakeholders peaked at a medium, a moderately high and a high intensity level (4.5 - 6) (Appendix F, Figure 7). When it comes to the distribution of policy clarity, the difference between firms are more widespread. For NONg stakeholders the most frequent clarity scores are between a medium level (score 4 - 4.5) and a high level (score 6 - 6.5), while for FGreps the accent of the distribution is a slightly broader spread between a medium to a high level of policy clarity (Appendix F, Figure 8). The distribution suggests that firms are slightly more intense and have clearer policies in establishing and sustaining relations with FGreps than with NONg stakeholders, though firms vary more in the level of intensity and policy clarity towards FGreps than towards NONg stakeholders.

Breadth of business diplomacy scores medium on average, though there is a great difference between firms (FGreps: *M*= 4.3, SD= 1.37; NONg: *M*=4.5, SD=1.46). The sub-dimension items suggest that employees are considered firm representatives when in contact with FGreps and NONg stakeholders (item score: FG reps *M*=5.46; NONg *M*=5.18), but establishing and sustaining relationships is a moderately low activity for all employees (item score: FG reps *M*=3.5; NONg *M*=3.8). This suggests that not all employees are the initiator in establishing and sustaining these relations. The distribution of the level of breadth for FGreps as well as for NONg stakeholders is highly dispersed, and both distributions peak at a medium score [4 - 4.5; FGreps N= 16 (32%), NONg N=12 (24%)] (Appendix F, Figure 9).

On deploying means for establishing and sustaining relationships with FGreps and NONg stakeholders, firms score moderately high (FGreps: *M*= 4.56, SD= 1.01; NONg: *M*=4.56, SD=1.16). This indicates that they deploy a rather diverse set of means when conducting business diplomacy. The distribution between firms and the level of means deployment for FGreps as well as for NONg stakeholders consists mainly of scores referring to a medium to a moderately high level of mean deployment (scores 3.5 - 5.5) (Appendix F, Figure 10).

Firms score medium on resource availability for business diplomacy (FGreps: *M*= 3.71, SD= 1.01; NONg: *M*=3.71, SD=1.01).  The items 'a cumulative learning system for business diplomacy (M= 3.08)' and 'training for managers (M=3.26)' score low. This implies that firms have medium resources available for business diplomacy and invest moderately little in knowledge transfers through training courses or a learning system. Resource availability is distributed mainly around scores referring to a medium level for establishing and sustaining relations with FGreps and NONg stakeholders (n=23, 46%) (Appendix F, Figure 11). The distribution shows that a low level of resources is more commonly available for business diplomacy (scores <3.5, n=16) than a high level of resources available (scores 4.5 – 5.5, N=9).

## 4.2   Business Diplomacy Organization

Firms in our sample indicate that decision-making regarding business diplomacy is neither completely decentralized (subsidiary level) nor fully centralized (headquarters) for FGreps and NONg stakeholders (FGreps: *M*= 3.9, SD= 0.734; NONg: *M*=3.7, SD=8.22). So subsidiaries of the firms involved have considerable freedom to decide on how to conduct business diplomacy, though the scores imply that there is a clear involvement from the central headquarters as well. The distribution of differences in responsibility towards FGreps and NONg stakeholders suggests that decision-making for establishing and sustaining relationships with FGreps is slightly more centrally organized in firms (peak 4 - 4.5, decentralised to centrally organized), where NONg is more moderately decentralized (peak = 3 - 3.5). For both FGreps and NONg however, business diplomacy decision-making among firms is broadly dispersed between a moderately low to a moderately high central organization (Appendix F, Figure 12).

## 4.3   Explanatory factors of business diplomacy

We argue that firm characteristics, type of industry and the institutional development of the host country are related to the approach and organization of business diplomacy. An overall distribution of the business diplomacy scores for the sub-dimensions among the ordinal and nominal antecedents is presented in Appendix G (Table 7). We therefore computed a Pearson's correlation coefficient (Appendix H), ANOVA analyses and independent t-tests (Appendix I) to examine the relationship between the antecedents and the (sub-)dimensions of business diplomacy for FGreps and NONg stakeholders. In total, each independent variable is tested against the  approach and organization dimensions and also the five sub-dimensions of approach. An overview of all tested relations is given in Table 3.

**Table 3: Overview of tested relations and significance**



| | | Approach (Advancement) | - Intensity | - Policy clarity | - Breadth | - Means deployment | - Resource availability | Organization (Responsibility) |
|---|---|---|---|---|---|---|---|---|
| Firm size | FGreps | - | - | X** | - | - | - | - |
| | NONg | - | - | X* | - | - | - | - |
| Firm age | FGreps | - | - | - | - | - | - | - |
| | NONg | - | - | - | - | - | - | - |
| Country of origin | FGreps | - | - | - | - | - | - | X* |
| | NONg | - | - | - | - | X** | - | - |
| Host country | FGreps | - | X* | X* | - | - | - | - |
| | NONg | - | - | - | - | - | - | - |
| Global integration | FGreps | X** | X** | - | X* | X* | X* | - |
| | NONg | - | - | - | X* | - | X* | - |
| Local responsiveness | FGreps | - | - | - | X* | - | - | X* |
| | NONg | - | - | - | X* | - | - | - |
| Industry Type | FGreps | - | - | X* | X* | - | - | - |
| | NONg | - | - | X* | X* | - | - | - |
| HDI | FGreps | - | - | - | - | - | - | - |
| | NONg | - | - | - | - | - | - | - |
| Democracy index | FGreps | - | - | - | - | - | - | - |
| | NONg | - | - | - | - | - | - | - |

Total relations tested 126 (20 significant)
- No significant relation is found
** Significant at the 0.01 level.
* Significant at the 0.05 level.

### 4.3.1   Firm characteristics and business diplomacy

No relation between firm size and the approach advancedness nor organization (*responsibility*) was found, but the size of a firm was found to be significantly related to the business diplomacy sub-dimension *policy clarity* for FGreps and NONg stakeholders (Clarity: FGreps $p \leq .001$, NONg $p \leq 05$). The relation between firm size and clarity for FGreps is highly significant, whereas the relation towards NONg stakeholders is only just significant. The positive relationship (clarity: FGreps $r=.370$, NONg $r=.352$) suggests that the larger a firm is, the clearer the business diplomacy policies are.

We expected that the age of a firm would also be positively related to the sub-dimensions of the business diplomacy approach, but no significant relation was found. According to our sample, neither how advanced the approach is nor the responsibility is influenced by the age of a firm.

Significant differences in business diplomacy due to a firm's country of origin is found for business diplomacy organization (*responsibility)* with FGreps ($p=0.34$), but no relation is found with business diplomacy responsibility for NONg and with the approach advancedness. A significant relation exists between northwest Europe and Anglo/US ($p =.02$) and south Europe and Anglo/US ($p = .044$), implying that firms from northwest Europe ($M =4.13$) and south Europe ($M=4.2$) have a more centralized business diplomacy decision-making for FGreps than firms originating from the Anglo/US ($M = 3.3$). An independent t-test shows a highly significant relation for *Means deployment* for NONg stakeholders between firms with an Anglo/US origin and northwest Europe ($p \leq 0.01$). This implies that firms with an Anglo/US origin use more diversified means for establishing and sustaining relations with NONg ($M=5.2$)  than firms originating in northwest Europe ($M=4.15$).

No relation between the host country with the approach advancedness nor organization (*responsibility*) was found, but there is a significant difference between the host country areas of Asia and Europe for *clarity* (p = .02) and *intensity* (p =.035) towards FGreps. This implies that firms based in Europe have clearer (stricter) business diplomacy policies ($M$ = 5.6) and are more intense ($M$ = 5.66) in establishing and sustaining relationships with FGreps than firms based in Asia (clarity $M$ = 4.6 and intensity $M$ = 4.9). No other differences in business diplomacy approach or organization are significantly related to the host countries.

We examined whether the extent of internationalization of firms (based on the typology of Bartlett and Ghoshal, 1989) influences the level of business diplomacy by correlating global integration and local responsiveness with the business diplomacy sub-dimensions. The extent to which a firm is globally integrated and responsive to locally responsive is significantly related to business diplomacy (sub-)dimensions.
Global integration is highly significantly related to approach advancedness for FGreps (p<.01), but no relation is found with the organization (responsibility) of business diplomacy.  For the business diplomacy approach sub-dimensions, global integration is related to intensity (p<.01), breadth (p<.05), means deployment (p<.05) and resource availability (p<.05). The relation implies that firms with a higher level of global integration have more intense relationships with FGreps, a broader approach, more diverse deployment of means and more resources available for business diplomacy. The highly significant correlation with business diplomacy *approach* advancedness indicates that the more a firm is globally integrated, the more advanced an approach to business diplomacy they use (FGreps). Global integration with business diplomacy for NONg stakeholders is significantly related to business diplomacy *breadth* (p<.05) and *resource availability* (p<.05).

Local responsiveness is positively significantly related to business diplomacy organization (responsibility) for FGreps (p <.05 , $r$=.314), which suggests that locally responsive firms have a more centralized (HQ) decision-making regarding business diplomacy. Local responsiveness is significantly related to business diplomacy *breadth* for FGreps and NONg stakeholders (p <.05). This positive relation implies that locally responsive firms use a broader approach for establishing and sustaining relationships with FGreps and NONg stakeholders ($r$=.33*).*

### 4.3.2    Type of industry and business diplomacy

No relation was found between the type of industry and the approach advancedness or organization (*responsibility*), but significant relations between the type of industry and the business diplomacy sub-dimensions were found for *policy clarity* (FGreps p =.017, NONg p = 0.13) and *Breadth* (FGreps p=.045, NONg p = 0.18) for both FGreps and NONg stakeholders. The difference among the secondary and the tertiary sector for business diplomacy clarity was significant (Clarity: FG Reps p=.015, NONg p=.014), implying that firms in the secondary sector score significantly higher on business diplomacy clarity than ones in the tertiary sector (FGreps difference M = 5.49 and M = 4.27; NONg stakeholders difference $M$ = 5.38 and $M$ = 4.21). For business diplomacy breadth the primary sector scores significantly lower than the secondary sector (FGreps p=.05 and NONg p=.015), implying that employees in the secondary sector are considered to be more seen as representatives when in contact with FGreps and NONg stakeholders (mean breadth FG reps $M$ = 4.63, NONg $M$ =4.78) than employees in the primary sector (mean for FG reps $M$ = 2.93, for NONg $M$ =2.64). With α>0.10, business diplomacy *Intensity* (FGreps, secondary > tertiary) and *Approach advancedness* (NONg only between groups) were significantly related to the type of industry.

### 4.3.3 Institutional development and business diplomacy

No significantly related difference between the level of institutional development, HDI and democracy index of a country was found on business diplomacy approach and organization. The development state of a host country was expected to relate to the business diplomacy approach of a subsidiary, but no data was found to support this expectation.

## 4.4 Business diplomacy impact factors

A regression analysis was conducted to determine to what extent firm-level characteristics, type of industry and institutional development can explain the level of the business diplomacy (sub-) dimensions (and their variance). The antecedents are tested for their contribution to the (sub-) dimensions of business diplomacy, and regression models will be tested.

**Table 4: Regression results**

| | | Approach (Advancement) | - Intensity | - Policy clarity | - Breadth | - Means deployment | - Resource availability | Organization (Responsibility) |
|---|---|---|---|---|---|---|---|---|
| Firm size | FGreps | .010 | .027 | .137** | .000 | .013 | .007 | .013 |
| | NONg | .016 | .001 | .124* | .002 | .025 | .007 | .000 |
| Global integration | FGreps | .152** | .096* | .051 | .123* | .081* | .094* | .063 |
| | NONg | .036 | .000 | .001 | .080* | .005 | .094* | .002 |
| Local responsiveness | FGreps | .021 | .000 | .001 | .019* | .012 | .008 | .027* |
| | NONg | .043 | .014 | .006 | .019* | .008 | .008 | .007 |

**. Regression is significant at the 0.01 level.
*. Regression is significant at the 0.05 level.

The regression analysis showed a highly significant effect of firm size on business diplomacy *clarity* for FGreps as the unstandardized coefficient is .435 (t = 2.756, p < .01). The explained variance is 13.7% ($R^2$ = .137), and firm size explains 13.7% of the level of business diplomacy clarity for FGreps (Appendix K, Table 13). Thus, firm size positively impacts clarity. Firm size also determines business diplomacy clarity for NONg stakeholders as the unstandardized coefficient is .401 (t = 2.607, p = .012) with an explained variance of $R^2$ = .124.

The level of global integration positively influences how advanced the business diplomacy approach is, with an unstandardized coefficient of .45 (t= 2.937, p < .01) and an explained variance of 15.2% ($R^2$ = .152). The level of global integration also positively affects each business diplomacy approach sub-dimension except for clarity (Appendix K, Table 14). The more firms are globally integrated, the more advanced the business diplomacy approach they use for FGreps. Also, the intensity ($R^2$ = .096), breadth ($R^2$ = .123), means deployment ($R^2$ = .081) and availability of resources ($R^2$ = .094) for establishing and sustaining relationships with FGreps is positively influenced by the level of global integration. For NONg stakeholders the level of global integration impacts business diplomacy *breadth* with an unstandardized coefficient of .463 (t = 2.049, p < .05) and an explained variance of 8% ($R^2$ = .08).

The level of local responsiveness has an impact on the business diplomacy sub-dimensions *Breadth* (FGreps and NONg) and *responsibility* (NONg) (appendix K, Table 15).  The level of local responsiveness of firms positively affects the business diplomacy breadth for FGreps (unstandardized coefficient .387, t= 2.422, p < .05) as well as for NONg stakeholders (unstandardized coefficient .413, t = 2.433, p < .05). The explained variance of 10.9% ($R^2$ = .109) and 11% ($R^2$ = .11), respectively, implies that local responsiveness explains that level of breadth for FGreps and for NONg stakeholders. The level of local responsiveness influences the responsibility for business diplomacy positively (responsibility FGreps) as .265 (t = 2.228, p < .05) and has an explained variance of 9.8% ($R^2$ = .098).

 All sub-dimensions of business diplomacy towards FGreps are impacted by one of the three firm characteristics of global integration, local responsiveness and/or firm size.  For business diplomacy towards NONg stakeholders, we have found no influence factor for business diplomacy intensity and responsibility. Several multiple regression models were also tested with the firm characteristics of global integration, local responsiveness and firm size, but no significant model was found.

# 5 Conclusion and Discussion

In this chapter the most important findings of our quantitative research are presented. In section 5.2 we will discuss our findings in relation to the theoretical implications discussed in our literature review. Then we will consider the limitations of our study and provide suggestions for further research.

## 5.1 Conclusions

In this project we created a theoretical framework, in which the determinants of business diplomacy approach and organization are presented. We ascertained that business diplomacy involves establishing and sustaining positive relationships (by top executives or their representatives) with FGreps and NONg stakeholders (economic and non-economic) with the aim to build and sustain legitimacy (safeguard corporate image and reputation) in a foreign business environment. To answer the research question, we made business diplomacy measurable in two dimensions, approach and organization. There are five sub-dimensions to business diplomacy approach: intensity, policy clarity, breadth, means deployments and resource availability. How advanced a firm's approach is can be measured by considering all five sub-dimensions. The extent to which the headquarters or the subsidiary is responsible for business diplomacy in a host environment is measured with the sub-dimension responsibility.

Our findings show that firms have a moderately highly advanced approach for establishing and sustaining relationships with FGreps and NONg stakeholders. Firms are moderately highly active in seeking contacts and use a moderately high diversity of means to establish and sustain the relations with FGreps and NONg stakeholders. The scores suggest that firms have a moderately high level of clear and organization-wide business diplomacy policies. However, firms have lower scores for breadth and resource availability. They have a medium broad business diplomacy approach, meaning that establishing and sustaining these relationships is done to a moderate extent by every employee within the company. Also, the firms use a medium amount of multiple firm resources (e.g. financial, time, knowledge) for establishing and sustaining these relationships. Decision-making regarding business diplomacy is neither completely decentralized (subsidiary level) nor fully centralized (headquarters) for either FGreps or NONg stakeholders, as the scores of our sample suggest.

The approach and organization of business diplomacy towards FGreps and NONg stakeholders of firms do differ, though the differences in the levels of approach and organization are relatively small. The distribution difference in approach advancedness suggests that firms vary more in the levels of advancedness towards FGreps than towards NONg stakeholders. Firms are slightly more intense and have clearer policies for establishing and sustaining relations with FGreps than with NONg stakeholders, though firms vary more in the intensity and policy clarity for business diplomacy towards FGreps than towards NONg stakeholders. Firms score small differences between FGreps and NONg stakeholders on the sub-dimensions breadth and means deployment. The distribution difference of business diplomacy responsibility between FGreps and NONg stakeholders suggests that decision-making for establishing and sustaining relationships with FGreps is slightly more centrally organized in firms (peak = 4 - 4.5, decentralised to centrally organized), while with NONg it is more moderately decentralized (peak = 3 - 3.5).

In total, we tested 126 relations, of which only 20 were found to be significant with a business diplomacy (sub-)dimension. The level of approach advancedness firms use for establishing and sustaining relations is highly significantly influenced only by the level of global integration. For business diplomacy intensity, there are significantly different scores between firms in the areas of their host country and the extent that a firm is globally integrated. The significant relations we found with the level of policy clarity were with the independent variables host country, size and industry of a firm. The most significant relations were found for the breadth of business diplomacy. Differences in breadth between firms were associated with a firm's level of global integration, local responsiveness and the type of industry a firm is operating in. The level of global integration influences the diversity of means deployment and the amount of resources used for business diplomacy. Also, the difference between a firm's country of origin is related to the level of means deployment for business diplomacy. The responsibility of business diplomacy is significantly related to a firm's country of origin and the level a firm is locally responsive.

The findings support our research model that firm-level characteristics and the type of industry determine the level of business diplomacy approach and organization for some dimensions. However, our research has found no evidence that differences in the institutional development of a host country are related to the business diplomacy approach or organization. This suggests that the institutional development of a country we measured does not determine the advancedness of the business diplomacy approach or whether the business diplomacy decision-making process lies with the subsidiary or with the headquarters.

## 5.2   Discussion of the findings

In this section our research will be discussed by reflecting on the literature review. We start with our overall findings on the business diplomacy level of firms compared to the theory (5.2.1). In 5.2.2 we discuss the practical and theoretical implications of the determinants of business diplomacy based on the existing literature. In section 5.2.3 we compare our research findings with the qualitative business diplomacy research conducted by Wolters (2012).

### 5.2.1   Business diplomacy development

Saner and Yiu (2005) and Muldoon (2005) argue that establishing and sustaining relations in today's business environment are becomingly more important for creating business opportunities, as firms cannot depend solely on their competitiveness and efficiency any longer. The findings of our research confirm that firms do understand the need for business diplomacy as they are moderately highly active in establishing and sustaining relationships with government representatives. Furthermore, firms have moderately high, clear and business-wide policies for establishing these relations.

In the literature review it is argued that business diplomacy needs to be more effectively introduced throughout the entire organisation and that firms should apply a diplomatic style of operation (London, 1999). Saner et al. (2000) argues that business diplomacy knowledge should be shared through the entire company. Our research did not found evidence that business diplomacy is acknowledged as a broad phenomenon within firms. Employees are moderately highly involved in business diplomacy when they are in contact with FGreps and NONg stakeholders, but taking the initiative to establish these relations is not an activity done by all employees, as the scores are moderately low to low. Policies are thus indeed moderately highly clear and widely known through the firms, but business diplomacy is not an organization-wide activity (medium level). Also, the score

on resource availability for business diplomacy confirms that firms do not encourage business diplomacy effectively in the entire organization (Saner & Yiu, 2005). Firms do acknowledge that establishing and sustaining relationships with FGreps and NONg stakeholders is an activity that takes time, but investing in knowledge transfers through training or a learning system for employees is an activity rarely conducted by the firms in our sample.

The means deployment for business diplomacy scored moderately high, suggesting that firms are not focused on a single means for business diplomacy. The differences among firms are relatively high for the use of diversified means, also when it comes to communicating a clear CSR policy. It is argued that due to the rise of organized civil society, CSR policies are more needed for legitimacy reasons (Teegen et al., 2004). However, in our sample the communicating of CSR policies towards governments and NGOs scored low.

In general, the business diplomacy approach can be interpreted as firms being medium advanced when the five sub-dimensions are considered (intensity, policy clarity, means deployment, resources and breadth). However, breadth and resources lag behind in the development of business diplomacy. More resources availability and a broader view on business diplomacy could create even more legitimacy for firms. We expect that there are thus still potential growth possibilities for firms regarding business diplomacy. Our findings show that the need for business diplomacy has been acknowledged, as the intensity and policy clarity are already implemented at a reasonable level within the firms.

Previously conducted business diplomacy studies have not established its organization within firms. Our findings suggest a moderate decentralized/centralized decision-making for business diplomacy. Subsidiaries in host countries are free in their responsibility to establish and sustain relationships with FGreps and NONg stakeholders but need to act in line with the central standards set by the main headquarters.

## 5.2.2    Business diplomacy determinants

The extent to which a firm is globally integrated is a determinant of the business diplomacy *approach* for FGreps, as found in our research. The level of global integration positively influences the level of intensity, breadth, means deployment and resource availability for business diplomacy towards FGreps. As derived from the firm typology of Bartlett and Ghoshal (1989), we expected that the extent to which a firm is locally responsive and globally integrated is related to the approach and organization of business diplomacy, because the types of firms have different strategies. As our research concludes, globally integrated firms use a more advanced approach for business diplomacy. They are more focused on cost efficiency (Bartlett and Ghoshal, 1989). Our findings suggest that globally integrated firms have a higher level of intensity, breadth, means deployment and resources availability for business diplomacy because by establishing and sustaining relation with the external stakeholders, they can remain cost-efficient.

Based on the theory of Bartlett and Ghoshal (1989), we expected that locally responsive firms would have a more decentralized business diplomacy organization, as they attempt to be locally responsive to the specific needs and demands of each individual business market. However, our findings contradict these expectations as local responsiveness is positively related to centralized responsibility for FGreps. This suggests a more centralized business diplomacy decision-making for locally

responsive firms. This implies that the decision-making authority lies more within the regional headquarters than in each subsidiary as the level of local responsiveness increases.

Lux et al. (2011) determined that firm size is the largest driver of CPA. We expected that firm size would also be an important determinant for the business diplomacy approach as larger firms have more resources available for business diplomacy while smaller firms are more likely to cooperate when it comes to business diplomacy (Hillman and Hitt, 1999). Firm size only influences the business diplomacy policy clarity sub-dimension, however. The positive relation found suggests that the larger the firm, the more written and clearer policies are used, as larger firms might need more widely spread and clearer business diplomacy policies to keep all subsidiaries in line with their philosophy.

The region in which a subsidiary is established is significantly related to the level of policy clarity and intensity, as well as between a firm's country of origin and the level of responsibility (when α= .10; also means deployment and breadth). This suggests that cultural and regional differences may be involved in the organization and approach of business diplomacy. For instance, our sample implies that subsidiaries established in Europe have clearer business diplomacy policies and a higher intensity in establishing and sustaining relationships with FGreps than subsidiaries established in Asia. The intensity in Europe might be higher because lobbying with FGreps is more normal than in Asia. Quantitative research can be used to verify regions and cultural differences in the approach and organisation of business diplomacy.

A firm's industry type was expected to influence the business diplomacy approach advancedness, especially for firms operating in the primary sector. Oil companies in the primary sector need to intensively safeguard their corporate image and reputation (Saner et al., 2000). However, a significant difference is found for business diplomacy breadth between the primary and the secondary sector. The primary sector scores lower (is narrower) on business diplomacy breadth, as it is probably more appropriate for executives to establish and sustain relations with FGreps as basic products are often nation/public-owned than for firms in the secondary sector. Firms in the secondary sector have clearer business diplomacy policies than firms in the tertiary sector (service industry) for establishing and sustaining relationships with FGreps and NONg stakeholders. The difference can be explained by the fact that the secondary sector is focused on creating tangible product(s) and clear policies for the stakeholders (e.g. suppliers, carriers) are applied to create business opportunities, while the tertiary sector is the service industry, it is client-oriented and has less clear policies because the clients have different situations. The intensity level of business diplomacy is significantly related between the types of industries when α= .10 is applied to FGreps. The primary sector was expected to be more intense in business diplomacy than the secondary and tertiary sectors as their business is strongly influenced by governments. Therefore, we expect that it is related although it is only related when α= .10 is applied.

Kostecki and Naray (2007) mentioned that the institutional characteristics of a host country determine a commercial diplomat's activities. We expected that subsidiaries operating in less developed countries will have a different (higher) advanced business diplomacy approach than a subsidiary that operates in a highly developed country. After all, subsidiaries in less developed countries have to establish and maintain relationships with many parties on many levels in order to create business opportunities. However, no evidence hase been found that the institutional

environment measured with HDI and the Democracy Index was related or influenced the approach of business diplomacy or the way business diplomacy is organized within the MNCs.

### 5.2.3    Comparison with the qualitative business diplomacy study

Wolters (2012) conducted a qualitative study on how MNCs conduct business diplomacy. In his qualitative research the six business diplomacy dimensions were measured with semi-structured interviews in eight different Dutch MNCs. The results of those qualitative findings and our quantitative ones will be compared based on the six sub-dimensions of business diplomacy and for the relation between industry type and business diplomacy. No comparison is made for the approach advancedness of business diplomacy as this was not measured by the qualitative research.

The study of Wolters (2012) confirmed our findings that firms do recognize the value and necessity of business diplomacy. However, contradictory results were obtained for the policy clarity sub-dimension. Our findings suggest that firms have moderately clear policies for establishing and sustaining business diplomacy with FGreps and NONg stakeholders, while in the qualitative study, only five of the eight interviewed Dutch MNCs had general business diplomacy guidelines.
For the business diplomacy dimensions breadth, means deployment, resource availability and responsibility, similar results were found. In accordance with our research, Wolters (2012) concluded that business diplomacy is acknowledged as a broad phenomenon within firms although none of the firms in the qualitative study involve all employees in establishing and sustaining relations with FGreps and NONg stakeholders.  The qualitative findings confirm that Dutch MNCs deploy a wide range of business diplomacy means and, just like in our findings,  they have time and financial resources available for business diplomacy. Results of the interviews show that within the eight Dutch MNCs, the organization of business diplomacy is largely decentralized on a subsidiary level, though the business diplomacy guidelines (in five MNCs) and business codes of conduct (in all MNCs) need to be adhered to (Wolters, 2012).  Our results suggest that firms have considerable freedom to decide on how to conduct business diplomacy, though the scores also imply that there is a clear involvement from the headquarters as well. Our research findings for the dimensions of business diplomacy show significant similarities, suggesting that the results are valid and consistent.

In the qualitative study (Wolters, 2012), Dutch MNCs argued that the type of industry impacts the business diplomacy intensity. For example, the companies Philips, Wolters Kluwer and Randstad conduct intensive business diplomacy since these MNCs operate in industries in which the business is strongly influenced by governments. Our results did not find an association between the type of industry (primary, secondary and tertiary sector) and business diplomacy intensity, though when $\alpha$=.10 is applied, the industry is related to business diplomacy intensity (p=.093) towards FGreps.

## 5.3   Limitations

Our study has limitations which should be overcome in future research on business diplomacy.

A major limitation for this research is the low statistical power due to the small sample size. Low statistical power can lead to statistically insignificant results (Type II error). Firm-level characteristics, type of industry and/or institutional development might not result in significant relations with business diplomacy dimensions due to the small sample size, although in fact they are related (Saunders, Lewis, & Thornhill, 2009). Type II error can be reduced by collecting more evidence/data (De Veaux, Velleman, & Bock, 2005). Due to the small number of respondents and large differences between the firms, the data for some determinants was recoded from scale-level data to ordinal

data. Therefore, the study should be redone with a larger sample size, which would improve its statistical power.

The internal consistency for global integration and local responsiveness was measured with Cronbach's alpha. The reliability scores were lower than the rule of thumb of α>.700. This might be due to the small sample size. However, the scale reliability for global integration and local responsiveness can be improved by rewriting questions or adding more to determine the level of global integration and local responsiveness of firms.

A threat to the internal validity of our research might be drop-outs. Firms that are obviously exercising business diplomacy might be overrepresented because ones which have not deployed business diplomacy may not have participated in our study. Another internal validity threat is 'selection' (Babbie, 2010). Some branches are underrepresented in our sample. This might be because they have a 'negative' policy on participating in scientific research, as information about certain processes may be referred to as confidential/classified. Most of our sample came from the secondary sector, although most firms in the world operate in the tertiary sector. The invitation letter for our research claimed that the questionnaire was anonymous and the data would be presented without a company name, but the firms had to fill in their company name in the questions. We needed the company name to verify quantitative data. In future research, it might be better to include all quantitative data (questions) in the questionnaire. Firms that have strict rules on participating in scientific research might have seen including the company name as an obstacle.

Our research is based on firms operating in emerging economies and firms within the Forbes 2000 list and thus cannot be seen as representative of all internationally operating firms. Because of this purposive sampling procedure, we cannot generalize our findings to internationally operating firms worldwide. Purposive sampling is a threat to the external validity (Babbie, 2010). The study should be conducted with a larger sample size and a more dispersed, worldwide sample or focused on a cross-country/continental analysis.

## 5.4 Future research

With our research we were able to identify the determinants of business diplomacy. However, every study creates new questions and leaves some questions unanswered. In this section we will test our business diplomacy model and discuss suggestions for future research.

In our exploratory research we created a model in which business diplomacy is split into two dimensions: approach and organization. A firm's approach advancedness is measured with the business diplomacy sub-dimensions intensity, policy clarity, breadth, resource availability and means deployment towards FGreps and NONg stakeholders. The organization dimension is measured with the responsibility sub-dimension. We found some relations between the firm-level characteristics and type of industry with the level of business diplomacy. However, we tested the model with a factor analysis to determine whether it needs to be improved when used for further research. The factor analysis tests the degree each of the items (sub-dimension questions) is related to a factor and the number of factors that can be distinguished.
Results of the factor analysis suggest that the items within the questionnaire are related to five factors. The output matrix in Table 16 (appendix L) shows the new differentiation of the factors with the related items (Jolliffe, 2005). Instead of the six sub-dimensions for measuring business diplomacy, future research should measure business diplomacy with five factors/sub-dimensions.

The sub-dimension 'Source availability' is spread among the five factors, meaning it is not a sub-dimension of its own, but should be measured within other dimensions. Factor 1 has the most items and consists of all intensity items, four resource availability items, two means deployment items, and one breadth and responsibility item. Factor 1 is considered the most importance factor. The other four factors mainly consist of items which were originally tested by us. The dimensions which can be distinguished after the factor analysis are: intensity, policy clarity, Breadth, responsibility and means deployment. When applying the items mentioned in appendix I, the ones with a factor loading of less than .500 can be excluded. These items are not highly related to the factor.

For further research various other determinants for business diplomacy can be studied, as some are mentioned within our literature review but not included here. These are the firm-level antecedents of organizational slack, resource dependency, and business diversification level and the industry-level antecedents of industry concentration and economic opportunities.

The relatively low number of respondents is considered a limitation of our research. The relations and effects of firm-level characteristics, type of industry and institutional development should be studied with a broader (worldwide) sample or a more focussed sample (for example, only European firms).

The outputs of business diplomacy can also be studied. Suggested outputs are return on assets, return on investments and government-derived revenues mentioned in the literature review (chapter 2). Research on business diplomacy outputs can determine which business diplomacy dimension has the highest influence on the outputs and whether firm antecedents and type of industry are also associated with the outputs.

As we have shown in our literature review, the number of articles about business diplomacy and related concepts has grown in the past few decades. However, in our research we did not consider whether business diplomacy is developing within firms. This could be an interesting subject for future research, along with which elements and to what extent they developed (level of BD integration, increase in BD breadth, increase in BD intensity, etc.). The rise of NGOs is expected to have increased business diplomacy for NONg stakeholders, and thus companies are establishing and sustaining more relations. A development dimension can be added in future research in order the evolvement of business diplomacy within firms.

In our research we distinguished between business diplomacy towards FGreps and towards NONg stakeholders, although they are highly correlated as shown in Appendix G. However, the distribution of the business diplomacy (sub-)dimension scores suggests different levels of approach and organization towards FGreps and NONg stakeholders. Qualitative research can explore whether firms use differential approaches/tactics for business diplomacy when it comes to FGreps and NONg stakeholders. We expect that a difference in the intensity may arise as firms in some branches need to sustain positive relations with FGreps more than with NONg stakeholders.

In our research we identified that the level of business diplomacy breadth and resource availability is medium. With quantitative research more in-depth information can be retrieved. For instance, why are firms not investing highly in business diplomacy knowledge, because training employees in this can have net results? Also, the underlying concepts of the use of business diplomacy within international operating firms can be examined.

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## Appendix A: Full questionnaire - Business Diplomacy

# UNIVERSITY OF TWENTE.

*Intro:*

Thank you for taking the time to fill in this questionnaire for the University of Twente's research on international Business Diplomacy.

Your input is very important to us and will be kept strictly confidential. The approximate time required for filling in this questionnaire is about 15 minutes.

If you have any questions about the questionnaire, please contact us at <u>e-mail</u>.

Click on the button "next" to start the questionnaire.

---

Which company do you represent?

In which country are you currently working?

What is the number of employees working in you branch?

Your company mainly operates in which sector?
- o Basic Materials
- o Conglomerates
- o Consumer Goods
- o Financial
- o Health Care
- o Industrial Goods
- o Services
- o Technology
- o Utilities

Please indicate the extent to which the following statements are true for your subsidiary:

1. Our subsidiary conducts its own operation without relying on the expertise of other units located elsewhere.

2. The main role of our subsidiary is to implement parent company strategies.

3. The skills and resources of our company are centralized and global in scale.

4. The primary role of our unit is to find out and take advantage of opportunities within the country in which we operate.

5. Our operations receive and adapt products and services offered by our parent company to the best advantage in the countries in which we operate.

## *Operationalization Business Diplomacy :*

Please indicate the extent to which you agree with each of the following statements regarding your relationship with **Foreign governmental representatives** (referred to as FG reps).

*Statements: <u>Our company has …</u>*

1. … a clear policy on how to *establish* relationships with FG reps.

2. … a clear policy on how to *sustain* relationships with FG reps.

3. … clear guidelines, for our top executives or direct representatives, on how to interact with FG reps.

4. … representatives (top management) who know how to establish relationships when they are contacted by FG reps.

5. … an open/transparent policy on how it deals with establishing and sustaining relationships with FG reps.

6. … understandable rules and guidelines on how to build relationships with FG reps that are easy to understand.

Please indicate the extent to which you agree with each of the following statements regarding **Foreign government representatives** (referred to as FG reps).

*Statements: <u>Our company …</u>*

1. … has top executives (or their representatives) who take the initiative in contacting FG reps.

2. … has top executives (or their representatives) who often meet with FG reps.

3. … has top executives (or their representatives) who stimulate getting in touch with FG reps (to build trust).

4. … has top executives (or their representatives) who are often present at events where opportunities arise to meet with FG reps.

5. … supports employees, from top executives to those on the operational level, to have good relationships with FG reps.

6. … tries to have good relationships with FG reps.

Please indicate the extent to which you agree with each of the following statements regarding **Foreign government representatives** (referred to as FG reps).

*Statement: In our company ...*

1. ... all of our employees know that they are considered representatives of our company when they are in contact with FG reps.

2. ... establishing positive relationships with FG reps is an activity conducted by every employee in our organisation.

3. ... sustaining positive relationships with FG reps is an activity conducted by every employee in our organisation.

4. ... all employees are aware of the importance of establishing and sustaining relationships with FG reps.

5. ... all of our employees will try to use the opportunity to establish or sustain relationships with non-governmental stakeholders when they meet.

6. ... building relationships with FG reps is an issue that is widely recognized within our entire organization.

7. ... establishing and sustaining relationships with FG reps is part of our strategic planning.

Please indicate the extent to which you agree with each of the following statements regarding **Foreign government representatives** (referred to as FG reps).

*Statements:*

1. The headquarters decides upon the policy of how to deal with FG reps.

2. Our subsidiary executives act in line with the guidelines that the headquarters has set on how to interact with FG reps.

3. The headquarters specifies throughout the organisation around the world which occasions should be used to build positive relationships with FG reps.

4. The headquarters has to give its permission for activities which are planned by subsidiaries to sustain relationships with FG reps.

5. Subsidiaries are predominantly free to decide on how to build relationships with FG reps.

6. Subsidiaries have to report to headquarters about their meetings and contacts with FG reps.

Please indicate the extent to which you agree with each of the following statements when it comes to **Foreign government representatives** (referred to as FG reps).

*Statement: Our company …*

1. … is often represented at social meetings with FG reps (e.g. dinners) to establish and sustain relationships*.

2. … is often represented at formal occasions (e.g. public forums, seminars, local government debates) with FG reps to establish and sustain the relationships.

3. … organizes social meetings (e.g. dinners) with FG reps to establish and sustain the relationships.

4. … uses media channels (e.g. television, papers) in order to promote the corporate image for establishing and sustaining relationships with FG reps.

5. … has a clear and extensive CSR policy to establish and sustain relationships with FG.

6. … communicates the CSR policy (e.g. health, ethics, and environmental policy) to establish and sustain relationships with FG reps.

7. … sponsors activities, such as sport or music events, that are organized in the host country to establish and sustain relationships with FG reps.

Please indicate the extent to which you agree with each of the following statements regarding **resources**(referred to as FG reps).

*Statement: Our company …*

1. … provides financial resources to establish and sustain positive relationships with foreign government representatives and non-governmental stakeholders.

2. … provides a budget for organizing activities to establish and sustain positive relationships with foreign government representatives and non-governmental stakeholders.

3. … provides business diplomacy training to middle managers in all subsidiaries

4. … has the initiation of a business diplomacy learning system to capture cumulative learning.

5. … rewards employees for successful relationship building with foreign government representatives and non-governmental stakeholders.

6. … accepted that time is spent on establishing and sustaining relationships with foreign government representatives and non-governmental stakeholders

7. … financially supports events organized by non-governmental stakeholder groups.

Thank you very much for filling in the questionnaire.

If your company is interested in the findings of our research, please add your e-mail address here. We will send you the results of our research when they become available.

# Appendix B: Construct business diplomacy dimensions

| Construct or Variable | Dimension | Indicators | Source data | Type, attribute |
|---|---|---|---|---|
| Intensity of Business Diplomacy: The extent to which a company actively seeks contacts and build relationships with FG reps and NonG stakeholders)<br><br>Scale from: low BD intensity <..to..> high BD intensity. | Business diplomacy approach | Our company has top executives (or their representatives) who take initiative in contacting FG reps and NonG stakeholders.<br><br>Our company has top executives (or their representatives) who often meet with FG reps and NonG stakeholders.<br><br>Our company has top executives (or their representatives) who stimulate gettin in touch with FG reps and NonG stakeholders (to build trust).<br><br>Our company has top executives (or their representatives) who are often present at events where opportunities arise to meet with FG reps and NonG stakeholders.<br><br>Our company does supports employees, from top executives to those on the operational level, to have good relationships with FG reps and NonG stakeholders.<br><br>Our company tries to have good relationships with FG reps and NonG stakeholders. | Questionnaire: Please indicate the extent to which you agree with each of the following statements. (statements left) | 7-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = disagree somewhat, 4 = neutral, 5 = agree somewhat, 6 = agree, 7 = strongly agree) |
| Clarity of business Diplomacy: The extent to which a company has a clear and organisation wide policy on how to establish and sustain relationships (for legitimacy reasons) with FG reps and NonG stakeholders. | Business diplomacy approach | Our company has a clear policy on how to *establish relationships* with FG reps and NonG stakeholders.<br><br>Our company has a clear policy on how to *sustain relationships* with FG reps and NonG stakeholders.<br><br>Our company has clear guidelines, for our top executives or direct representatives, on *how to interact* with FG reps and NonG stakeholders. | Questionnaire: Please indicate the extent to which you agree with each of the following statements. (statements on the left) | Likert scale (1 = strongly disagree, 2 = disagree, 3 = disagree somewhat, 4 =neutral, 5 = agree somewhat, 6 = agree, 7 = strongly agree) |

| | | | | |
|---|---|---|---|---|
| Scale from: No clear written BD policy <.. to..> very clear written BD policy. | | Our company has representatives (top management) who <u>know how</u> to *establish* relationships when they are contacted by FG reps and NonG stakeholders. | | |
| | | Our company has an <u>open/transparent policy</u> on how it *deals* with establishing and sustaining relationships with FG reps and NonG stakeholders. | | |
| | | Our company has <u>understandable rules and guidelines</u> on how to build relationships with FG reps and NonG stakeholders that are easy to understand. | | |
| Deployment of means for Business Diplomacy: The extent to which the company deploys a diversity of means to establish and sustain positive relationships with FG reps and NonG stakeholders)<br><br>Scale from: low level of deployed mean diversity <..to..> high level of deployed mean diversity. | Business diplomacy approach | Our company is <u>often represented at social meetings</u> with FG reps and NonG stakeholders (e.g. dinners) to establish and sustain relationships. | Questionnaire: Please indicate the extent to which you agree with each of the following statements. (statements left) | 7-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = disagree somewhat, 4 = neutral, 5 = agree somewhat, 6 = agree, 7 = strongly agree) |
| | | Our company is <u>often represented at formal occasions</u> (e.g. public forums, seminars, local government debates) with FG reps and NonG stakeholders to establish and sustain the relationships. | | |
| | | Our company <u>organizes social meetings</u> (e.g. dinners) with FG reps and NonG stakeholders to establish and sustain relationships. | | |
| | | Our company <u>uses media channels</u> (e.g. television, papers) in order to promote the corporate image for establishing and sustaining relationships with FG reps and NonG stakeholders. | | |
| | | Our company <u>has a clear and extensive CSR policy </u>to establish and sustain relationships with FG. | | |
| | | Our company<u> communicates the CSR policy</u> (e.g. health, ethics, and environmental-policy) to establish and sustain relationships with FG reps and NonG stakeholders. | | |

| | | Our company sponsors activities, such as sport or music events, that are organized in the host country to establish and sustain relationships with FG reps and NonG stakeholders. | | |
|---|---|---|---|---|
| Breadth of Business Diplomacy: the extent to which establishing and sustaining relationships with FG reps and NonG stakeholders is done by every company representative (e.g. employees).

Scale from: Small group of BD representatives <..to..> Broad group of BD representatives. | Business diplomacy approach | In our company all of our employees know that they are considered representatives of our company when they are in contact with FG reps and NonG stakeholders

In our company establishing positive relationships with FG reps and NonG stakeholders is an activity conducted by every employee in our organisation

In our company sustaining positive relationships with FG reps and NonG stakeholders is an activity conducted by every employee in our organisation.

In our company all employees are aware of the importance of establishing and sustaining relationships with FG reps and NonG stakeholders.

In our company all of our employees will try to use the opportunity to establish or sustain relationships with NonG stakeholders when they meet.

In our company building relationships with FG reps and NonG stakeholders is an issue that is widely recognized within our entire organization.

In our company establishing and sustaining relationships with FG reps and NonG stakeholders is part of our strategic planning. | Questionnaire: Please indicate the extent to which you agree with each of the following statements. (statements left) | 7-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = disagree somewhat, 4 = neutral, 5 = agree somewhat, 6 = agree, 7 = strongly agree) |
| Resources available for Business Diplomacy: the extent to which the | Business diplomacy approach | Our company provides financial resources to establish and sustain positive relationships with FG reps and NonG stakeholders. | Questionnaire: Please indicate the extent to which you | 7-point Likert scale (1 = strongly disagree, 2 = |

| | | | agree with each of the following statements. (statements left) | disagree, 3 = disagree somewhat, 4 = neutral, 5 = agree somewhat, 6 = agree, 7 = strongly agree) |
|---|---|---|---|---|
| company uses firm resources (e.g. financial, time, knowledge) for establishing and sustaining positive relationships with FG reps and NonG stakeholders.<br><br>Scale from: low resources availablity for BD <..to..> to high level of resource availability for BD. | | Our company provides a budget for organizing activities to establish and sustain positive relationships with FG reps and NonG stakeholders.<br><br>Our company provides business diplomacy training to middle managers in all subsidiaries.<br><br>Our company has the initiation of a business diplomacy learning system to capture cumulative learning.<br><br>Our company rewards employees for successful relationship building with FG reps and NonG stakeholders.<br><br>Our company accepted that time is spent on establishing and sustaining relationships with FG reps and NonG stakeholders.<br><br>Our company financially supports events organized by non-governmental stakeholder groups. | | |
| Responsibility for Business Diplomacy: The extent to which the company responsibility for establishing and sustaining relationship with FG reps and NonG stakeholders lies with the headquarter or with the subsidiary.<br><br>Scale from: Centralized BD decision making (HQ) <..to..> Decentralized BD decision making (subsidiary). | Business Diplomacy organization | The headquarter decides upon the policy of how to deal with FG reps and NonG stakeholders.<br><br>Our subsidiary executives act in line with the guidelines that headquarter has set on how to interact with FG reps and NonG stakeholders.<br><br>The headquarter specifies throughout the organisation worldwide which occasions should be used to build positive relationship with FG reps and NonG stakeholders.<br><br>The headquarter has to give its permission for activities which are planned by subsidiaries for sustaining relations with FG reps and NonG stakeholders.<br><br>Subsidiaries are predominantly free to decide on how to build relationships with FG reps and NonG stakeholders.<br><br>Subsidiaries have to report to headquarter about their meetings and contacts with FG reps and NonG stakeholders. | Questionnaire: Please indicate the extent to which you agree with each of the following statements. (statements left) | 7-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = disagree somewhat, 4 = neutral, 5 = agree somewhat, 6 = agree, 7 = strongly agree) |

## Appendix C: Construct independent antecedents

| Construct or Variable | Author | Dimension | Indicator | Source data | Type, attribute |
|---|---|---|---|---|---|
| Firm size | Based on: Hillman et al., (2004); Schuler, (1996); Schuler & Rehbein (1997); Hillman and Hitt, (1999) | Firm level antecedent | Total number of employees working for the firm | Corporate website or annual report | Ordinal measurement Grouped into small, medium, medium to large and large firms |
| Firm age | Based on: Hansen & Mitchell, (2000) | Firm level antecedent | Number of year a firm is in business | Corporate website, Annual report | Ordinal measurement (grouped) (Up to 25 years, between 25 and 50 years, between 51 and 100 years, between 101 and 150 years and older than 150) |
| Country origin | No previous author. Our own expectation | Firm level antecedent | Country were the headquarter of the firm is located | Corporate website, Annual report | Nominal measurement. Grouped into geographical location (North Europe, South Europe, US/Anglo, Asia and other) |
| Host country | No previous author. Our own expectation | Firm level antecedent | Country in which the respondent works | Questionnaire: In which country are you currently working? | Nominal measurement. Grouped into geographical location (Europe, Asia and other) |

| | | | | | |
|---|---|---|---|---|---|
| Level of global integration<br><br>Scale from 1. Low globally integrated to 5. highly locally globally integrated | Based on: Bartlett and Ghoshal (1989) | Firm level antecedent | The skills and resources of our organization are located around the world, but each overseas unit conducts its own operation without relying on the expertise of other units located elsewhere (global integration/local integration) | Questions derived from Leong and Tan (1993), Questionnaire: Please indicate the extent to which the following statements are true for your subsidiary. (statements left) | 5-point Likert scale (1 = not true, 2 = moderately not true, 3 = neutral, 4 = moderately true, 5 = True) |
| | | | The main role of our subsidiary is to implement parent company strategies (global integration/local integration) | | |
| Level of local responsiveness<br>Scale from 1. Low locally responsive to 5. highly locally responsive | Based on: Bartlett and Ghoshal (1989) | Firm level variable | Our skills and resource are centralized and globally scaled (global integration/local integration) | Questions derived from Leong and Tan 1993) Questionnaire: Please indicate the extent to which the following statements are true for your subsidiary. (statements left) | 5-point Likert scale (1 = not true, 2 = moderately not true, 3 = neutral, 4 = moderately true, 5 = True) |
| | | | The primary role of our overseas unit is to find out and take advantage of opportunities within the country in which we operate (local responsiveness) | | |

| | | | Our overseas operations receive and adapt products and services offered by our parent company to the best advantage in the countries in which they operate (local responsiveness) | | |
|---|---|---|---|---|---|
| Type of industry | No previous author. Our own expectation | Type of industry | Sector the organization is mainly operating in | Questionnaire | Nominal: Choice between: Basic Materials, Conglomerates Consumer Goods, Financial, Health Care Industrial Goods, Services, Technology Utilities. **Recoded** primary, secondary and tertiary sector |
| Human development index | No previous author. Our own expectation | Institutional development | The characterization of the institutional development in the host-country | Human Development Report 2011 Sustainability and Equity: A Better Future for All | Ordinal measurement (recoded): medium and high/very high HDI |
| Democracy index | No previous author. Our own expectation | Institutional development | The characterization of the institutional society system | Democracy index 2011: Democracy under stress" of The Economist Intelligence Unit Limited 2011 | Ordinal measurement: Full democracy, Flawed democracy and authoritarian regime |

# Appendix D: Invitation business diplomacy research

Dear Mr./Ms. xxxx,

We kindly invite you to participate in a research project on business diplomacy in international businesses. This research project is initiated and sponsored by the University of Twente www.utwente.nl (The Netherlands).

We would like to invite managers in a Business Diplomacy function (e.g. the head of government affairs/public affairs/corporate communications) to fill out the questionnaire. Your input is very important to us and will be kept strictly confidential. We estimate that it will take you approximately 15 minutes to complete the survey.

Simply click on the link, or cut and paste the entire URL into your browser to access the survey: link

If you would like to be informed about the results, please leave your email at the end of the questionnaire.

If you have any questions email us at e-mail address.

Thank you very much for your cooperation,

Yours sincerely,

Research team Business Diplomacy
Department: Business Administration, University of Twente (The Netherlands)
Huub Ruël, Phd
Floris Betlem
Tim Wolters

E-mail: e-mail address.
**UNIVERSITY OF TWENTE.**

# Appendix E: Exploratory analysis

**Table 5: Exploratory analysis**

| | Variable | N | Min | Max | Mean / Mode* | SD | Scale reliability | No. of items |
|---|---|---|---|---|---|---|---|---|
| **Dependent variables** — FG Reps | **Approach (Advancement)** | 50 | 1,80 | 6,00 | 4,573 | 0,966 | .804 | 5 |
| | Intensity | 50 | 1,50 | 7,00 | 5,273 | 1,383 | .955 | 6 |
| | Clarity | 50 | 1,83 | 7,00 | 5,007 | 1,454 | .957 | 6 |
| | Breadth | 50 | 1,43 | 7,00 | 4,303 | 1,376 | .914 | 7 |
| | Mean deployment | 50 | 1,57 | 7,00 | 4,563 | 1,171 | .832 | 7 |
| | Resource availability | 50 | 1,00 | 6,14 | 3,717 | 1,012 | .777 | 7 |
| | **Organization (Responsibility)** | 50 | 2,00 | 6,00 | 3,917 | 0,993 | .734 | 6 |
| NONg stakeholders | **Approach (Advancement)** | 50 | 2,04 | 6,37 | 4,561 | 0,898 | .745 | 5 |
| | Intensity | 50 | 1,83 | 7,00 | 5,177 | 1,280 | .970 | 6 |
| | Clarity | 50 | 2,00 | 7,00 | 4,893 | 1,408 | .961 | 6 |
| | Breadth | 50 | 1,71 | 7,00 | 4,454 | 1,464 | .939 | 7 |
| | Mean deployment | 50 | 1,29 | 7,00 | 4,563 | 1,163 | .842 | 7 |
| | Resource availability | 50 | 1,00 | 6,14 | 3,717 | 1,012 | .777 | 7 |
| | **Organization (Responsibility)** | 50 | 1,83 | 5,67 | 3,727 | 1,086 | .822 | 6 |
| **Independent variables** — Firm characteristics | Firm size | 49 | 1 | 4 | 1* | 1,236 | | |
| | Firm age | 49 | 1 | 5 | 1 and 4* | 1,437 | | |
| | Country of origin (Areas) | 49 | 1 | 5 | 1* | | | |
| | Host Country (Areas) | 50 | 1 | 3 | 1* | | | |
| | Global integration | 50 | 1,33 | 5,00 | 3,660 | 0,897 | .518 | 3 |
| | Local responsiveness | 50 | 1,00 | 5,00 | 3,700 | 1,174 | .680 | 2 |
| Ind. | Sector | 50 | 1 | 3 | 2* | | | |
| Inst. | Democracy index | 50 | 1 | 4 | 4* | | | |
| | Human development index | 50 | 1,00 | 2,00 | 1* | | | |

# Appendix F: Business diplomacy distribution

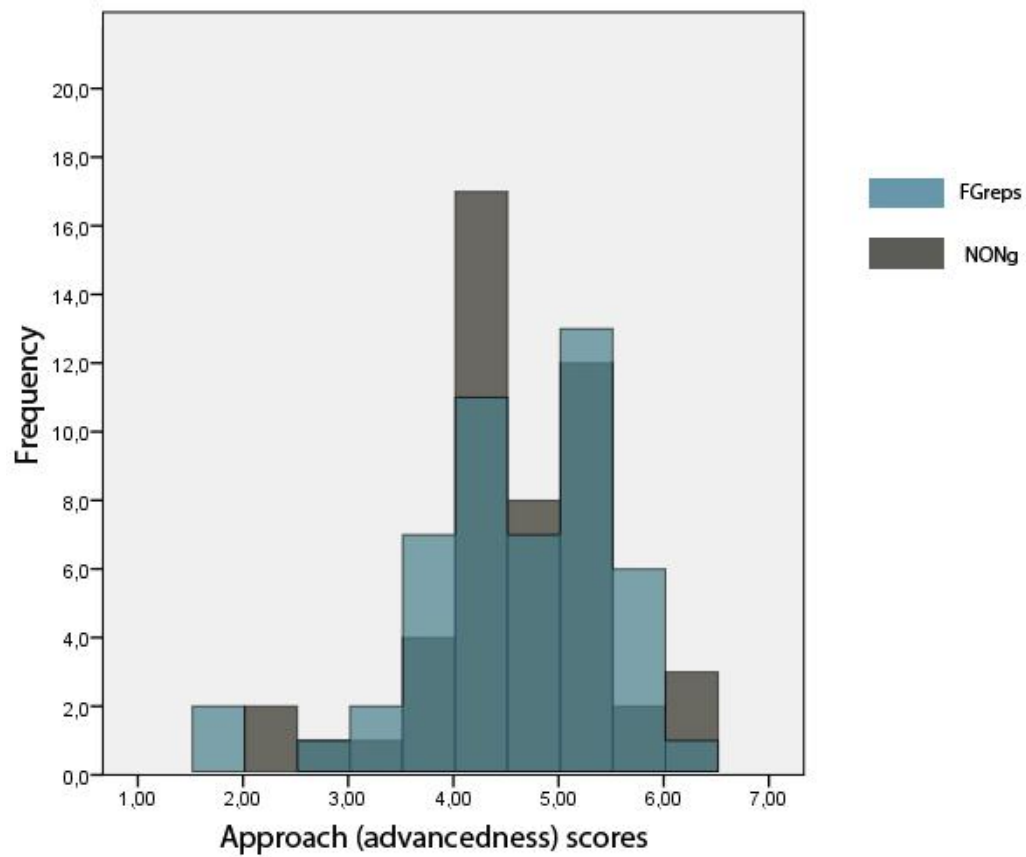**Figure 6: Approach (advancedness) distribution**



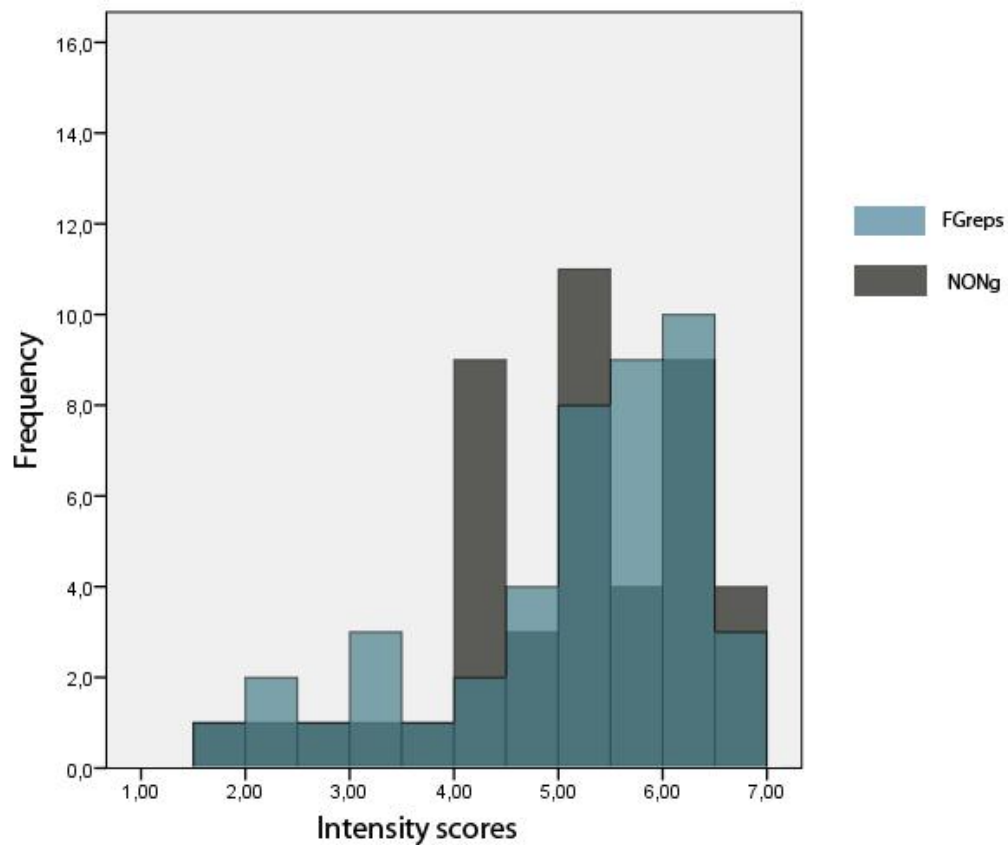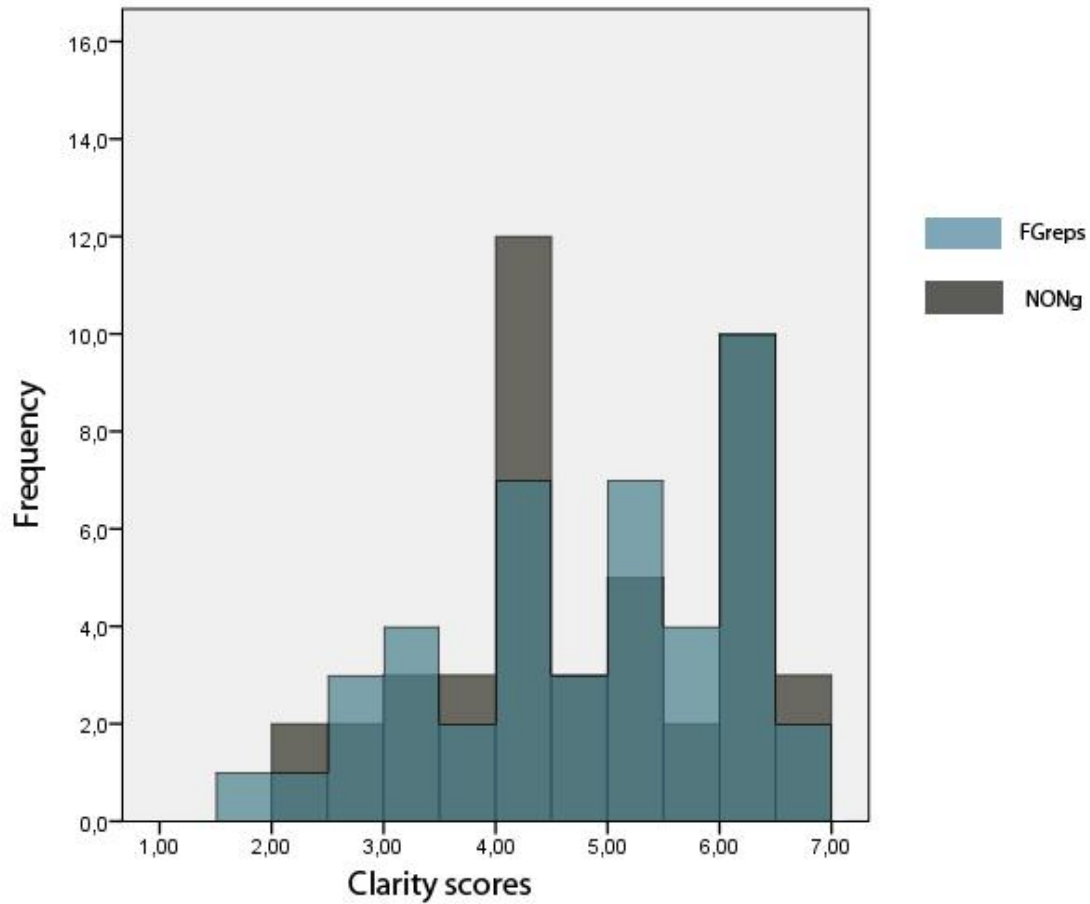**Figure 7: Intensity distribution**

**Figure 8: Policy clarity distribution**
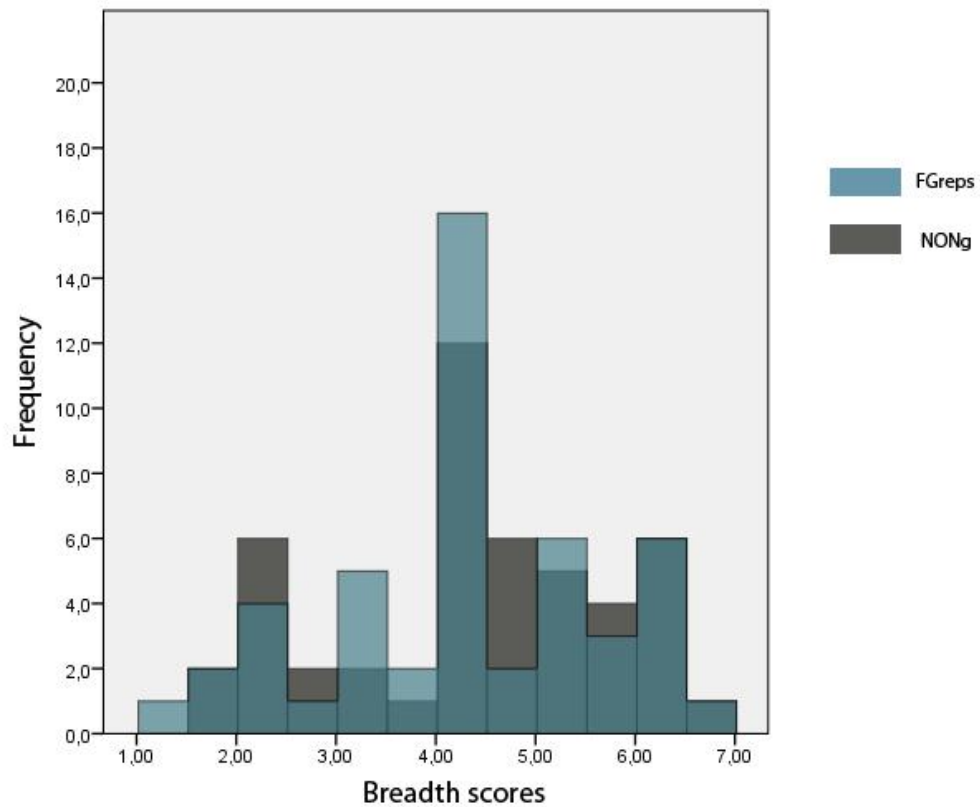


**Figure 9: Breadth distribution**

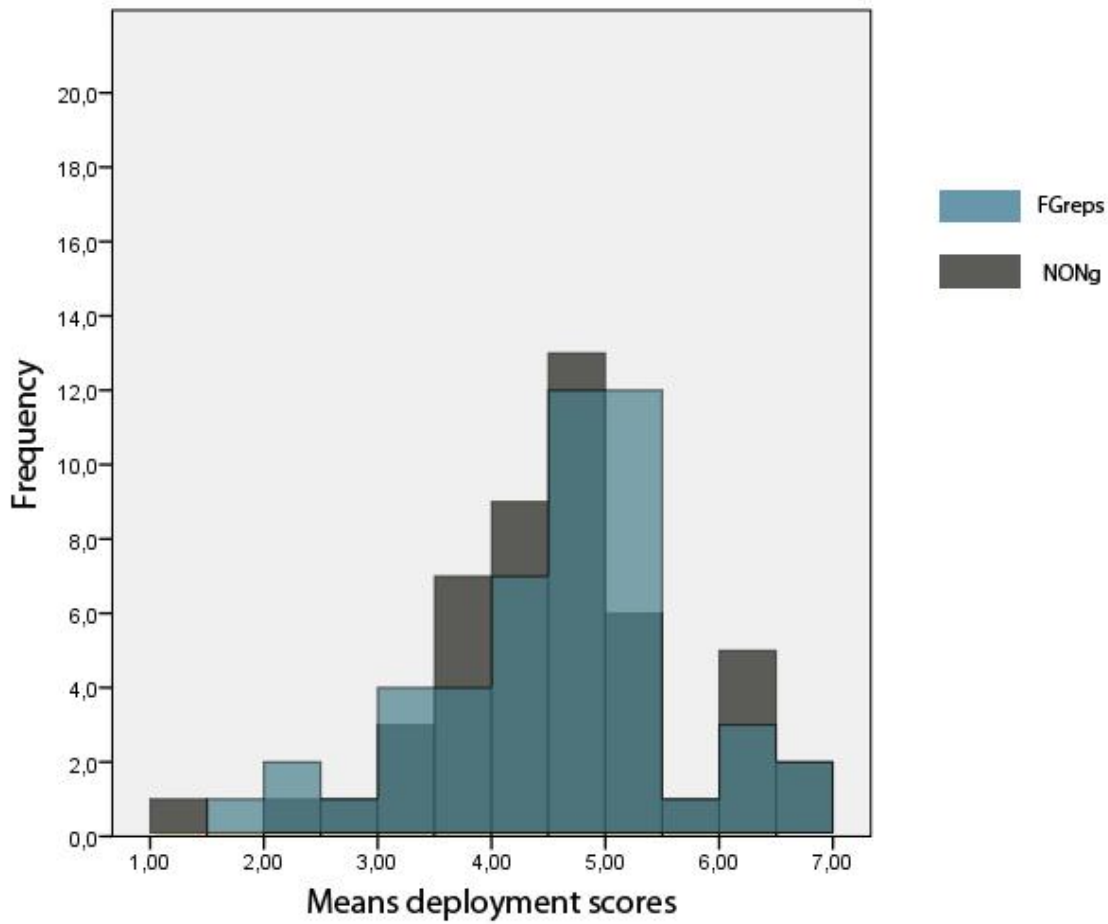**Figure 10: Means deployment distribution**
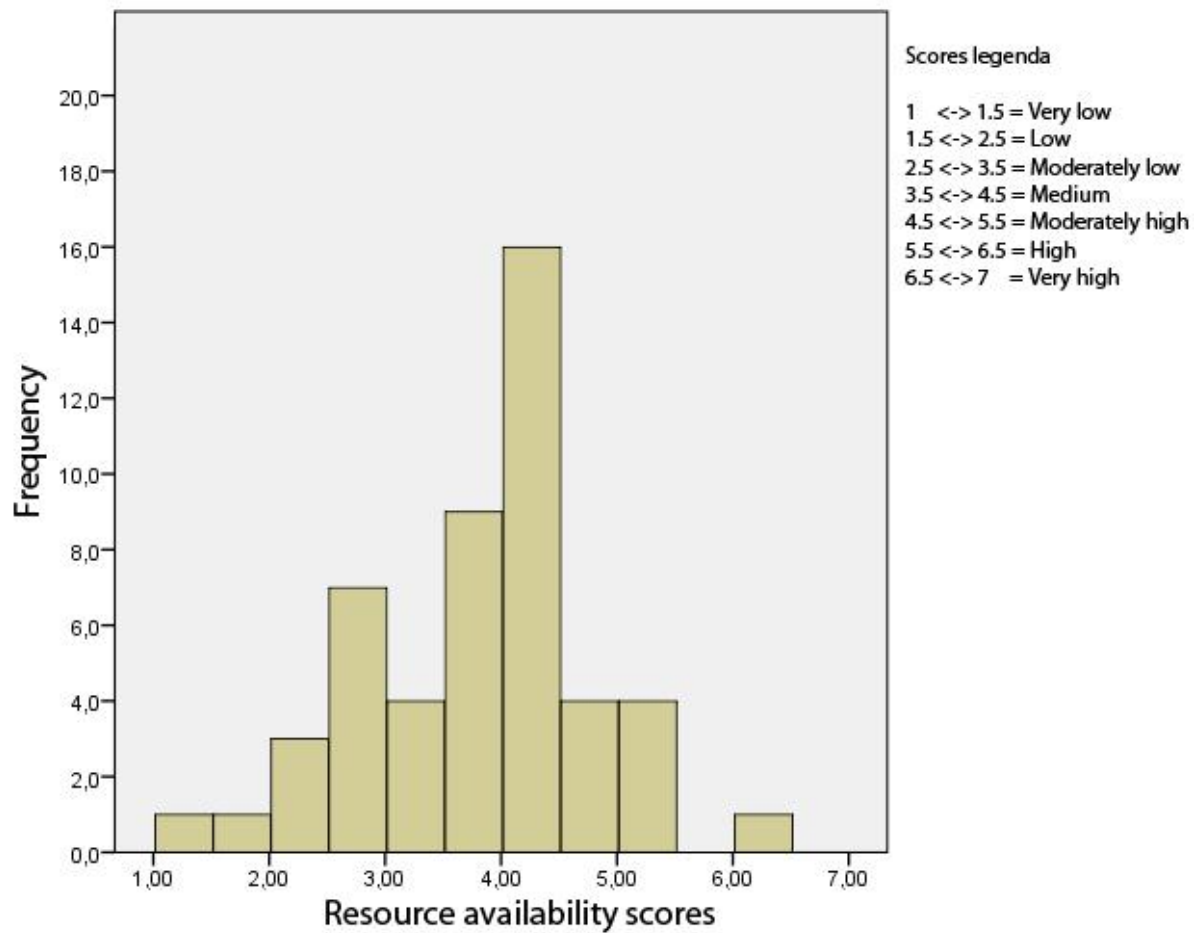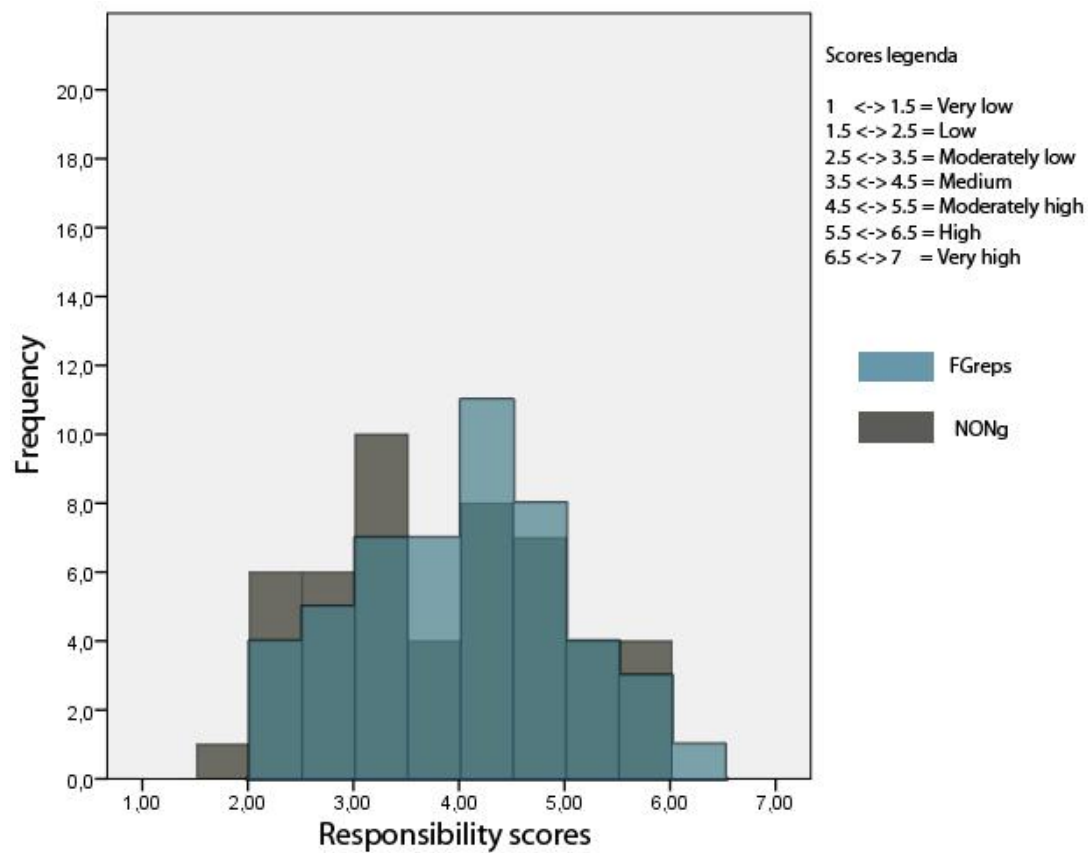


**Figure 11: Resource availability distribution**

**Figure 12: Responsibility distribution**

# Appendix G: Business diplomacy scores per Nominal and ordinal scale

**Table 6: Business diplomacy scores per Nominal and ordinal scale**

| | Foreign government representatives | | | | | | | Non-governmental stakeholders | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Firm Size** | **Approach** | Intensity | Clarity | Breadth | Means | **Resources** | Responsibility | **Approach** | Intensity | Clarity | Breadth | Means | Resources | **Responsibility** |
| Small MNCs (n=19) | 4,448 | 5,061 | 4,570 | 4,376 | 4,406 | 3,827 | 3,982 | 4,423 | 5,079 | 4,368 | 4,534 | 4,308 | 3,827 | 3,579 |
| Medium MNCs (n=9) | 4,383 | 5,074 | 4,648 | 4,302 | 4,333 | 3,556 | 4,315 | 4,717 | 5,444 | 4,981 | 4,905 | 4,698 | 3,556 | 4,333 |
| Medium large MNCs (N=9) | 4,613 | 5,481 | 4,870 | 3,667 | 5,127 | 3,921 | 3,463 | 4,356 | 4,963 | 4,704 | 3,524 | 4,667 | 3,921 | 3,556 |
| Large MNCs (N=13) | 4,858 | 5,577 | 5,987 | 4,637 | 4,560 | 3,527 | 3,859 | 4,796 | 5,282 | 5,731 | 4,670 | 4,769 | 3,527 | 3,641 |
| | | | | | | | | | | | | | | |
| **Firm Age** | **Approach** | Intensity | Clarity | Breadth | Means | **Resources** | Responsibility | **Approach** | Intensity | Clarity | Breadth | Means | Resources | **Responsibility** |
| Up to 25 years (N=15) | 4,388 | 5,456 | 4,778 | 3,981 | 4,143 | 3,581 | 3,600 | 4,420 | 5,222 | 4,822 | 4,276 | 4,200 | 3,581 | 3,478 |
| Between 26 and 50 years (N=7) | 4,856 | 5,476 | 4,762 | 4,755 | 5,143 | 4,143 | 4,000 | 4,816 | 5,262 | 4,429 | 4,959 | 5,286 | 4,143 | 3,952 |
| Between 51 and 100 (N=7) | 4,090 | 4,500 | 4,952 | 4,224 | 3,694 | 3,082 | 4,190 | 4,401 | 4,786 | 5,524 | 4,469 | 4,143 | 3,082 | 3,952 |
| Between 101 and 150 years (N=15) | 4,611 | 5,233 | 5,033 | 4,029 | 4,895 | 3,867 | 4,167 | 4,290 | 4,911 | 4,511 | 3,838 | 4,324 | 3,867 | 4,022 |
| Older than 150 years (N=5) | 5,021 | 5,467 | 5,867 | 5,114 | 4,743 | 3,914 | 3,567 | 5,365 | 5,967 | 5,800 | 5,686 | 5,457 | 3,914 | 3,167 |
| | | | | | | | | | | | | | | |
| **Host Country** | **Approach** | Intensity | Clarity | Breadth | Means | **Resources** | Responsibility | **Approach** | Intensity | Clarity | Breadth | Means | Resources | **Responsibility** |
| Europe (n=18) | 4,811 | 5,657 | 5,602 | 4,317 | 4,786 | 3,690 | 3,935 | 4,670 | 5,287 | 5,370 | 4,175 | 4,825 | 3,690 | 3,769 |
| Asia (n=29) | 4,365 | 4,891 | 4,626 | 4,271 | 4,350 | 3,685 | 3,994 | 4,472 | 5,092 | 4,586 | 4,606 | 4,389 | 3,685 | 3,816 |
| Other (n=3) | 5,156 | 6,667 | 5,111 | 4,524 | 5,286 | 4,190 | 3,056 | 4,771 | 5,333 | 5,000 | 4,667 | 4,667 | 4,190 | 2,611 |
| | | | | | | | | | | | | | | |
| **Origin country (home country)** | **Approach** | Intensity | Clarity | Breadth | Means | **Resources** | Responsibility | **Approach** | Intensity | Clarity | Breadth | Means | Resources | **Responsibility** |
| North West Europe (N=21) | 4,466 | 4,913 | 5,317 | 4,102 | 4,449 | 3,551 | 4,143 | 4,336 | 4,865 | 4,944 | 4,170 | 4,150 | 3,551 | 3,817 |
| South Europe (n=9) | 4,632 | 5,574 | 4,648 | 4,460 | 4,714 | 3,762 | 4,204 | 4,740 | 5,685 | 4,556 | 4,794 | 4,905 | 3,762 | 3,981 |
| Anglo/US (N=10) | 4,933 | 5,667 | 5,083 | 4,829 | 5,000 | 4,086 | 3,300 | 4,980 | 5,467 | 5,033 | 5,100 | 5,214 | 4,086 | 3,233 |
| Asia (N=5) | 4,559 | 5,633 | 4,733 | 4,343 | 4,171 | 3,914 | 4,367 | 4,576 | 5,267 | 4,900 | 4,514 | 4,286 | 3,914 | 4,200 |
| other (n=4) | 3,777 | 4,833 | 4,125 | 3,071 | 3,607 | 3,250 | 3,000 | 3,899 | 4,458 | 4,750 | 2,964 | 4,071 | 3,250 | 3,583 |
| | | | | | | | | | | | | | | |
| **Sector devided** | **Approach** | Intensity | Clarity | Breadth | Means | **Resources** | Responsibility | **Approach** | Intensity | Clarity | Breadth | Means | Resources | **Responsibility** |
| Primary Sector (N=4) | 4,3179 | 5,7500 | 4,6250 | 2,9286 | 4,5714 | 3,7143 | 3,4583 | 3,83929 | 4,3333 | 4,2917 | 2,6429 | 4,2143 | 3,7143 | 3,9583 |
| Secondary sector (N=29) | 4,7972 | 5,5517 | 5,4885 | 4,6256 | 4,7044 | 3,6158 | 4,0517 | 4,77537 | 5,4828 | 5,3793 | 4,7783 | 4,6207 | 3,6158 | 3,7471 |
| Tertiary sector (N=17) | 4,2493 | 4,6863 | 4,2745 | 4,0756 | 4,3193 | 3,8908 | 3,7941 | 4,36471 | 4,8529 | 4,2059 | 4,3277 | 4,5462 | 3,8908 | 3,6373 |
| | | | | | | | | | | | | | | |
| **Democracy index** | **Approach** | Intensity | Clarity | Breadth | Means | **Resources** | Responsibility | **Approach** | Intensity | Clarity | Breadth | Means | Resources | **Responsibility** |
| Full democracy (N=17) | 4,661 | 5,706 | 5,255 | 3,941 | 4,613 | 3,790 | 3,804 | 4,462 | 5,127 | 4,980 | 3,824 | 4,588 | 3,790 | 3,647 |
| Flawed democracy (N=15) | 4,369 | 4,722 | 4,856 | 4,533 | 4,257 | 3,476 | 3,700 | 4,559 | 5,089 | 4,933 | 4,867 | 4,429 | 3,476 | 3,667 |
| Authoritarian regime (n=18) | 4,659 | 5,324 | 4,898 | 4,452 | 4,770 | 3,849 | 4,204 | 4,656 | 5,296 | 4,778 | 4,706 | 4,651 | 3,849 | 3,852 |
| | | | | | | | | | | | | | | |
| **Human developement** | **Approach** | Intensity | Clarity | Breadth | Means | **Resources** | Responsibility | **Approach** | Intensity | Clarity | Breadth | Means | Resources | **Responsibility** |
| Medium HDI (n=26) | 4,446 | 5,000 | 4,833 | 4,286 | 4,456 | 3,654 | 3,974 | 4,484 | 5,077 | 4,782 | 4,560 | 4,346 | 3,654 | 3,724 |
| High and very high HDI (n=24) | 4,710 | 5,569 | 5,194 | 4,321 | 4,679 | 3,786 | 3,854 | 4,644 | 5,285 | 5,014 | 4,339 | 4,798 | 3,786 | 3,729 |

# Appendix H: Correlations

**Table 7: Pearson's correlation coefficients**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Firm Size | 1 | | | | | | | | | | | | | | | | | | |
| 2 Firm Age | ,448** | 1 | | | | | | | | | | | | | | | | | |
| 3 Global Integration | -,084 | ,051 | 1 | | | | | | | | | | | | | | | | |
| 4 Local Responsiveness | -,045 | ,267 | ,370** | 1 | | | | | | | | | | | | | | | |
| 5 Human developement | ,534** | ,133 | -,233 | -,200 | 1 | | | | | | | | | | | | | | |
| 6 Approach (advancedness) FGreps | ,174 | ,126 | ,390** | ,146 | ,138 | 1 | | | | | | | | | | | | | |
| 7 Intensity - FG Reps | ,165 | -,060 | ,309* | -,007 | ,208 | ,818** | 1 | | | | | | | | | | | | |
| 8 Policy clarity - FG Reps | ,370** | ,172 | ,227 | ,030 | ,125 | ,686** | ,403** | 1 | | | | | | | | | | | |
| 9 Breadth - FG Reps | ,019 | ,107 | ,351* | ,330* | ,013 | ,759** | ,535** | ,410** | 1 | | | | | | | | | | |
| 10 Means deployment- FG Reps | ,113 | ,189 | ,285* | ,107 | ,096 | ,764** | ,530** | ,363** | ,452** | 1 | | | | | | | | | |
| 11 Resource availability - Fgreps | -,085 | ,075 | ,306* | ,089 | ,066 | ,750** | ,616** | ,308* | ,418** | ,628** | 1 | | | | | | | | |
| 12 Organization (responsibility) - FG Reps | -,114 | ,132 | ,251 | ,314* | -,061 | ,256 | ,124 | ,279* | ,238 | ,101 | ,209 | 1 | | | | | | | |
| 13 Approach (advancedness) NONg | ,127 | ,100 | ,191 | ,208 | ,090 | ,720** | ,663** | ,452** | ,674** | ,450** | ,444** | ,181 | 1 | | | | | | |
| 14 Intensity - NONg | ,034 | ,018 | ,012 | ,116 | ,082 | ,368** | ,588** | ,103 | ,356** | ,162 | ,134 | ,051 | ,786** | 1 | | | | | |
| 15 Policy clarity - NONg | ,352* | ,087 | ,024 | ,076 | ,083 | ,491** | ,317* | ,782** | ,397** | ,135 | ,091 | ,244 | ,642** | ,316* | 1 | | | | |
| 16 Breadth - NONg | -,048 | ,044 | ,284* | ,331* | -,076 | ,529** | ,443** | ,254 | ,791** | ,242 | ,198 | ,129 | ,836** | ,657** | ,435** | 1 | | | |
| 17 Means deployment - NONg | ,158 | ,137 | ,071 | ,087 | ,196 | ,462** | ,434** | ,097 | ,368** | ,545** | ,339* | ,004 | ,778** | ,606** | ,292* | ,546** | 1 | | |
| 18 Resource availability - NONg | -,085 | ,075 | ,306* | ,089 | ,066 | ,750** | ,616** | ,308* | ,418** | ,628** | 1,000** | ,209 | ,444** | ,134 | ,091 | ,198 | ,339* | 1 | |
| 19 Organization (responsibility) - NONg | -,015 | ,066 | ,047 | ,086 | ,002 | ,071 | ,008 | ,097 | ,125 | -,050 | ,076 | ,739** | ,045 | -,102 | ,142 | ,051 | -,018 | ,076 | 1 |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

# Appendix I: Anova and T-test results

**Table 8: Independent sample t-test for Europe versus Asia host country on business diplomacy**

|  | N | | Mean | | Std. Deviation | | |
|---|---|---|---|---|---|---|---|
|  | Europe | Asia | Europe | Asia | Europe | Asia | Significance |
| Clarity - FG Reps | 18 | 29 | 5.6 | 4,6 | 1.4 | 1.37 | .023* |
| Clarity - NONg | 18 | 29 | 5.37 | 4.59 | 1.36 | 1.37 | .062 |
| Intensity - FG Reps | 18 | 29 | 5.66 | 4.89 | 1.61 | 1.26 | .035* |

* Correlation is significant at the 0.05 level

**Table 9: Independent sample t-test for North West Europe versus Anglo/US (home country) on business diplomacy**

|  | N | | Mean | | Std. Deviation | | |
|---|---|---|---|---|---|---|---|
|  | Europe | Anglo/US | Europe | Anglo/US | Europe | Anglo/US | Significance |
| Responsibility FG Reps | 21 | 29 | 4.14 | 3.3 | .86 | .97 | .02* |

* Correlation is significant at the 0.05 level

**Table 10: Independent sample t-test for South-Europe versus Anglo/US (home country) on business diplomacy**

|  | N | | Mean | | Std. Deviation | | |
|---|---|---|---|---|---|---|---|
|  | South Europe | Anglo/US | South Europe | Anglo/US | South Europe | Anglo/US | **Significance** |
| Responsibility FG Reps | 9 | 10 | 4.2 | 3.3 | .83 | .97 | .044* |

* Correlation is significant at the 0.05 level

**Table 11: ANOVA analysis for type of industry (sector) on business diplomacy**

|  | **Sum of Squares** | **DF** | **Mean Square** | **F** | **Significance** |
|---|---|---|---|---|---|
| Clarity - FG Reps | 16.428 | 2 | 8.214 | 4.428 | .017* |
| Intensity - FG Reps | 9.015 | 2 | 4.507 | 2.499 | .093 |
| Breadth - FG Reps | 11.453 | 2 | 5.727 | 3.310 | .045* |
| Clarity - NONg | 16.331 | 2 | 8.166 | 4.748 | .013* |
| Breadth - NONG | 16.442 | 2 | 8.221 | 4.365 | .018* |
| Approach NONg | 4.071 | 2 | 2.036 | 2.702 | .077 |

* Correlation is significant at the 0.05 level

**Table 12: ANOVA analysis for Host Country on business diplomacy**

|  | **Sum of Squares** | **DF** | **Mean Square** | **F** | **Significance** |
|---|---|---|---|---|---|
| Responsibility - FG Reps | 9.991 | 4 | 2.498 | 2.870 | .033* |
| Means - NONG | 10.109 | 4 | 2.527 | 2.220 | .082 |

* Correlation is significant at the 0.05 level

# Appendix J: Results regression analyses

**Table 13: Regression analysis: Impact firm size on business diplomacy**

| (sub)dimension | B | $t$-value | Significance | SE | N | F | $R^2$ |
|---|---|---|---|---|---|---|---|
| Policy clarity - FGreps | 0.435 | 2.756 | .008** | .158 | 50 | 7.597 | .137 |
| Policy clarity - NONg | 0.401 | 2.607 | .012* | .154 | 50 | 6.797 | .124 |

**Table 14: Regression analysis: Impact global integration on business diplomacy**

| (sub)dimension | B | $t$-value | Significance | SE | N | F | $R^2$ |
|---|---|---|---|---|---|---|---|
| *Approach - FGreps* | 0.450 | 2.937 | .005** | .143 | 50 | 8.627 | .152 |
| Intensity - FGreps | 0.477 | 2.254 | .029* | .309 | 50 | 5.08 | .096 |
| Breadth - FGreps | 0.539 | 2.599 | .012* | .207 | 50 | 6.754 | .123 |
| Means deployment - FGreps | 0.372 | 2.059 | .045* | .181 | 50 | 4.238 | .081 |
| Resources - FGreps | 0.345 | 2.228 | .031* | .155 | 50 | 4.964 | .094 |
| Breadth- NONg | 0.463 | 2.049 | .046* | .226 | 50 | 4.198 | .080 |
| Resources - NONg | 0.345 | 2.228 | .031* | .155 | 50 | 4.964 | .094 |

**Table 15: Regression analysis: Impact local responsiveness on business diplomacy**

| (sub)dimension | B | $t$-value | Significance | SE | N | F | $R^2$ |
|---|---|---|---|---|---|---|---|
| Breadth - FGreps | 0.387 | 2.422 | .019* | .160 | 50 | 5.867 | .109 |
| *Responsibility - FGreps* | 0.265 | 2.228 | .027* | .116 | 50 | 5.237 | .098 |
| Breadth - NONg | 0.413 | 2.433 | .019* | .170 | 50 | 5.917 | .110 |

**. Regression is significant at the 0.01 level.

*. Regression is significant at the 0.05 level.

# Appendix K: Factor analysis

**Table 16: Factor analysis**

| | Component | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Int4a.Often present at opportunities to meet with FG reps | ,939 | | | | |
| Int2a.Meet with FGreps often | ,897 | | | | |
| Int3a.Stimulation of contacting FG reps for trust | ,889 | | | | |
| Int6a.Trying good relation building with FGreps | ,884 | | | | |
| Int5a.Supporting all employees to built relations with FGreps | ,880 | | | | |
| Int1a.Taking initiative in contacting FG reps | ,781 | | | | |
| Sou6.Acceptence of time spent on building relationships with FGreps and NONg | ,727 | | -,393 | | |
| Mea2a.Often represented at formal occasion to built relationships with FGreps | ,688 | | | | |
| Bro7a.Relationshipbuilding of FGreps part of strategic planning | ,682 | | ,399 | | |
| Mea1a.Often represented at social meetings to built relationships with FGreps | ,617 | | | | ,387 |
| Sou2.Activity budget for building relationships with FGreps and NONg | ,534 | | | | ,439 |
| Res5a.Decision freedom of subsidiaries how to build relationships with FGreps | -,521 | | | | |
| Sou7.Supporting events financially organized by NONg stakeholders | ,504 | | | | ,438 |
| Sou1.Providing financial resources for building relationships with FGreps and NONg | ,422 | | | ,335 | |
| Cla2a.Clear policy on sustaining relationships with FG Reps | | ,953 | | | |
| Cla3a.Clear interaction guidelines for executives with FG Reps | | ,934 | | | |
| Cla1a.Clear policy on establishing relationships with FG Reps | | ,917 | | | |
| Cla5a.Open and transparent policy for FG reps | | ,890 | | | |
| Cla6a.Understandable rules and guidelines (FG reps) | | ,885 | | | |
| Cla4a.Executive/top management know-how in contacting with FG reps | | ,691 | | | |
| Bro3a.Sustaining relations with FGreps activity conducted by all employees | | | ,881 | | |
| Bro2a.Establishing relations with FGreps activity conducted by all employees | | | ,872 | | |
| Bro4a.Employee awareness of importance of relations with FGreps | | | ,831 | | |
| Bro5a.Opportunity use of all employees when meeting with FGreps | | | ,811 | | |
| Bro6a.Widely recognition of importance relationshipbuilding with FGreps | ,375 | | ,688 | | |
| Mea6a.Communication of the CSR policy towards FGreps | | ,374 | ,468 | | ,362 |
| Bro1a.All employees considered as representatives when contacting FGreps | ,405 | | ,443 | | |
| Res6a.Reporting of subsidiaries to HQ about meetings with FGreps | | | | ,860 | |
| Res3a.Occasion specificated by HQ when building relationships with FGreps | | | | ,740 | |
| Res4a.Activity approval from HQ for plans sustaining relationships with FGreps | | | | ,735 | |
| Sou3.Providing business diplomacy training for managers in all subsidiaries | | | | ,644 | |
| Sou4.Initiation of a cumulative learning system for business diplomacy | | | | ,561 | |
| Res1a.Centralized policy decision on how to deal with FGreps | | | | ,483 | |
| Res2a.Acting in line with guidelines set by HQ on interaction with FGreps | | ,318 | | ,474 | -,321 |
| Mea7a.Sponsoring activities organized for relationshipbuilding with FGreps | | | | | ,844 |
| Mea4a.Use of media channels for promoting corporate image towards FGreps | | | | | ,805 |
| Mea3a.Organizes social meetings to establish relationships with FGreps | ,343 | | | | ,670 |
| Sou5.Employee rewarding for building relationships with FGreps and NONg | | | | ,429 | ,452 |
| Mea5a.Extensive and clear CSR policy for relationshipbuilding with FGreps | | ,338 | ,306 | | ,385 |

Extraction Method: Principal Component Analysis.

a. Rotation converged in 7 iterations.