

The Patterning and Conduct of Multinational Companies' Non-Market Strategy (NMS) in the United Kingdom and Implications for their Performance and Tax Aggressive Behaviour

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Doctor of Philosophy

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Thesis Summary

Hillman and Hitt's (1999) theoretical framework is used to explore the underlying mechanisms through which non-market strategies (NMS) affect firm performance and tax aggressive behaviour. Multiple studies investigating the benefits of NMS unfortunately continue to generate mixed results despite NMS becoming increasingly common (especially amongst multinational corporations) due to widespread agreement that collaboration between firms and governments is required to achieve smarter policies for sustainable economic growth. The United Kingdom (UK) Open Government Dataset is used to identify 480 corporations' political encounters with the UK government between 2012 to 2019. The mean of political encounters (3.04) is operationalised to construct a dummy variable (FPA–Firms Political Approach) to categorise firms' political approach as relational or transactional and General Least Square – Random Effect (GLS – RE) is utilised to conduct regression and Probit models. The results demonstrate that only the transactional approach yields an increase in firms' fortunes and only if it constitutes a unilateral or hybridised (unilateral + collaborative) mode of participation. The relational approach, however, is strongly and positively correlated with tax aggressiveness where 'insider status' with government is a prerequisite. This relationship is strengthened by the moderating effect of firms' age, making older firms conducting a relational approach more inclined toward tax aggressiveness. But firms with considerable numbers of intangibles will also tend towards the transactional approach when prosecuting tax aggressiveness. The research focuses on agency theory, Resource-based View and institutional perspectives to reveal a clear underlying mechanism explaining how firms' performance is impacted when conducting NMS and the approach most conducive to practising tax aggressiveness. More widely, the research shows that different firms need to adopt different strategies according to firm-specific factors and whatever it is they want to achieve. There is no 'one size fits all' mode of engagement (with government) that is automatically superior — both transactional and relational approaches are capable of generating benefits under the right circumstances and any simple valorisation of more corporatist approaches is arguably misplaced.

Keywords: Nonmarket strategy, relational and transactional approach; financial performance, tax aggressiveness

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Abbreviations and Acronyms

CEO	Chief Executive officer
CPA	Corporate Political Activity
CSR	Corporate Social Responsibility
CSI	Corporate Social irresponsibility
FTSE	Financial Times Stock Exchange
LSE	London Stock Exchange
MNCs	Multinational Companies
NMS	Non-Market Strategy
OGD	Open Government Data
PAC	Political Action Contribution
RTD	Resource Dependency Theory
ROA	Return on Assets
RBV	Resource Based View
S&P	Standard & Poor's
TFP	Total Factor Production
TMT	Top Management Team
UK	United Kingdom
US SIC codes	United State Standard Industrial classification codes.
VIFs	Variance Inflation Factors

1 Introduction to the Thesis

1.1 Introduction

Contemporary society continues to witness an increasing interdependence between governments and firms (Dowding, 2012, Dahan and Hadani, 2023). Widespread economic, environmental, and political challenges have contributed to deepening this interdependence (Ramanna, 2015; Porter and Kramer, 2018; Porter et al., 2019). The assumption is that a stronger relationship between business and government can lead to more functional policies addressing global challenges (e.g., environmental and financial crises, war, terrorism, cybersecurity issues). However, investigations into whether or not this is actually the case are sparse (Evans, 1995; Rodrik, 2007; Dicken, 2015). Firms' mantra of sustaining profitability drives market and non-market strategic choices; hence scholars have been keen to focus on establishing how this relationship benefit firms bottom line. Understanding the practices through which firms engage with the state is fundamental to such investigations, and although the literature examining firm–state engagement is plentiful (Lawton et al., 2013), there is still a need to better understand the patterning of such interactions and how they impact firms' outcomes. One key reason for the inconclusive findings of the research is that the interactions between firms and politicians are covert and dynamic. This makes it difficult for researchers to obtain objective data about them, which limits consensus on the best way of measuring engagement. It also creates difficulties in identifying a clear and constructive mechanism that can facilitate understanding about the implications of such engagements for firms' performance. A second reason for the gaps in this research is that the lack of objective data means that there is no universally acceptable way of classifying the pattern of access.

The view that interactions with government are a zero-sum game further complicates the chances of identifying the value that the interactions add to the firm (Elsahn and Benson-Rea, 2018; Liedong et al., 2020; Brown et al., 2022; Dahan and Hadani, 2023). Firms' engagement with government is not performed in a vacuum, it is purposive and implemented by firms in order to achieve policy knowledge and influence. Firms' forays into the policymaking landscape have been branded Nonmarket Strategy (NMS) by the literature (Baron, 1995). Scholars have studied NMS in various policies domains including energy, environmental, public health and taxation (Bonardi et al, 2006; Smith et al., 2015; Brown et al., 2020).

However, tax policy remains pivotal to government – firm relationships because whilst government relies on taxes to finance public goods, firms seek to limit the amount of taxes paid to retain most of their profits. This tension encourages firms to actively engage with government to gather policy information relevant to design tax avoidance schemes (Milyo et al., 2010). A tax avoidance scheme is also called tax aggressiveness because it is a well-structured mechanism designed to mainly shift incomes in jurisdictions with less taxation (close to zero) (Lanis and Richardson, 2012). Hence Firms economic existence and tax sheltering practices can be captured once they operate in countries identified on a 'dot tax haven's list (Beauchamp, 1983; Hines and Rice, 1994; Desai, Foley and Hines, 2016; Jones and Temouri, 2016), tax aggressiveness therefore provides an objective approach to understand NMS - performance relationship. So, although NMS is a relatively well-researched topic, this study adds to academic understanding by using objective data to close the methodological gap and better understand firms' activities. We do this by constructing a dataset that utilises firms' unique identifiers to reconcile their financial information with their pattern of access (relational or transactional) to the UK government, and how they conduct (unilateral or collectively) that access. We thus address the key objective of this thesis, which is to close the gap in the literature by directly and objectively evaluating the implications of firms' NMS activities for their performance outcomes.

We draw on a publicly available database of firms' political access, and operationalise Hillman and Hitt's (1999) theory of political approach to objectively differentiate between relational and transactional political strategies and examine their respective effects on firm performance. To add still more originality to the project, we use a novel performance measure — Total Factor Production — to test the validity of our objective data. This measure has been utilised in literatures but, to the best of our knowledge, this is the first time it has been applied within the NMS literature. We then utilise the data to interrogate the relationship between NMS (relational versus transactional approach) and tax aggressiveness. This is important because the type of relationship between government and firms influences the way in which firms conduct their business. Firms are believed to display certain behaviours based on the support they get from government. Tax avoidance practices are an example of such supported practices, in that politically connected firms can secure backing from government to ensure limited oversight of their tax affairs (Milyo et al., 2010). Hence, tax aggressive practices represent an outcome measurement that helps establish whether firms are on target to meet their overall performance goals (Brown et al., 2020) in relation to NMS. Finally, to the best of our knowledge, we are the first to illuminate the effects of age and intangible assets on firms' political approach and their likelihood of practising tax aggressiveness.

Firms are important actors in the political economy and their activities play a key role in providing employment, creating wealth, and generating the revenue that funds the vital public services upon which society depends (Stuart, 1997; Prahalad and Hart, 2002). As important actors, they possess skills and knowledge that can help governments form and implement smarter policies (Bonardi, 2011). Firms are known for their resource capabilities in terms of finances, tangible assets, tacit and practical understanding on the ground, technological knowledge, employment creation, and the provision of desirable and essential products and services. These resources are often branded as political resources because they constitute an incentive for governments to invite firms into the policymaking arena whilst also stimulating firms to acquire more political resources (Doh et al., 2012). However, the growing tendency for firms to be politically active has attracted considerable attention from scholars, who are investigating whether such interactions benefit either or both parties, and if they generate outcomes that meet wider public interests (Aggarwal et al., 2012; Hadani, Dahan and Doh, 2015; Sun, Hu and Hillman, 2016; Hadani, Bonardi and Dahan, 2017a; Cao et al., 2018; Greiner and Lee, 2020).

Studies investigating the state/business nexus are genuinely multidisciplinary (straddling political science, public policy, and business and management) and interdisciplinary (occupying and synthesising the space between the public and private praxis) (Dorobantu et al., 2017). Whilst scholars from politics, sociology, and public policy describe firms' political behaviour as "lobbying" or "Corporate Political Activity (CPA)" and have sought to establish if the relationship is healthy and in the interests of wider society (Greer, 1991; Hall, 1993; Souza, 1998; Miller and Dinan, 2008; Baumgartner et al., 2009; Farnsworth, 2015), international business and strategic management scholars refer to such activities as Non-Market Strategy (NMS) and seek to analyse how firms' activities within the non-market arena benefits their market performance outcomes (Baron, 1995a; Shaffer et al., 2000; Dahan, 2005; Hadani et al., 2017). This thesis aligns with the latter school of thought by focusing on the UK context to investigate how NMS is patterned and conducted, and to determine its implications for firms' bottom lines.

In this study, we define NMS as the 'firm's concerted pattern of actions taken in the non-market environment to create value by improving its overall performance' (Baron, 1995a: 48). As already noted, there is no shortage of works attempting to understand how firms conduct their NMS and its implications for performance outcomes. One influential study is that of Hillman and Hitt (1999), in which the authors set out their theoretical dichotomy of firms' political strategy formulation and the characteristics that influence

firms' choices of strategy. Their work informs this study, in that it underlies our approach to defining and classifying firms' political engagement. We first define this as relational or transactional, and then we examine whether firms are acting unilaterally and/or collaboratively in the political landscape. As we shall see, whilst these classifications may be straightforward, the opacity of political engagement is such that empirical studies have struggled to clearly operationalise them (Hillman, 2003; Hadani, 2007; Ozer and Alakent, 2012; Hafner-Fink et al., 2016; Kranenburg and Voinea, 2017; Rudy and Johnson, 2019; Fu and Su, 2023).

We recognise that the implications of NMS for firms' performance have been studied before. Some researchers have looked at the relationship between the amount of money spent by corporations on political activities (e.g., Political Action Committee (PAC) contributions, soft money expenditure, and hiring political connected directors) and the corporations' performance outcomes (see Lux et al., 2011 review; Hadani and Schuler, 2013; Sun et al., 2016; Hadani et al., 2017 review; Rudy and Cavish, 2020). However, simply knowing that NMS requires firms to engage in policy negotiations with government to secure policy advantages in the market does not clearly help one grasp the mechanism through which performance is impacted. Some studies provide evidence of the positive effects of political activities on performance outcomes (Cooper et al., 2010; Lux et al., 2011 review; Hadani et al., 2017 review; Rudy and Cavish, 2020) whilst others conclude that it is the personalised, political connections of their directors that are responsible for any benefits (Ihlen and Berntzen, 2007; Coates, 2012; Hadani and Schuler, 2013; Lund and Strine, 2022). Yet other studies argue that political engagement generates limited or even no advantages¹ (Kim, 2008; Mellahi et al., 2016; Sun et al., 2016). The lack of agreement amongst scholars about the impact of NMS (positive or negative; individual or corporate benefits) provides prima facie justification for our study to further investigate the subject with reference to multinational enterprises operating in UK. The increasing need to utilise a clear instrumental approach to explore the mechanism through which NMS influences firms' fortunes cannot be exaggerated, and as Brown et al. (2022: 469) have put it, what is needed if we are to understand the NMS—performance relationship is greater granularity. Hence, we increase the

¹ Businesses ask for lots of things and do not always get their own way, Brexit and immigration policies being two highly topical examples.

meaningfulness of our study by not just using direct accounting measures² but also by using tax aggressiveness as an intermediate outcome measure that provides clear indications of what firms can achieve via NMS.

This thesis makes several contributions to the literature. First, it adds to the limited literature that builds on Hillman and Hitt's (1999) conceptual approach to firms' political strategy formulation. It also adds specifically to the limited knowledge on the impact(s) of the relational or transactional approach towards engagement on organisational performance outcomes. We use the term "relational" to connote a close, ongoing relationship with government (continuous encounters), and the term "transactional" to mean infrequent ad hoc encounters. Each of these strategies requires resources, and theorists have used Resource Dependency Theory and the Resource Based View to analyse firms' resources and the critical resources controlled by governments to comprehend how resources facilitate the extent of interactions between firms and government (Pfeffer and Salancik, 1978; McWilliams et al., 2002; Oliver and Holzinger, 2008; Dieleman and Boddewyn, 2012). Doh et al. (2012: 23) have also defined NMS to relate to the 'social, political, legal, and cultural arrangements that constrain or facilitate firm activity'. Hence contextual factors such as institutional arrangements need to be considered. We meld these three perspectives in this thesis to understand the factors that may affect how firms' political strategies impact on their performance outcomes.

In political strategy models, firms' encounters with government have been deemed to be a proxy for policy influence (Bouwen, 2004; Eising, 2007) and are often utilised as the dependent variable in studies that examine the factors influencing a firm's ability to act politically (De Figueiredo and Tiller, 2001; Hillman, 2003; Hafner-Fink et al., 2016). Firms compete to achieve such privilege and big players can usually leverage their resources (e.g., number of employees, market capitalisation, Return on Assets [ROA], experience, free cash flow, total assets, net margins) to navigate the political landscape (Peng and Luo, 2001; Hadani and

² Isolating the effects of NMS on accounting measures can be challenging because of the numerous other factors that may be affecting performance. Nevertheless, accounting measures (e.g., rate of return on equity, return on assets, Tobin's q) have successfully been used to demonstrate the effect of NMS on performance (Bonardi et al., 2006; Hillman, 2005).

Schuler, 2013). As stated earlier, access — or level of participation — can be achieved unilaterally and/or collaboratively. Our initial review of the literature also shows that firm- and industry-level characteristics (e.g., industry growth and market share, concentration, and regulation) have also been considered in studies that strive to understand levels of participation. Thus, in the empirical studies that constitute this thesis, we incorporate these key variables in our investigation of the patterns and conduct of NMS in the UK, and their implications for firms' outcomes.

In terms of the evidence gathered to investigate our topic, our studies add to the literature by using data that has good internal and external validity. Our research thus contrasts with prior work, in which the lack of objective data was a key drawback. Past studies have mainly used surveys to gauge the frequency of firms' encounters with government to operationalise the relational/transactional approach (Hillman, 2003; Kranenburg and Voinea, 2017). Collaborative and/or unilateral participation have typically been captured using data around whether or not firms act via umbrella bodies. This is neither the time nor the place to address the subjectivity and lack of consistency and reliability around the administration of such surveys, but firms' business association memberships, per se, do not reveal how firms conduct their political engagement. Although taking on such memberships can be entirely voluntary (Hillman, 2003), it might also be an industry norm or even an industry requirement. In any case, the membership of a political association may not necessarily capture firms' active collaborations. Corporations are known to control and manage political behaviour based on their "access goods" or political resources (Bouwen, 2004; Doh et al., 2012) and joining umbrella bodies might simply be an act of regulatory compliance vis-à-vis the sector in which they operate (Coen, 1999; Smith et al., 2015). The methodological flaws of past studies are thus magnified (Akbar and Kisilowski, 2018). This thesis addresses such issues by utilising a growing body of data released as part of the UK Government's Open Government Data Initiative (OGD). The OGD initiative is licensed for use by the public and it can be re-used and redistributed freely and without discrimination (Bates, 2012). Scholars commonly use data from government repositories to conduct their research because such data can confer external validity (which is a limitation associated with survey-led studies) (Chaudhry and Crick, 2002; Attard et al., 2015).

The growing demand for NMS to be regulated has facilitated the availability of data around the interactions between firms and government. Governments recognise that increasing disclosure of information around their activities with firms will pave the way for NMS to be viewed as a legitimate practice, especially in

Europe (Coen, 1999; Hauser, 2011). Scholars in the NMS field have taken advantage of the available data (e.g., Corporate Political Action Committee [PAC] contributions to legislators, soft money, government contracting, and petitions and testimony) to tell the story of corporations' political engagement (Schuler, 1996; Hansen and Mitchell, 2000; Cooper et al., 2010; Witko, 2011). Nevertheless, secrecy in the policymaking arena prevails, as the decision-making process relies heavily on information shared through formal and informal encounters. According to Hillman (2003), firms might offer financial incentives, policy implementation resources, and informational incentives as part of their political strategy to access policymakers and secure desirable policy outcomes. But this line of enquiry is beyond the scope of this thesis, given that the OGD initiative provides limited information about the horse-trading that goes on behind the recorded meetings.

In summary, it can be posited that data constraints and patchy operationalisation of variables have led to a shortage of direct analysis of Hillman and Hitt's (1999) taxonomy of NMS (Hillman, 2003; Shirodkar and Mohr, 2015b; Voinea and Kranenburg, 2018). Indirect measurements such as external lobbying expenditure, PAC contributions, soft money expenditure, and the use of in-house lobbyists have been used as proxies for access and influence (Hadany, 2007; Ozer and Alakent, 2012; Hafner-Fink et al., 2016; Rudy and Johnson, 2019). Therefore, the necessity for a more precise operationalisation of the relational and transactional modes of engagement (unilateral and/or collaborative) remains overdue. This study takes a methodologically worthwhile stand by utilising real-time data around firms' encounters and their modes of engagement to understand the patterning and conduct of NMS in the UK, and how these affect firms' performance outcomes.

Therefore, the research questions we use to frame the gaps identified in the literature are as follows:

Chapter four:

Q1: Is NMS likely to be associated with improved firm performance?

Q2: What is the impact of particular NMS approaches on firm performance?

Chapter five:

Q1: What is the effect of NMS (firms' political meetings) on firm performance measured by Total Factor Production (TFP)?

Q2: How is the firm's performance influenced by its chosen political approach and its chosen participation level?

Q3: How does the combination of chosen political approach and participation level shape firm performance?

Chapter six:

Q1: Are tax aggressive firms likely to access government corridors and/or practise NMS by taking a relational approach to political meetings?

Chapter four is designed to empirically assess the validity of our unique dataset by reference to Q1. We directly test the implications of firms' political meetings on firm performance in relation to widely accepted performance variables (ROA and Tobin's q). Given the methodological flaws of past studies, this helps objectively assess the immediate NMS–performance relationship. Our main variable, political approach, is then used in Q2 to empirically test the effects of the relational versus transactional approach on performance.

Chapter five introduces a new performance measure, Total Factor Productivity (TFP), to the NMS literature. We utilise this in Q1 to test the direct relationship between firms' meetings and TFP performance. Then the two strategic choices made by firms are tested separately in Q2, in which we look at access patterns and levels of participation, and how they affect performance. In Q3 we reconcile political approach with participation level to pinpoint how these two combined strategic choices impact firms' performance.

The very detailed analytical approaches taken in chapters four and five are important because they allow us to meticulously assess and interrogate our dataset. We can thus potentially overcome the limitations of past studies by presenting a clear mechanism through which NMS influences firms' performance. We then build on this by putting the relational and transactional approaches to the test in chapter 6. We utilise an intermediate outcomes measurement (tax aggressiveness) to understand whether either political approach (transactional or relational) influences the likelihood of a firm acting in a tax aggressive manner. Firms tend to make sure that their chosen mode of political engagement aligns with their overall business strategies. So, whilst the relational approach shapes the stance that firms might take on a particular issue (and allows

a degree of flexibility into their market strategies), it is the firm's stance on an issue that will motivate them to engage in politics, and thus cause them to adopt a transactional approach.

Although other actors such as NGOs and umbrella bodies engage with government and governmental agencies, this thesis focuses on big multinational Companies (MNCs) because these are considered to be well-resourced firms that are capable of providing relevant expertise to policymakers (Eising, 2007). We can understand firms' political activity — and its effectiveness — in three ways: more encounters, more participations (collaborative and unilateral), and influence on performance. Since the 1980s, corporations have been becoming increasingly competitive, and the maturity of some Western markets has led to an increased reliance on government regulations to sustain competitive advantage and reduce costs (Rugman and Verbeke, 1998c; Bonardi et al., 2005; Drutman, 2015). A rich body of literature has identified an array of characteristics at firm- and industry-level that are deemed deterministic of a corporation's ability to engage with and maintain political activities (Meznar and Nigh, 1995; Hansen and Mitchell, 2000; Blumentritt, 2003; Hillman et al., 2004; Liedong and Frynas, 2018). The variables used in this thesis are theoretically grounded and drawn from these past studies, which have also informed the hypotheses that will be tested to answer the research questions.

At this stage it is important to stress that this thesis is also testing existing theory, using better and more objective data rather than perceptions. The literature review has guided the building of our hypotheses, which are addressed in the three main empirical chapters. Each chapter draws on comprehensive reviews of the NMS literature to provide insightful discussions around the determinants of firms' political approach, their level of participation, and whether or not such activities are beneficial to their bottom lines. The increasing nature of corporations' political embeddedness has been monitored closely by the literature, which gives considerable emphasis to identifying corporations' action repertoires. The public sphere is dynamic, and firms understand that they must constantly scan their operating environment to keep pace with changes and tendencies within society. They do this in order to tailor their market activities and retain their influence on government. Resource Dependency Theory (RDT), Resource Based View (RBV), and work on institutional contexts by theorists such as Pfeffer and Salancik (1978), Barney (1991), Griffin and Dunn (2004), and Sutton et al. (2021) are utilised to develop a narrative that describes and scrutinises the NMS phenomena. As discussed above, resources are central to the conduct of NMS, and firms and industry

characteristics have been helpful in identifying key variables that are likely to facilitate firms' political behaviour.

1.2 Brief Overview of the Methods Used

In the methodology chapter, we address the who, what, why and how of this study (Murray and Beglar, 2009). The chapter gives details of the participants, the data gathering processes, and the analysis procedures. We use a quantitative stance to clearly operationalise and identify the extent to which firms in the UK operationalise their political activities, looking at the key characteristics influencing such behaviour and their implications for performance outcomes. By scrutinising the direct encounters between firms and the UK government, we are able to better operationalise firms' political approach and level of participation. We can thus contribute to filling a persistent methodological gap in the NMS literature. For data collection, we interrogate OGD, which discloses the recorded encounters between firms and the UK Government, as well as ORBIS, DataStream, Financial Times Stock Exchange (FTSE) and Bloomberg to retrieve potential multinational firms and build a longitudinal dataset covering 10 years of observations (2011 – 2020)³ of firms' key variables.

To ensure robustness and consistency, we follow established approaches to analyse the dataset (Arifin et al., 2020). Therefore, in the first two empirical chapters we estimate the models using Generalised Least Square (GLS) Random Effects, controlling for year and industry effects to partially mitigate for endogeneity and account for firms' unobserved fixed effects (Baltagi and Chang, 1994; Singer, 1998; Pathan, 2009; Arifin et al., 2020). We control for firms' headquarters locations to account for heteroskedasticity. Political approach is operationalised through establishing the mean of firms' number of meetings to create a dummy variable, in which relational approach is coded as one (mean > 3.032795), and zero is the transactional approach (Hillman, 2003; Kranenburg and Voinea, 2017). Since the number of encounters is a key variable representing firms' NMS behaviour, the first two estimation models from chapters 4 and 5 are used to secure rigour, and ensure that the analyses account for a possible loss of information when we later

³ This was helpful to lag the variables due to the investigating period of firms' political meetings spanning between 2012 - 2019

turn the dependent variable into a binary (Shuler et al., 2002; Pathan, 2009; Jones and Temouri, 2016). We also used a dynamic panel Generalised Method of Moments (GMM) model to account for endogeneity and check for robustness.

In chapter six we use Probit models to conduct the analyses. The dependent dummy variable, tax aggressiveness, is constructed based on the Hines and Rice (1994) list of 'dot tax havens' jurisdictions. A firm takes the value of one and is considered to be tax aggressive if it has at least one subsidiary in a country from the list, and zero if it does not. Additionally, we run two interaction terms between the political approach dummy and firm-level variables (age and intangible assets) to investigate their moderating effects on firms' tax aggressive behaviour. As a robustness check, we use Jones and Temouri's (2016) 'dot tax havens' list to construct an alternative tax aggressiveness dummy.

1.3 Key Findings

This study uses broad brush strokes to look at the pattern of political meetings secured by firms over 8 years to argue that NMS is common practice in the UK, with firms using a relational or transactional approach to access government corridors. Hillman and Hitt's (1999) theoretical framework has guided this study and helped us to demonstrate that the relational approach is not an attractive shareholder value-added approach. The transactional approach benefits firms' bottom lines better. This is also confirmed in chapter 5, which also offers strong evidence that under a relational approach, firms participate both unilaterally and collectively on the political landscape. This is not cost-effective and has negative influence on firm performance. Our findings are in line with past studies arguing that just like in the market environment, NMS requires firms to deploy valuable, rare, inimitable, and non-substitutable resource capabilities to access government corridors (Wernerfelt, 1984; Barney, 1991; Holburn and Zelner, 2010). The cost implications for this are considerable and might outweigh the benefits gained from policy capture. Under Barney's (1991) distinctive resources capabilities framework (valuable, rare, inimitable and non-substitutable) we therefore argue that a unilateral, transactional approach is the best way of interacting with government. This approach provides firms with the opportunity to advance policy ideas in a sophisticated manner. It is also relevant to note that the relational approach represents a clear antecedent for firms' decisions to act collaboratively. This is because the relational approach requires continuous

meetings, and firms will sometimes wish to legitimate their policy claims by conducting some of those meetings in collaboration with other interested parties (Hillman, 2003).

Firms' NMS strategic choices lie in the hands of top managers, whose personal motives can shape NMS decisions. This is supported by our empirical studies as, by taking a longitudinal perspective, we realise that some managers continue to pursue the relational approach despite its negative effect on firm performance. We therefore join existing studies in asserting that other motives, such as agency issues, can be the reason for enacting NMS rather than performance improvement goals (Coates, 2012; Hadani and Schuler, 2013; Nalick et al., 2023).

The UK's institutional specificities have been found to shape "whether" and "how" NMS is practised. The pluralist nature of the UK's political landscape enables firms to exercise full control over their non-market strategic choices. Hillman and Hitt's (1999) framework of (i) political approach and (ii) participation levels are all present in the UK context, signalling a *laissez faire* environment where top managers' decisions are shaped by their personal inclinations, which might also emanate from the need to conform to the embedded rules and norms of such settings. Politically active firms generally conduct their interactions with government along similar lines. Given the latitude displayed by firms in their NMS approach this study aligns with past studies which argue that institutional isomorphism is also at play here, and shapes firms' NMS decisions (DiMaggio and Powell, 1983; Oliver, 1991; Hillman, 2003; Oliver and Holzinger, 2008).

Looking at taxation policy, our findings are in line with Kim and Zhang's (2016) argument that politically active firms tend to be tax aggressive. However, we make a unique contribution by identifying the relational approach as a determinant of tax aggressiveness. Firms that have continuous interactions with government tend to be strongly immersed in tax-sheltering planning strategies. We further identify a strong positive moderating effect of firm age on such behaviour. We also identify that intangible assets are a deterrent to the relational approach, in that firms with more intangible resources tend to interact only sporadically with government.

1.4 Contributions

Given the secrecy around NMS (Getz, 2002), the originality of this study lies in its use of direct data on firms' encounters with government in the UK. The study advances our knowledge of how NMS is patterned and

conducted in the UK, which could potentially benefit practitioners who are seeking to become actively involved in government policymaking. This is a major contribution, and one that is required if we are to begin to address the “black box” issue of the process through which performance is affected (Hillman et al., 2004; Lawton et al., 2013).

Our identification of the direct impact of relational versus transactional approaches on firm performance, and our examination of how the chosen approach combines with participation mode, advance our knowledge about the mechanism through which NMS influence firms’ performance. This study also adds to knowledge by highlighting how varied political strategies generate different performance outcomes. Whilst we reinforce the key role of top managers, we note the fact that institutional arrangements facilitate and constrain firms’ political strategies and affect the NMS–performance relationship. This is relevant to addressing the context-specific nature of NMS, as firms’ political manoeuvres are circumscribed by the prevailing institutional arrangements (Hillman, 2003; Oliver and Holzinger, 2008). The relational approach is identified as a strong predictor of both unilateral and collaborative participation. Hence, we contribute to the literature by addressing recent calls from Brown et al. (2022) to identify potential antecedents that shape firms’ decisions to act collectively.

We contribute to tax studies by identifying the relational approach as a determinant of tax aggressiveness and by showing how firm age positively moderates this relationship. We advance knowledge also by demonstrating that possessing high levels of intangible assets reduces a firm’s dependence on government. This study highlights the common practice of firms’ tax aggressiveness in the UK. According to Christensen and Murphy (2004), firms fulfil their social contract by paying fair amounts of taxation, which contribute to maintaining and improving nation states’ economic development needs. The detrimental effects of tax aggressiveness on social welfare have been extensively documented by the literature. Therefore, this thesis also indirectly contributes to the Corporate Social Irresponsibility (CSI) literature; more importantly, it adds to the emerging debate around the “welfare effects” of NMS on society (Bombardini and Trebbi, 2020; Gehl and Porter, 2020, Temouri et al., 2021).

1.5 Structure of the Thesis

In chapter two, we engage deeply with the literature to establish the state of knowledge of NMS. In chapter three, we describe the methodology used throughout this research.

Chapter four is the first empirical chapter addressing the NMS–performance relationship, and it is where our relational versus transactional approaches are put to the test, utilising two accounting-based performance measures (ROA and Tobin’s q). Chapter five is the second empirical chapter, in which we examine two strategic choices of Hillman and Hitt (1999) — political approach and participation level — in relation to the Total Factor Production (TFP) performance measure. Chapter 6 is the third and final empirical chapter. It adopts an alternative measurement of performance outcome by scrutinising the NMS–tax aggressiveness relationship. It also examines the moderating effects of age and intangible assets on this relationship.

Chapter seven provides a summary of the thesis, highlighting the key findings, answering the main research questions, identifying the main methodological implications, and providing suggestions for further research. Understanding how interactions with governments unfold could provide organisational researchers with valuable insights into firms’ NMS, and arm managers and policy makers with critical knowledge when shaping industrial policy.

2 Overview of Conceptual Frameworks, Main Theoretical and Empirical Discussions

2.1 Introduction

This chapter seeks to understand the patterning, content, and conduct of NMS at the level of the firm. It reviews the literature using a critical approach, through which we engage with relevant theoretical frameworks and empirical studies. We thus better comprehend how the firm's approach to political activity influences its performance outcomes.

First, however, we elaborate on why the study of non-market strategy (NMS) is necessary, and why further lines of enquiry are warranted. Whilst NMS is the focus of this thesis, it is important to set the scene by giving a brief overview of the (policymaking) context in which NMS takes place. This is relevant because economic and industrial activities are structured through policymaking; thus, NMS provides firms with incentives to be part of the policy decision-making process. We then move on to define NMS, depicting what we think we know about it through an analysis of how it is undertaken and by whom. The influence of the firm's operating environment on its NMS will also be discussed. Key elements and theories are considered within a conceptual framework to gauge NMS processes, and we introduce the gap in knowledge around the implications of political activities for firms' performance.

2.2 Importance of the Thesis

2.2.1 Understanding the Rise of NMS

Several researchers have noted a significant increase in firms' non-market activities (e.g., Hillman et al., 2004; for a review, see Dahan and Hadani, 2023). Nor is the interest in NMS limited to academics. Recent news has highlighted the interactions between UK's Government and corporations, noting the privileged access that some firms have to Government departments (Hennessy, 2000; Foster, 2005; BBC News, 2021). The proliferation of corporate actors in the policymaking arena encourages them to act unilaterally or via coalitions (including interaction coalitions and the joint deployment of resources) to influence policy. This may be in relation to existing policy issues that affect their market activities or by proposing policy initiatives (Dyer and Singh, 1998; Wagner, 2012; Smith et al., 2015) to achieve particular business objectives. Firms are

valuable contributors to the delivery of smarter regulations and, according to Baron (1995) and Lawton et al. (2013), this has led to a significant increase in NMS as a stand-alone strategy for business to secure desirable outcomes (e.g., access to grants, loans, subsidies for R&D, government contracts, or price support and tariffs) (Hansen, 2000; Bonardi et al., 2006; Ozer and Markóczy, 2010). The pivotal role played by firms in the economic growth strategies of countries encourages governments to support industrial sectors with public goods, regulations, or policy initiatives that allow firms to prosper. As such, firms' competitive advantage can be secured using NMS (Drutman, 2015). Firms can offer resources (e.g., expertise and information) that can feed into governments' economic agendas. Indeed, Bonardi (2011) argues that these resources function as a tool, shaping competing firms' ability to access policymakers.

Most of the existing literature investigating lobbying tends to homogenise non-state actors, primarily distinguishing between them through their strategies and influence (Hillman and Hitt, 1999; Dahan, 2005; Hadani et al., 2017). Theorists such as Coen (2007) typically classify actors as 'insiders' (those with regular access to policymakers, which is associated with the relational approach) or 'outsiders' (those with ad hoc access, which is associated with a transactional approach). Scholars also use resource-based and/or dependency analyses to identify the actors' different repertoires of actions (Boddewyn and Brewer, 1994; Baron, 1995; Rugman and Verbeke, 1998; Shaffer et al., 2000; Hillman, 2005; Wagner and Anastasiadis, 2014). Firms' access to political elites is an increasingly active area, but studies generally focus on why firms engage in NMS. There is little research into the relationship between (i) the types of approach taken by corporations to interact with government and (ii) their outcomes; that is, on whether or not NMS actually works. This thesis is intended to fill this gap.

2.3 Setting the Scene

2.3.1 The Regulatory Landscape and its Relationship with NMS

Firms are constantly looking at ways to be more profitable through their market activities, but these can be challenged by regulatory constraints. Both management scholars and firms are aware that government regulations play a key role in the ability of business to remain competitive. From the regulatory perspective,

governments have limited expertise⁴ and resources to adequately deliver policies that support firms' initiatives while also meeting the wider public interest(s). Given these pressures, corporate actors' interaction with state actors is a common practice that occurs at all stages of the policy cycle (Bernhagen and Trani, 2011; Sabatier, 1999), and many firms have a business strategy of engaging routinely in NMS rather than of making occasional and ad hoc forays into politics (Harris and Lock, 1996; Schuler, 1996; Schuler et al., 2002). The increase in businesses' non-market strategies reflects a growing economic concern across society and scholarship about the so-called corporate welfare (Farnsworth, 2015, Berry and Hay, 2016), and a dynamic, burgeoning, and (de)regulatory agenda which requires regular collaboration between government and business. Farnsworth (2015) argues that because government is keen to provide incentives such as tax breaks, subsidies, and better infrastructure to firms in order to stimulate investment, corporate welfare has taken precedence over social welfare. However, firms must be proactive and compete with one another in order to access many of these opportunities. Thus, this literature review examines the NMS processes of big firms that allow them to achieve desirable outcomes with government. However, before we can do this, and thus facilitate our understanding of NMS, we first need to define the term.

2.3.2 Defining Non-Market Strategy

There are competing definitions for non-market strategy. Baron (1995a: 48) defines it as the 'firm's concerted pattern of actions taken in the non-market environment to create value by improving its overall performance'. This definition understands NMS as a mechanism that put in place by firms and/or groups of firms to nurture good relations with external stakeholders—including government—in a landscape that is non-market or socio-political, but which is nevertheless capable of influencing the firm's activities (Getz, 1997; Hillman, 2003; Lawton et al., 2013). Similarly, Mellahi et al. (2016: 143) define NMS as 'a firm's concerted pattern of actions to improve its performance by managing the institutional context of economic competition'. The above definitions emphasise firms' patterns of actions in particular settings, and this highlights the fact that there is a connection between firms' conduct and the environment in which the firms are operating. For instance, firm involvement with the media (Baumgartner et al., 2009) and/or direct

⁴ In the sense that partial solutions are more common than total solutions. Thus, meeting one need or solving a particular problem often means that a need elsewhere remains unmet, or that a new problem is created elsewhere.

involvement with the public is common in Western institutions. Such involvement is designed to shape views on specific policy issues (Marsh, 1986; Barnett and Gaber, 1992).

Firms therefore tend to adapt their actions to suit the particular contexts in which they operate. Lawrence (1999:186) views NMS as 'institutional strategies utilized by organizations to achieve competitive advantages and shape rules to their own advantage'. These strategies can involve direct or indirect (e.g., third-party) contact between corporate actors and public elites, and they may be formal or informal (Getz, 2002; Lawton et al., 2011). That NMS occurs throughout the policy cycle reflects businesses' need (and ambition) to exercise influence over the whole political and economic environments within which they operate. Although "non-market strategy", "corporate political activity", and "lobbying" are used more or less interchangeably in the literature, Lux et al. (2011) and Liedong et al. (2017) argue that NMS and lobbying are mainly concerned with firms' engagement with institutions and policymaking processes that are explicitly political. Hutter (2006) also rightly argues that while NMS is a common activity performed by a wide range of interest groups, access to the policymaking elites is dominated by corporations.

Based on these above definitions, we can argue that NMS comprises a set of actions pursued by firms and/or groups of firms to nurture relations with external stakeholders, including government, in a non-economic landscape that influences their activities. It can therefore be defined as firms' actions to establish a mechanism of exchanges with government to achieve objectives such as eliminating a perceived threat (e.g., unwanted legislation) or generating a more favourable operating environment (e.g., lower business taxes). These should be seen as benefits that come to the firm directly via the environment within which they operate, and which pave the way for better performance. Although NMS has been observed using theoretical frameworks initially intended to comprehend interactions between government and firms (Boddewyn, 1993; Baron, 1995; Coen, 1999), recent studies acknowledge the corporate-specific factors affecting firms' motivations and their repertoire of preferred actions (Eising, 2007; Chen et al., 2015; Drutman, 2015). Thus, the actual NMS activities that are conducted at firm-level need to be understood, and we address these next.

2.3.3 NMS Process

Strategic decision making is a dynamic process and can best be understood by looking at firms' strategies in term of firms' observable actions rather than by speculating about the intentions of executives (Mintzberg, 1979; Weiner and Mahoney, 1981). Scholars in the field of strategic management have made several empirical findings from looking at the characteristics of organisations and their top managements to comprehend how these influence the organisations' strategic choices and performance outcomes (Cho and Hambrick 2006; Henderson et al., 2006; Hutzschenreuter and Horstkotte, 2013). The NMS strategy process has therefore been understood as offering a practical way for management studies to investigate firms' patterns of actions directed at stakeholders (e.g., government) through an examination of their strategies and tactics for securing and maintaining access, especially in the non-market field (see Lawton et al., 2013; Hadani et al., 2017). The crucial point has been to establish the mechanism of firms' access to government. According to Eising (2007), access patterns can be investigated through several scopes.

It is important to acknowledge the institutional and political *mise en scène* in which NMS takes place, and also its constitutive prescribed rules, cultures, and norms (Schmidt, 1999; Hall and Soskice, 2001; Hillman et al., 2004). Bouwen (2002) argues that firms offer different forms of expertise to government. These constitute access goods, which can, like any other goods, be 'traded'. But if we extend the analogy, access goods will fall in and out of (government) demand depending, *inter alia*, on the political priorities of the day⁵. The domain or sectoral specificities⁶ that shape the rate and type of firms' engagement with government must also be considered (Falkner, 2016). Finally, the strategies and tactics of different firms must be explained, and the approach taken by the firm (i.e., transactional or relational) must be identified, Antecedents at firm and environment level (e.g., national, and industrial contexts) need to be borne in mind to understand the firm's ability to be politically active. Thus, the process of NMS has been studied by the literature through various theoretical lenses, with which we will now engage to further depict the NMS process.

⁵ For example, the prevailing social, political, economic, and industrial trends.

⁶ Structure of the industry (regulation opportunities or constraints)

2.4 Theorising NMS

Hillman and Hitt (1999) argue that it is insufficient to comprehend why firms engage in corporate political activity (CPA); it is equally important to know how (and this includes how often) they engage with government. To this statement, we add that it is important to understand which firms do so. Several theories have guided and informed NMS studies. Key theoretical lenses include the institutional, agency, and network-based perspectives; coalition theory; transaction cost analyses; and resource (dependency) theories (Richardson, 1993; Jordan, 1991; Smith, 1995; Boddewyn, 2003; Dahan, 2005a, b; Windsor, 2006b). We now discuss each of these in turn.

2.4.1 Institutional Theory

Institutionalist perspectives recognise that policymaking occurs within institutions that are themselves part of a wider policymaking landscape. Institutions are the “black box” into which inputs flow and outputs (i.e., policies) emerge. Institutional theory holds that it is vital to consider the specific context in which NMS takes place because firms adapt to the prevailing norms within their environment. As such, their NMS behaviour is aligned with the institutional structures and the beliefs and cultures that prevail in their environment (Boddewyn, 1993; Jackson and Deeg, 2008; Boddewyn and Doh, 2011; Sun et al., 2012).

Institutional rules have implications for nurturing a certain path of behaviour, which emanates from the rules to become norms (Ostrom, 1986). Existing norms and values within institutions also have implications for the type of players that are attracted to the game (Hillman and Keim, 1995). So, managers that navigate a political setting will adhere to the norms and values embedded in such environments. After all, Shneider (1987) argues that institutional informal constraints do not happen in a vacuum; they reflect the behaviours of the institution’s players.

Institutional rules are there to preserve the status quo in that actors’ rational behaviours are more reflective of common existing pattern of behaviours. The theory of rational choice argues that an individual’s actions reflect their pursuance of goals, which is contextual. According to Ostrom (1986), rational choice within the institutional boundary does not only reflect the rules of the game; it also reflects the capability of the actors to influence those rules. As such, the institution that sets the rules is subject to the influence of the actors (Miller, 2000). Norms and values are reflective of the prevailing institutional system of nation states, and they influence conformism (DiMaggio and Powell, 1983; Oliver, 1991) in that they are the rules that

circumscribe behaviour: what the members of that nation state can and cannot do. Breaking the rules can result in negative sanctions (e.g., not securing access at government level). We can therefore regard institutions as the formal “rules of the game”.

The game also has an informal set of rules: the traditions and customs that shape our interactions and society. Such rules may not be written down anywhere, but they still constrain actors on the policymaking landscape. They shape behaviour and there may be consequences for lack of adherence to tacit customs. Structures or patterns of behaviour therefore emerge for people to follow. Like the formal practices and procedures that are found within institutions, these informal rules transmit powerful messages for how those operating within the environment should behave. When the environment is made up of a variety of interests and/or powers, it can be described as pluralist. As we explain next, pluralism, as a political system, lends itself very well to explaining how power is enacted within the broader context of the political structures in which policymaking takes place.

2.4.2 Pluralist Political Structure

Pluralism affords insight into the institutional design to which firms conform as they undertake their NMS. In pluralist systems the full range of non-state actors are free to participate in the policymaking process using a range of NMS tactics (Hauser, 2011). Pluralists argue that the state is — or ought to be — relatively porous. Access to government—and influence—should not be allowed to become concentrated in the hands of a relatively limited number of corporate actors (Grant, 1995), and this means that access should be permitted to all. At the same time, according to Kooiman (1993) and Baldwin et al. (1998), public policy problems are complex, and so are the policymaking processes. Therefore, it is not unreasonable to expect participation to be dominated by corporations that possess the expertise to make effective contributions. For instance, the industrial policies of countries such as Singapore, Malaysia, Thailand, and Vietnam were successful largely because their respective governments afforded multinational corporate actors privileged access to government and policymaking, which allowed firms to develop technological capabilities (Amsden and Tschang, 2003; Felker, 2003; Jomo, 2004). Corporate actors can possess invaluable resources to deliver on “smart policies” that are capable of securing growth in strategic economic sectors; their contributions are considered carefully by government. Hence, competition between actors to provide unique resources to government remains the dominant value in pluralistic settings.

Grant (2000) argues that power is not always distributed equally across society and that within the policymaking landscape, certain firms exercise greater influence than others. This neo-pluralist view also holds that the state should be seen as an interest in its own right (Hall, 1993), and a particularly powerful one at that (Mahoney, 2004). Although pluralists do not oppose the practice of NMS, the implications are clear: NMS can become dominated by a minority of particularly powerful corporate actors who are able to use their insider status to argue for policies that reflect their own self-interest rather than the interests of wider society (Miller and Dinan, 2008). Hence, individualistic behaviours represent the norms in pluralistic nations, whereby groups and/or individual actors' channel fragmented interests through the political arena (Coleman, 1988). The concerns that NMS can confer influence through strategies ranging from "pay to play" through to outright corruption (Gregor, 2011) informs demands that NMS (and lobbyists) must be regulated.

That being said, regulation has been perceived as coming with risk. According to Drutman (2015), any attempt to construct a US-style authorised list of lobbyists — which lobbying firms must pay a fee to join — could still be misinterpreted and abused to favour particular firms, which in this case will inevitably be those with the most resources (Hansen and Mitchell, 2000; Gregor, 2011). The fact is that most countries have firms that engage in significant levels of NMS regardless of the level of regulation. Pluralism therefore represents the formal constraints (rules of the game) to which actors (in our context, firms) must conform in order to conduct NMS; this informal constraint is what shapes their behaviours (North, 1990). However, the NMS norms can differ across pluralist systems. Coen (1999) identifies important differences in the transparency practices of the US and EU. Despite the high presence of US firms in the public affairs offices of Brussels in the late 80s and early 90s, Coen argues that the EU's policymaking structures, and culture have shaped firms' NMS behaviour by encouraging them to take a collaborative approach to the process. In contrast, NMS conducted within the US is more inclined to a 'free rider' approach, in which businesses compete to have full-on access to policymakers.

Mahoney's (2008) work offers further evidence for Coen's (1999) findings. Mahoney argues that in the US, NMS is understood as a permanent practice with a high degree of legitimacy but that the actors tend to take a confrontational attitude that is mainly aimed at stopping unwanted government policy instead of geared towards constructing partnerships. NMS is also legitimate at the EU level, where it takes on a somewhat consultative and consensual approach. However, even this approach is not necessarily inclusive,

participation being dominated by a specific number of influential corporate actors who have offices located close to Brussel's corridors of power (Hauser, 2011; Barron et al., 2017). Thus, different cultures of NMS exist at institutional levels, and they have implications for who participates, how they do so, and their likely impact on decision-making processes. As such, Hayes (1992) argues that competition remains the prevailing value in pluralistic settings, and Coleman (1988) and Mutha and Lenway (1994) insist that individualistic, self-driven interests represent the embedded norms. This thesis is focused on the UK setting where scholars argue that a "weak" pluralist system (neo-pluralist) prevails, reflecting the dominance of big corporations in the policy arena. Hence this informs our choice of focusing in this thesis on corporations' patterns of access to government. However, we also need to understand how other motives might influence the way in which firms participate in NMS. We do this now by examining another set of theories.

2.4.3 Coalition and Network Theory

NMS is conducted within a crowded political opportunity structure populated by a variety of state and non-state actors who meet and interact with each other (Hauser, 2011). Although coalition and network theories explain how this is conducted, transaction-cost theory emphasises the desirability of such collaborations. According to Hojnacki (1997) and Obach (2002), for example, non-state actors may be "weak" or "strong". Coalition theory suggests that weak groups need strong groups to press their claims with governments, but strong groups do not need weak groups and can act alone as free riders (Salamon and Siegfried, 1977; De Figueiredo and Tiller, 2001). Further, coalition-building is a resource-intensive activity upon which groups do not embark lightly. Coalition theory therefore suggests that non-state actors' propensity and ability to lobby may be circumscribed by inter alia their power relative to the power and influence of other relevant groups (Smith et al., 2015).

Network theory examines the idea of interdependence in more detail. According to Rhodes (1997), non-state actors may coalesce into networks in order to promote their interests; this can allow them to aim for goals that are beyond individual members acting alone. Networks vary in terms of membership, cohesiveness, size, porosity, influence, and stability, and power may not be evenly distributed within the network (Harris and Lock, 1996). Rhodes insists that such networks constitute a system of governance that is exercising growing influence over the policymaking process. This has been referred to by Bouwen (2002: 368) as an 'exchange relationship between interdependent organizations. Thus, coalition theory and the network model both suggest that lobbying does not occur in a vacuum. It is a contingent activity that

happens in a crowded political system that circumscribes precise behaviours; as such, it may reflect the resources and interdependencies that exist between different actors.

Network and coalition theory can also be applied at industry level. Industry-level factors may influence firms' desire to coalition build. NMS may be patterned according to industry-level characteristics. Large, economically powerful industries that contain a smallish number of large, politically influential, and resource-rich firms are highly likely to engage in NMS. Indeed, the neo-pluralist setting encourages them to do so to a far greater degree than the smaller industries that are not regarded as strategic and which lack powerful individual actors (Salamon and Siegfried, 1977; Schuler et al., 2002a). The bargaining power of an industry (e.g., trade, income, employment, degree of firm internationalisation, etc.) and its number of strategic firms will influence its NMS prowess. Early quantitative empirical studies by Salamon and Siegfried (1977)—which draw on Olson's theories regarding collective action — argue that industry-level factors and the institutional structure may influence an individual firm's decision to either engage in NMS or to free ride and create a competitive advantage for certain groups within the industry. The theory recognises that free riding is more common in collective action scenarios (where there is coercive authority or one that is weak) with lots of actors. First, because it is more difficult to co-ordinate the activities of many actors than it is to coordinate the activities of a few. Second, because the advantages of non-compliance/free riding are concentrated in the transgressors, but the costs are widely dispersed across all the actors. For example, a case study by Shaffer and Ostas (2001) illustrates a battle of interests within the US manufacturing industry, in which highly concentrated automotive manufacturers coalesced to compete against dispersed automobile dealers with regard to the lemon laws (legislation aimed at protecting the purchasers of defective new cars).

Nevertheless, Salamon and Siegfried (1977) argue that political resources such as level of concentration and profitability are key elements that influence NMS activities at industry level. This is relevant for the UK automotive industry, which comprises clusters of firms, the most influential of which contain several MNCs that are potentially capable of dominating decision making within the industry (Rugman and Collinson, 2004). The political activism of large firms may therefore be attributable to high levels of competition between them at industry level (Rehbein and Schuler, 1999; Boddewyn, 2003; Husted et al. 2012). This signals that researchers should control for industry-level variables (e.g., level of concentration) to better comprehend firms' NMS behaviours.

2.4.4 Transaction Costs and Venue Shopping

The motives of firms to act individually or collectively can also be understood by looking at theories related to transaction costs and venue shopping. Transaction-cost theory regards information as a good that may (or may not) be exchanged depending on its nature. Certain information can be very sensitive, especially if it is core to a firm's business activities (i.e., it is proprietary information), in which case firms may be reluctant to engage in collective NMS and will be more inclined to free ride. Also, firms can decide not to lobby at all if they do not trust regulators with their information or if, through venue shopping, they can identify alternative and more powerful targets for their non-market activities.

Venue shopping is a strategy that firms can use to voice their policy preferences, especially when there is fierce competition around policy issues (Hillman, 1999; De-Figueiredo, 2001). A change of venue may be appropriate at various stages of an issue's life cycle if the firm considers that switching venue would be advantageous. Hence, the methodologies used in this thesis will draw on the Open Government Database to explore corporations' access to all UK's Government departments via formal and informal routes on a longitudinal basis.

2.4.5 Resource-Based Perspectives

A rich body of literature has considered firms' resources and their propensity and capacity to engage in NMS. Firms not only vary in terms of what they have to offer but also in terms of their capacity to engage in political activities. NMS can be labour intensive and expensive, requiring considerable expertise and resources that not every firm will possess or be willing to expend (Getz, 2002). Factors such as firm size (whether measured by number of employees or turnover), corporate strategies (financial capability, information, benefited by policy implementation, and levels of diversification and internationalism) and political ties (top executives' political expertise, presence of an in-house public affairs department) have been used as proxies for political resources (Schuler and Rehbein, 1997; Dieleman and Boddewyn, 2012; Barron et al., 2016) and may determine firms' decisions and abilities to engage in NMS. Political ties can also be aligned to the concept of the revolving door, which is the term for when an ex-politician works for a firm they once regulated. The idea that these resources can be understood as political resources comes from the fact that empirical studies show that (mainly big) firms tend to utilise their resources (market capabilities) in the political landscape to improve their competitive advantage (McWilliams et al., 2002).

According to the resource-based perspective, the firm's resources include finance, information, market share, level of diversification, uniqueness/competitiveness, capabilities, assets, expertise, and know how). Early examinations of political resources observed that firms sought to increase their usefulness to government (and thus their influence) by establishing in-house public affairs departments, hiring lobbying experts, and employing senior managers with political ties. Big firms could thus establish an "informational relationship" with government that would underpin their political prowess (Attarca, 2000; Blumentritt, 2003; Dahan, 2005a).

From the focus of the above studies on big firms, it is becoming evident that small to medium sized enterprises lack NMS capabilities because their political resources are limited. They must therefore rely on business associations to channel their concerns to government. However, the literature demonstrates that many UK business associations are voluntary organisations and rather informal (McLaughlin et al., 1993; Mazey and Richard, 1993; Bennett, 1997). This may weaken their ability to recruit members, which will impact on their legitimacy and effectiveness. We acknowledge here that this is clearly not the case for all business associations. Indeed, Bennett (1997) and Boleat (2000) both argue that in the UK, certain business associations, such as the Confederation of Business Industry and the Federation of Small Businesses, are very active and often collaborate with firms to advance their members' interests in the political arena through NMS. Hence, Hadani and Schuler (2013) note that some big firms have boards with intra-/extra-directorships on umbrella bodies in order to enhance firms' political presence. Acquiring and nurturing various political resources is crucial to NMS. The studies in this thesis therefore control for firms' levels of political resources.

2.4.6 Resource Dependency Theory

Resource dependency theory (RDT) posits that the external environment acts as a constraint on firms' ambitions. That is, to survive, firms must interact successfully with the actors within their external environment who control the critical resources needed by firms (Pfeffer and Salancik, 1978; Oliver and Holzinger, 2008). These critical resources include land access, pricing, raw materials, and lengthy contracts (e.g., resource exploitation). Many such resources are controlled by government, and the corporations that are granted access to and power over such resources can secure and/or maintain competitive edge (Fombrun and Shanley, 1990; Podolny, 1993). Hence, managing dependencies through linkages with the political environment can help to guarantee access to critical resources and positively influence firms'

performance (Pfeffer, 1972; Hillman, 2005). According to Griffin and Dunn (2004) and Sutton et al. (2021), firms' choices to become politically active and remain committed to such activity (creating formal routines/structure) is driven by their level of dependency on the external environment. Also, Hillman (2005) and Hadani and Schuler (2013) argue that firms are keen to hire political leaders as one way of establishing ties with the external environment to manage dependencies. Political ties (e.g., hiring managers with political connections and having political leaders sitting on firms' board) are therefore used strategically to enhance firms' performance outcomes, sustain activities, and gain domain advantage. Hence, political ties represent a pivotal political resource for the NMS process (Adler and Kwon, 2002; Helfat and Winter, 2011; Bonardi and Bergh, 2015).

Firms' degree of dependency on their external environment influences their level of commitment to political action. For instance, Dieleman and Boddewyn (2012) argue that reliance on government contracts significantly increases the likelihood that firms will become politically active even if it is only to preserve the status quo (Hadani and Schuler, 2013). But it is firms from the heavily regulated industries which have been identified as the most politically active group (Schuler, 1999; Hansen and Mitchell, 2000; Schuler et al., 2002; Dieleman and Boddewyn, 2012). Ultimately, resource dependency theory sees the regulatory burden as a major incentive driving firms' NMS behaviour. Heavily regulated industries see NMS as vital to their business survival. Here, the literature distinguishes between resource-related industries (e.g., steel, pharmaceuticals, oil, garments, energy) and controversial industries (e.g., tobacco, fracking, alcohol) where consumer advocacy is frequent (Bonardi, 2008; Husted et al., 2012; Smith et al., 2015). Although both resource-related and controversial industries are likely to embark on NMS individually and/or collectively, the ultimate intention will be to influence policies that affect their ability to make a profit (Baron, 1995; Hillman et al., 2004).

RDT provides a fertile ground to conduct the studies in this thesis, as it addresses the political tactic of responding to external constraints on a firm's operations (e.g., regulation) by hiring a board of directors with political ties to improve their fortunes.

2.4.7 Agency Theory

Agency theory investigates senior managers' NMS-related personal behaviours and argues that the interests of managers can shape their firms' NMS strategies (Sun et al., 2012; Barron et al., 2016). Managers' personal motives, including self-aggrandisement, a desire to leverage networks, and ideological beliefs, have been identified as drivers of their political behaviours (Ansolabehere, Snyder and Tripathi, 2002; Avery and Quinones, 2002). Hence NMS can be a source of conflict between managers, some of whom will not necessarily be motivated to take actions that are in the best interests of the firm. The best NMS to be pursued may not be obvious and it will need to be negotiated and agreed. So, NMS may be a discreetly contentious subject for firms until a more or less unified line is ready to be presented to government(s) (Shaffer and Hillman, 2000; Hadani and Schuler, 2013; Barron et al., 2017).

In an attempt to provide more insight about what goes on behind the scenes in organisations, Shaffer and Hillman (2000) take a qualitative approach (grounded theory) to investigate top managers' NMS formulation process. Their study confirms that the NMS decision-making process features a distribution of power within firms and persisting conflict of interests between firms' top managers. Hiring members with political ties to sit on the board can signal a long-term commitment to political activity, which may not necessarily improve the firm's fortunes. What is evident is that the firm's level of commitment to NMS and its preferred strategic choices for doing so do not happen in a vacuum; the choices a firm makes reflect the predispositions of its top managers.

This section has examined the NMS process through a number of theoretical lenses by engaging with the antecedents that facilitate and/or constrain its occurrence. We summarise these in Table 1, below.

Table 1: Summarising NMS through different theoretical lenses

Theory	Comment	NMS Process (Antecedent)	Author
Agency	Directors' personal motives (self-aggrandisement, wealth appropriation) can prevail over the interest of the firms in NMS process.	Top directors' effect: political orientation and cognitive elements influence NMS process.	Hadani and Schuler, 2013 ; Barron et al., 2016 ; Sun et al., 2016.
Coalition /Network	Private actors view networks as an opportunity to coalesce and promote particular interests and goals which are difficult to attain individually. Coalition theory argues that their political behaviour is bounded by, inter alia, their power relative to the power and influence of other pertinent corporate actors and the nature of any interdependencies.	Industry effect (e.g., level of concentration, size, profitability) influences participation levels which can be exercised collectively and through networks.	Rhodes and Dunleavy, 1995; Dieleman and Boddewyn, 2012; Smith et al., 2015.
Institution	Emphasis on the implication of the national context in which NMS takes place: firms' NMS behaviour is aligned with institutional structures (e.g., pluralism) and prevailing beliefs and culture.	Institutional system (e.g., pluralism: individualistic and competition) effect. Contextual factors such as formal rules and informal cultural norms and values shape NMS process.	Boddewyn, 1993; Jackson and Deeg, 2008; Boddewyn and Doh, 2011; Sun et al., 2012
Resource Based View	Firms' levels of resources influence their degree of power and authority on the political landscape, and this can be utilised to secure competitive advantage.	Firms' resources (e.g., size, turnover, level of internationalisation, diversification) viewed as "political weapons". They also facilitate individual participation in policymaking process	McWilliams et al., 2002; Blumentritt, 2003; Hillman, 2003; Lawton et al., 2013a
Resource Dependency Theory	Firms utilise their resources to mitigate uncertainties from external environment and become profitable through co-opting board members.	Utilising political resources (e.g., hiring elected/non-elected politicians to the board) to nurture interdependencies with government and secure high-performance outcomes.	Griffin and Dunn, 2004; Hillman, 2005; Sutton et al., 2021.
Transaction Cost/ Venue shopping	Information is a good to be exchanged; very sensitive (proprietary information) information can prevent firms from engaging in coalition. They become more inclined to free ride and are selective about venues for advancing their strategies.	Choice of venue to exchange information is crucial. Firms might choose to ride solo and target governments as opposed to engaging with regulators.	De Figueiredo and Tiller, 2001 ; Bonardi et al., 2006 ; Chalmers, 2013.

Although NMS antecedents have been observed using theoretical frameworks initially intended to comprehend interactions between government and interest groups in general (Smith, 1995; Rhodes, 1997; Peters and Pierre, 1998), recent studies acknowledge corporate-specific factors that affect firms' decisions to participate in NMS and their preferred action repertoires (Eising, 2007; Chen et al., 2015; Drutman, 2015). NMS is therefore both an orchestrating process and a capability-leveraging activity (i.e., of political resources) that is undertaken by corporations' top actors to advance and secure their interests (McWilliams et al., 2002) through formal and/or informal meetings with government elites (Getz, 2002; Lawton et al., 2011). Before providing a summary of the different tactics and strategies utilised by firms to access government, it is relevant to first discuss NMS from the government perspective.

2.5 Government and NMS

Government sees firms as valuable contributors to policymaking, and this also increases interdependencies between firms and governments. The NMS process is viewed by Bowen (2002) as an exchange process in which both sides (government and firms) have to fulfil their part of the bargain. While government will grant firms access to policymaking on the basis of what they are bringing to the table (access goods), firms will try to make sure their efforts to assist (by providing valuable resources including information, expertise, and finance) translates into competitive advantage in the market. Resources are therefore crucial to firms' NMS (Grant, 1991; Baron 1995; Hillman and Hitt 1999; Aragon-Correa 2003).

According to Bonardi et al. (2006) suppliers of public policy (e.g., government) need votes, finance, and information to help them remain in power, and firms can help secure these, whereas firms are demanders of public policy, and they engage with the supplier of policy (government) to exchange resources for policy favours. The international business literature emphasises that corporate political strategy is country specific, and that firms can strategically align their broad strategies to reflect the core policy agendas of government (Boddeyn, 1993; Boddeyn and Doh, 2011). Organisational theory stresses the influence of national economic structure(s) and the prevailing social discourse on shaping firms' relationships with government. Firms' opportunities in term of securing desirable policies can be constrained or enhanced by policymakers (i.e., government) (David and Marquis, 2005; Jackson and Deeg, 2008; Sun et al., 2012; Dieleman and Boddeyn, 2012).

As already noted, NMS therefore does not occur in a vacuum. It is a contingent activity which happens in a crowded political system that circumscribes precise behaviours that may reflect the resources and interdependencies that exist between different actors. Although indirect, collaborative activities (e.g., via umbrella bodies and professional lobbying companies) are part of NMS, this thesis is focused on understanding firms' direct encounters with UK Government departments.

2.5.1 UK'S Government and NMS

According to Miller and Dinan (2008) the UK's shift from 'government' to 'governance' has resulted in new incentives for firms to lobby, underpinned by a belief system that the private sector does things better (Smith, 1995). Hence, according to Blick (2004) a significant number of private sector advisors have been brought into government to improve policy and policymaking. The UK's policymaking and delivery architecture — a heady mix of centralised and decentralised processes — is now multilevel. Greenwood (2003) and Eising (2008) have found that only the businesses that have sufficient knowledge and resources to navigate complex political policymaking institutions have been able to practice NMS effectively. At the same time, since the state is no longer a monolithic⁷ entity, it provides prospective lobbyists with multiple jumping-in points, some of which may be more important and useful than others (Hennessy, 2000; Blick and Jones, 2010).

The UK Government is comprised of different departments that deal with a wide range of policy issues. The Cabinet Office is, of course, an extremely influential body at the very heart of the UK Government's policymaking, but the complexity of policymaking encourages firms to coordinate and collaborate with political actors at different levels of government (Nuna, 1999; Crotty and Smith, 2006). Hence, firms are keen to adopt a multiple access points strategy across the policy cycle (Kohler-Koch, 1997). This allows firms to strategically deal with the issue of transactional costs by selecting the access points that offer the

⁷ Institutions are recognised as polyarchic, with multiple centres of authority and decision making, and many systems and sub-systems. The UK Government, for example, comprises elected and unelected officials, Westminster staff, cabinet office staff, Regional Office staff, and local representatives. It has distinct processes and systems that govern elections, policymaking, research, education, to name but few. We should therefore understand institutions as assemblages of processes rather than as 'things' – they are not monolithic (Kavanagh, 2001).

best chance of ensuring their information remains protected (De-Figueiredo, 2001). Ehrlich and Jones (2016) state that having multiple access points for corporate interests makes NMS easier and more affordable, and it also means that venue shopping is limited to national (or sub-national) targets. Therefore, whilst we can expect that most, if not all UK's Government departments, are porous to lobbyists. Only the most influential (resourceful) private actors will be granted routine access to government and the Cabinet Office, given their unique and strategic positions (Kavanagh, 2001). The UK Government represents executive power, and it is a powerful and attractive stakeholder for firms to engage with. Interactions between the UK Government and corporations have attracted significant publicity recently⁸. Lobbying is not only an increasingly important element of corporate life; it is now one that is under scrutiny.

Further, government has a cross-cutting remit, and contemporary governments' industrial strategies tend to be organised around cross-cutting themes⁹ (Rodrik, 2014; Berry and Hay, 2016; GOV.UK, 2018). This encourages the participation of well-resourced firms. The UK's industrial policy agenda is technologically driven, requiring the expertise of firms to deliver on policy agendas such as Artificial Intelligence and the Data Economy, Clean Growth, etc. Therefore, firms' access to the UK's government departments will be explored in this thesis, with particular attention being given to firms' encounters with central government because only big firms are likely to be granted an audience.

2.5.2 Securing Access

Various tactics have been used by corporations to secure access with government. These include constituency-building, making political contributions, advocacy advertising, direct lobbying, and coalition-building (McWilliams et al., 2002; Smith et al., 2015). Whilst some literature claims that it is mainly political activities that secures access for firms, other scholars argue that Corporate Social Responsibility or CSR is most useful (Mellahi et al., 2016). CSR can be regarded as a specific form of NMS, in that firms with embedded CSR policies (or those seeking to develop such policies) are more likely to be granted an

⁸ <https://www.bbc.com/news/uk-politics-56819137>; <https://www.bbc.com/news/uk-politics-56878663>; <https://www.theguardian.com/politics/2020/jun/24/robert-jenrick-planning-row-the-key-questions-answered>

⁹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf

audience with policymakers. CSR represents a form of NMS whereby firms engage in various social activities to achieve reputational gain. CSR can also benefit their political activities in the sense that government acknowledges their social efforts and brands them as good corporate citizens (Anastasiadis, 2014; Mellhai et al., 2016). CSR highlights the firm's public (rather than political) engagement; it is concerned with firms' increasing their social reputation to meet commercial and safety objectives. This can enhance their visibility at government level; thus, access can be granted based on the social knowledge of firms (Dahan, 2005; Liedong et al., 2017).

Nevertheless, empirical studies have shown that firms do not align CSR with their political activities. This is because they view the latter as dealing directly with policies that affect their bottom line (Baron, 2013; Den Hond et al., 2014; Liedong et al., 2017). Further, Blumentrit (2003) argues that corporations formalise their commitment to political activity by incorporating a government affairs subset in their public relations (CSR) department, which is tasked with scanning the policymaking landscape and creating the relationships with strategic external stakeholders (e.g., government) that will shape their bottom line (Rajwani et al., 2013).

A summary of firms' tactics to secure access via political versus social channels is provided in Table 2 below.

Table 2: NMS strands: Political and Social (CSR) approaches to securing access to policymakers.

CPA (political strategies)	CSR (social strategies)
<p>Financial Political campaign financing or indirect finance, such as events and conferences on research (Hillman and Hitt, 1999; Bonardi et al., 2006).</p>	<p>Sponsors of philanthropy foundation. Public image (perception of stakeholders). Framing issues to show social benefits/ commitment to certain values (McGrath, 2007)</p>
<p>Human The use of lobbyists and lawyers; firms’ top managers elected or appointed to federal office (Hansen, 1991; Hillman et al., 1999; Bouwen, 2002).</p>	<p>Corporate level of social disclosures. Voluntary/mandatory/CSR committee, social practices assisting political activities, building visibility and reputation to achieve direct contact with political actors (Douglas et al., 2004; Den Hond et al., 2014).</p>
<p>Political Coalition-building with other firms and or umbrella organisations. Register/Outside directorships/Business association membership or directorships (Blumentrit (2003).</p>	<p>Charitable Contributions. Donations and activities by firm. Insider strategy joining government task force on social issues (Hansen Mitchell; 2000).</p>
<p>Attempt and securing access to government. Testimony before Congress committees/delivery of expert knowledge, information on public opinion, economic & social impact of policies, legal & feasibility information, making sense of technical and expert data, information tactics (face-to-face, open consultation, writing letters & emails, phone calls, media campaigns, and public events (Blumentrit, 2003; Schuler and Rehbein, 2005; Chalmers, 2013).</p>	<p>Advocacy. Activity in education, health, stability, and society welfare (e.g., products/services with social goals). Size of corporate public relations in staff and resources (Hafner-Fink et al., 2016).</p>
<p>Formalisation. Firms’ level of commitment to NMS (government affairs subset in public relations department with formal code and rules of engagement with government. Bridging: building relationships with government based on conforming with regulation and pioneering government’s policy agenda. (Oliver and Holzinger, 2008; Peterson and Pfitzer, 2009);</p>	<p>Outsider strategy. Collaborating with NGOs for social issues/establishing strong relationships with community (Rehbein and Schuler, 2013).</p>

Once access has been secured, firms must then establish a way of maintaining their access to government corridors. We have depicted in this section the state of knowledge of NMS in the light of various theories and factors that influence firms' capabilities and decisions to be politically active, but insights around the relevance of access and how this is patterned and conducted on the policy landscape is discussed in chapters 4, 5, and 6.

2.6 Conclusion

This section has engaged with various schools of thought around the understanding of NMS. The discussions focus on the state of knowledge about firms' non-market strategies: why and when it takes place, who participates, and what it looks like. We have highlighted the importance of considering the wider context, such as the institutions and political system under which actors (governments and firms) meet to craft policies. Firm- and industry-level characteristics have also been discussed to support our understanding and choices of variables as we go on to conduct empirical tests of our hypotheses. Whilst the process of NMS has been extensively studied, we still know little about how it objectively influences performance outcomes.

As already highlighted, various tactics are utilised by firms to advance their NMS objectives, and these have been well documented by the literature. This thesis proposes to advance knowledge on how firms' access to the political landscape can help them secure policy capture that is relevant to ensuring better performance. For this, we need to examine how access is patterned and conducted on the political landscape and its implications for firms' performance. This is important because to the best of our knowledge, past studies have not utilised an access mechanism to examine performance. Moreover, we structure access mechanism under Hillman and Hitt's (1999) theoretical framework (political approach and participation level) to first identify "continuous" versus "sporadic" access to the UK Government. We then look at how that access is conducted, which is to say, whether it takes place unilaterally and/or collaboratively. Research shows that these two strategic choices guide how NMS is embarked upon, and they should therefore help understand the effects of NMS on performance. However, the key difficulty in conducting any NMS study lies in the scarcity of data around how and how often firms access the government policymaking corridors. Hence, this thesis makes a unique contribution to the literature by constructing a dataset that is populated by firms' access patterns and behaviours over an 8-year period. We then operationalise firms' access strategies by reference to the Hillman and Hitt (1999) conceptual framework to further comprehend the effects of these strategies on performance outcomes. Thus, our

ultimate overall objective for this thesis is to understand if and how (the access behaviours of) NMS are associated with improved firm performance.

Over the three empirical chapters that follow, we formulate five research questions to address this main objective. In chapter four, we depict the state of knowledge of firms' access to government and engage with Hillman and Hitt's (1999) theoretical framework to formulate relevant hypotheses to be tested. Chapter 5 provides further insights around the two strategic choices made by firms, and we attempt to empirically examine the mechanism through which performance is impacted. In chapter six, we increase the level of validity of our study by investigating an alternative outcome (tax aggressiveness) in relation to firms' strategic choice. But before we move onto the empirical chapters, we first present the overall methodology that will drive how our hypotheses are tested. In the next chapter, we therefore present a detailed explanation of the methods used to conduct the studies that are the focal point of this thesis.

3 Research Methodology and Methods – Overall Data discussion

3.1 Introduction

This chapter provides a comprehensive discussion of the data used to deliver the studies in this thesis by addressing the who, what, when, where, why, and how of the research (Murray and Beglar, 2009). While chapters 4, 5, and 6 address the specific methods used to conduct the empirical tests, in this chapter we elaborate on the overall data gathering process, explaining our data sources and collation strategies. The research process is discussed, and we set out our rationales for the research design and the methods utilised. Details of the sample, the context of the study, and the key statistical analyses performed are highlighted. We conclude the chapter by addressing the limitations and ethical considerations of the research.

3.2 Research questions

Research questions are primarily used to provide guidance for the design of a study and the overall methods used (Bryman and Bell, 2003). They inform the approach taken to investigate a given phenomenon. This thesis is concerned with firms' non-market strategies (NMS), which we examine by focusing on how firms' political approach to NMS (i.e., their access strategy) influences firms' performance and tax avoidance practices. To deliver on this research objective, we generate five key research questions across three empirical chapters. These are as follows:

Chapter four:

Q1: Is NMS likely to be associated with improved firm performance?

Q2: What is the impact of particular NMS approaches on firm performance?

Chapter five:

Q1: What is the effect of NMS (firms' political meetings) on firm performance measured by Total Factor Production (TFP)?

Q2: How is the firm's performance influenced by its chosen political approach and its chosen participation level?

Q3: How does the combination of chosen political approach and participation level shape firm performance?

Chapter six:

Q1: Are tax aggressive firms likely to access government corridors and/or practise NMS by taking a relational approach to political meetings?

3.3 Link between Research Questions, Design and Methods

The above research questions emanate from gaps that persist in the literature. The questions have been refined to make sure they are 'clear, researchable, linked, neither too broad nor too narrow, and also connect to existing theory and research' (Bryman, 2004: 32-33). Formulating research questions that align with Bryman's prescription enables us to make partial contributions to knowledge. Although our study of the firm-government nexus originates from a financial industry background, the rigorous literature review that was conducted for the purpose of this thesis has helped generate several prepositions, which informed the above research questions. NMS is topical in the UK, thanks to various lobbying scandals documented by the literature and mainstream media (Miller and Dinan, 2008).

The UK has a longstanding *laissez-faire* cultures towards NMS. The country's hands-off approach was supported by the Committee on Standards in Public Life in the UK in the mid-1990s (Nolan Committee, 1995), which stated that 'regulation could create the perception that the only legitimate route through which outside interests might engage with parliament would be via the offices of registered commercial lobbyists' (see Dinan, 2006: 56). The Nolan Committee subsequently called for the maintenance of the status quo, with the relationships between politicians and firms being based on informal rules and a self-regulated kind of 'good conduct'. Firms value their ability to directly access government, and in the UK context they are encouraged to do so. In the wake of Nolan's report, the Office of the Registrar of Consultant Lobbyists was created as part of the 2014 UK Transparency of Lobbying, Non-party Campaigning and Trade Union Administration Act; there is now therefore some regulation and some transparency. However, the requirements of the Act apply to third-party lobbying organisations; they do not apply to organisations that lobby directly. This omission facilitates the choice of firms to build in-house lobbying capabilities to directly access government.

Furthermore, since 2015 the UK government has prevented all organisations (including universities, local authorities, and Local Enterprise Partnerships) from using government funding (from the Department for Communities and Local Government) to lobby government (Cabinet Office, 2016). These developments seem likely to create new asymmetries in the actors — big or small, national or local, public or private — who are able to lobby government. NMS may therefore develop into a private sector phenomenon limited to larger firms that operate nationally. Such corporations now permeate the UK political landscape, working to obtain policy advantage to secure their interests. Investigating firms'

patterns (and strategies) of access to the UK government is therefore important to comprehend the potential implications of such activities for firms' performance and ability to be tax aggressive. The firm NMS–performance relationship has not been studied using an objective approach, which leaves a major gap in the literature. Likewise, we do not know the type of political approach use by firms to deploy tax avoidance schemes.

3.4 Research Process

3.4.1 The research Designs.

The overall research design is longitudinal with a temporal dimension and draws on quantitative methods. We are interested in identifying how firms' strategies of access over the years impact their performance outcomes and tax aggressiveness. To do this, we follow good practice and draw on research methods that are reliable and which reduce the likelihood of random errors and mistakes in data collection (Harrison, 2001:27). Since this is quantitative research, it is important that our measure accurately measures the concept it is supposed to (Bryman, 2004:28-29). Internal and external validity also need to be considered. By doing so, we can assess whether or not conclusions about causal relationships between variables are plausible, and also the extent to which findings can be generalised beyond the UK environment.

The sections below discuss the process we followed as we developed the measures utilised to study our concepts. Secondary data was used throughout this thesis.

3.4.2 Data sources and Collation

Since the UK environment is the context of this study, we initially looked at firms listed on the London Stock Exchange to construct our sample. We strongly relied on the FTSE 350, which represents the 350 firms with the highest market capitalisation as defined by the London Stock Exchange (LSE). Companies with a market capitalisation of £3 billion or higher are classified high market capitalisation. Companies below this threshold but with market capitalisation up to £500 million are defined as mid-market capitalisation. To increase the size of the sample, we then considered firms with similar market capitalisation, operating in the UK, which were listed on the S&P Composite. This is a US stock market index encompassing S&P 500, S&P 400, and S&P 600 stocks. We focused on the S&P 500 because this is commonly used in the NMS literature and provides a comprehensive list of large and influential US-based firms (Schuler and Rehbein, 2012; Alakent and Ozer, 2014; DeBoskey and Luo, 2018).

Aston University offers access to several sources for secondary data collection. Databases such as Bloomberg, FAME, Orbis, and DataStream are available to students. These data sources were scrutinised to make sure the firm-level characteristics of sampled firms were accurately collated. Due to missing data, the sample was reduced from 815 to 480. Firms were clustered around 13 sectors (see Appendix A for a full sectoral breakdown). Orbis database was particularly useful to determine individual firm's sector following US SIC codes and more importantly to establish whether both parent and subsidiary firms were listed in the sample. A unique identifier number is given to firms by Orbis to accurately link them to their relevant subsidiaries. This number also facilitates the cross-referencing of firms between databases to check for consistency. Since we follow Hillman's (2005) approach of utilising parent companies' financial data, we only recorded parent companies' financial data and eliminated from the sample those subsidiaries whose parent companies were already listed. However, we kept a separate list of these subsidiaries and potential subsidiaries to investigate further if they also had meetings with the UK Government. Orbis provides a clear indication of the geographical location of firms, thus we were also able to establish whether parent companies have at least one subsidiary located in tax havens jurisdictions. We used Hines and Rice's (1994) and Jones and Temouri's (2016) lists of tax haven jurisdictions. The only difference between them is that Jones and Temouri's list has two extra subsidiaries. This was used later on during checks for robustness.

Once the sample was established, we could move on to adding firms' political access details. In this way, we could mitigate the potential for sample size bias (Henrich et al., 2010). Political access data was obtained from the UK Government's Open Government Database (OGD), which was interrogated to establish the number of encounters between the sample firms and the UK Government. This database has been released by the UK Government on a quarterly basis since 2012. It contains a variety of interest groups' meetings with the UK Government. This data is also published on The Transparency International UK website¹⁰ where, by entering a company name in the search engine, one can access a record of meetings held with particular government departments (including the name of the minister or Lord met) since 2012. Hence, we also searched for and added subsidiaries' political meetings to their related parent companies' meetings. We also categorised how access was conducted - unilaterally and/or collectively. For example, since RBS is a subsidiary of NatWest, RBS was not included in the

¹⁰ <https://openaccess.transparency.org.uk/>

sample, but their meetings and mode of participation were added to those of the NatWest Group plc Rolls Royce and Daimler meetings were also added to their respective parent companies' (BMW and Mercedes) political meetings. We also kept a record of those firms in our sample that had changed names during our investigative period. Hence political meetings under old and new names were captured. Lloyds TSB is the old name of Lloyds Banking Group plc, so we ensured that political meetings under both names and those of any related subsidiaries were captured. Also, firms that went through mergers or acquisitions can experience a change in name so we made sure we had a clear history of the firms between 2012 and 2019. This was useful to establish consistency in recording firms' political meetings.

Table 3 below provides a full account of the variables utilised in this thesis. In the empirical chapters that describe the study we describe and justify these variables and the data collation process in further detail. After completing the data collation process, the variables were put together to create a unique dataset upon which we conducted statistical analyses. The data was entered onto a Microsoft Excel spreadsheet to operationalise and compute the variables. Firms' degree of diversification and concentration ratio were computed manually using the formulas set out in Table 17 (see appendix section). We used Excel's COUNTIF and logical (IF) functions to conduct an initial analysis on the number of firms' meetings. The data was then uploaded into STATA 17 to create dummy variables to facilitate statistical analysis. The next section provides further information on the key tests performed.

3.4.3 Data Analysis

This section gives a general view of how data analysis was approached. It is important to highlight again that this research takes a quantitative stance to depict the state of knowledge of firms' political behaviour. According to Creswell (2009: 4), quantitative researchers can downplay the interpretative aspect of their study, hold specific values, and be distinct in their ontological and epistemological leanings, but they are no more or less objective than qualitative researchers. We therefore state that we took care not to infuse the numbers in our fully numerical data with meanings.

Measuring firms' political meetings to identify the strategic approach taken by firms was our initial focus, through which we could begin to try to identify any causative relationships (Bryman, 2004: 75). As such, we used descriptive statistics to describe inter alia the types of firms/sectors that engage in NMS, how common NMS is, and the key characteristics of the firms that engage in it. We then used inferential statistics to identify any causal relationships, such as the type of firm/their key characteristics, and the type of political strategy (relational/transactional) used. We then looked at whether there were

any causal relationships between (types of) political strategy and performance outcomes. Figures 1, 2, and 3 provide more insight on the count variable of firms' political meetings.

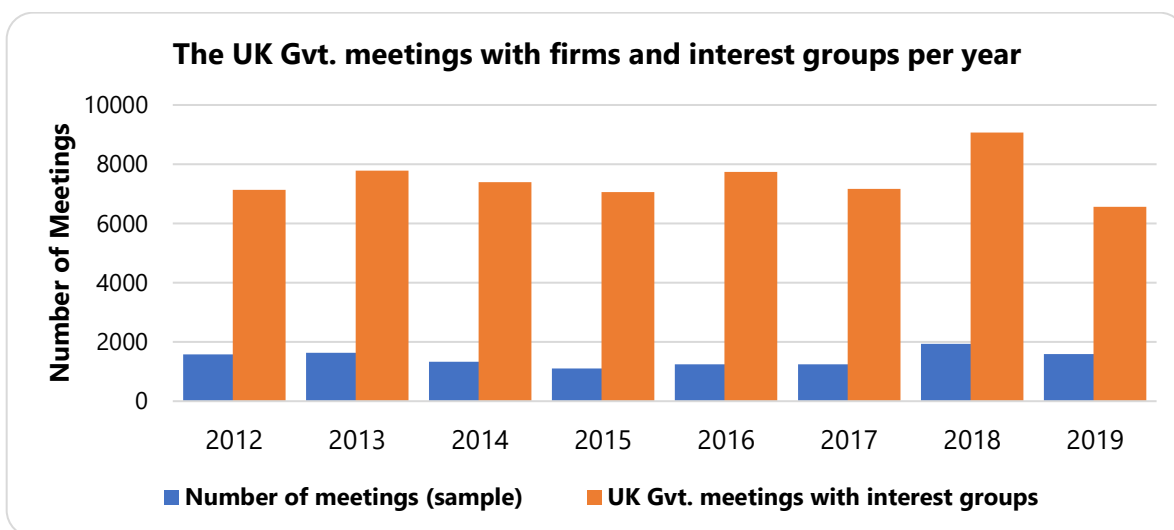


Figure 1: UK's government – interest groups/sample meetings from 2012 to 2019

Source: created by the author from our constructed dataset.

Figure 1 displays the overall number of meetings that took place between the UK Government and interest groups compared with the number of such meetings conducted by our sampled firms over each year of the 8-year observation period. The firms in our sample recorded almost 2000 encounters in 2018. This represents around 21% of all meetings with interest groups for 2018. The lowest percentage (16%) of firms' meetings was recorded in 2015, which is also the year with the lowest number of interest group meetings (7060). On average, our sample firms secured around 20% of total interest group meetings from 2012 to 2019. This provides support for the assertion in the literature that interactions between the UK Government and big corporations are common. Further, considering that our sample consists of only 480 firms, its capture of so high a percentage of UK Government meetings reinforces the fact that well-resourced firms dominate the UK political landscape. The pattern of the sample's meetings is explored in Figure 2.

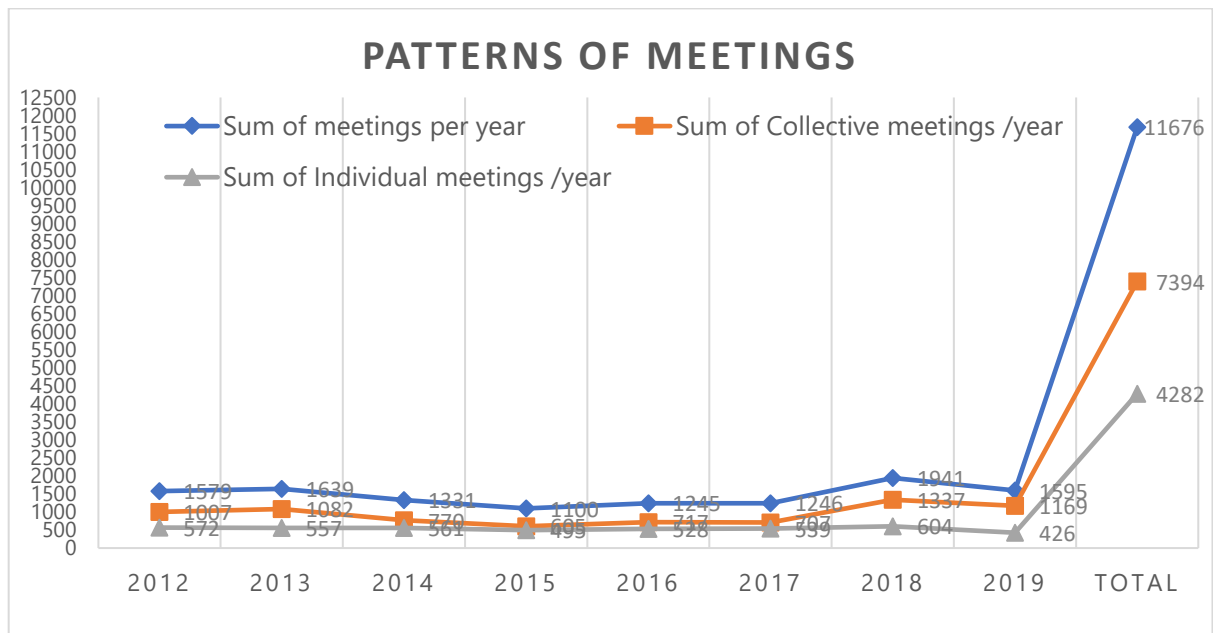


Figure 2: Firms' Patterns of Meeting for 2012 - 2019

Source: created by the author from our constructed dataset.

Figure 2 displays a clear pattern of how meetings were conducted from 2012 to 2019. Around 36% of the total meetings were individual and 54% were collective. Taking a look at encounters on a yearly basis, we notice that individual meetings were up to around 45% between 2014 and 2017. Overall, however, more collective meetings are observed on a yearly basis. Figure 2 highlights that while both the individual and collective approaches are utilised by firms to access the UK Government, some firms have more leverage because they can secure individual encounters. In Figure 3, we look at how these meetings break down across sectors.

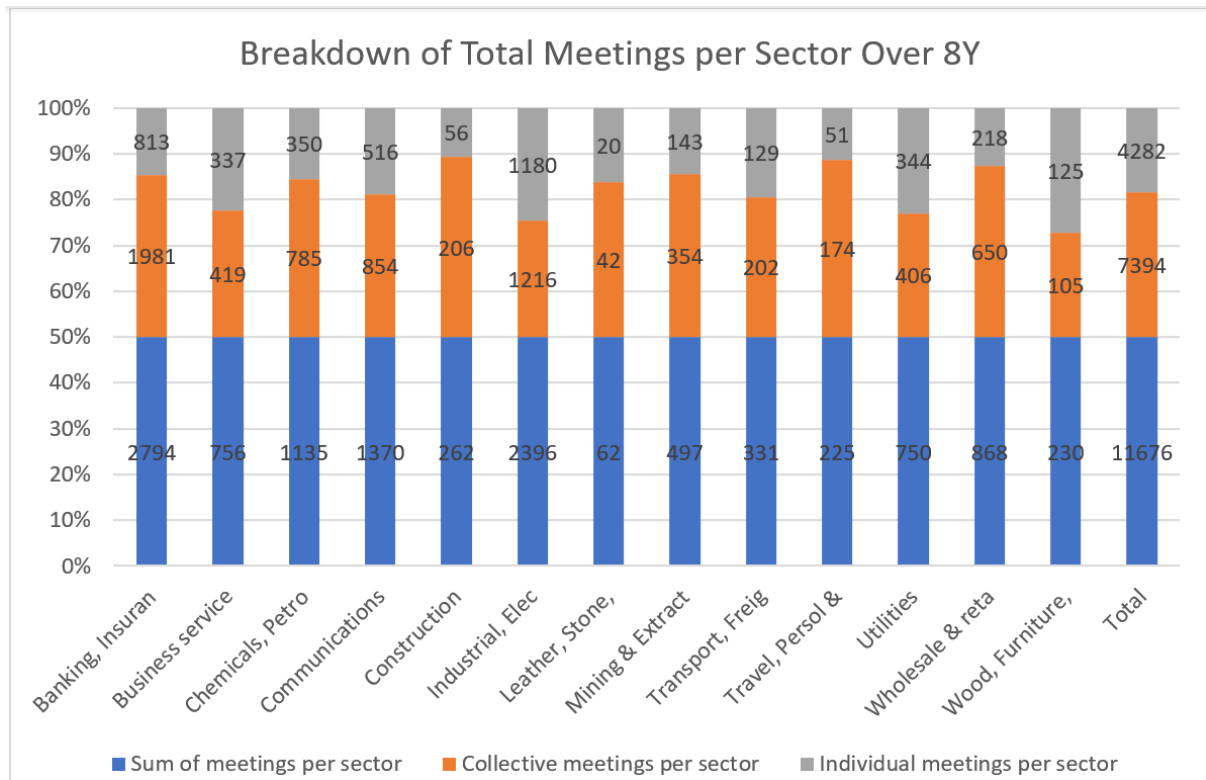


Figure 3: Sectoral breakdown of firms’ political meetings and participation level

Figure 3 shows that there is sectoral variation in firms’ political meetings. This figure presents the number of meetings recorded by sector on a yearly basis, as well as detailed observations of individual versus collective encounters. Since the number of firms varies by sector, making a direct comparison between them does not do justice to the actual situation. Still, industries with an approximately similar number of firms present important differences in terms of their number of meetings. This was the case for sectors such as Business Services, Chemicals, and Communications. The Financial and Industrial sectors recorded almost 50% of total meetings from 2012 to 2019. These were followed by the Chemicals and Communications sectors, which conducted 22% of the overall number of meetings over the 8-year period studied. Some sectors are highly strategic; hence their encounters are more frequent. Descriptive statistics of firms’ political meetings are provided in Table 3 below.

Table 3: Firms' meetings descriptive statistics

Sector	Sample	Firms		Meetings			Collaborative		Unilateral		Hybridised			Observations		
		M	SD	Min	Max	Freq.	M	SD	Freq.	M	SD	Freq.	M		SD	Freq.
BIFS	102	3.39	8.5	0	65	816	0.38	0.48	108	0.07	0.26	21	0.54	0.49	154	283
BS	43	2.19	4.37	0	26	344	0.31	0.46	43	0.09	0.29	14	0.58	0.49	79	136
CPRP	47	3.01	5.96	0	37	376	0.38	0.48	77	0.17	0.38	36	0.44	0.49	89	202
TCom	48	3.56	7.13	0	42	384	0.27	0.45	45	0.13	0.34	22	0.58	0.49	94	161
CONS	15	2.18	3.03	0	16	120	0.55	0.5	40	0.06	0.25	5	0.37	0.48	27	72
IEEM	75	3.99	7.65	0	56	600	0.24	0.43	74	0.13	0.34	42	0.61	0.48	181	297
SCGP	11	0.7	1.79	0	10	88	0.45	0.51	9	0.1	0.3	2	0.45	0.51	9	20
ME	29	2.14	7.16	0	55	232	0.51	0.5	37	0.05	0.23	4	0.42	0.49	31	72
TFS	21	1.97	3.05	0	17	168	0.34	0.47	30	0.17	0.38	15	0.47	0.5	41	86
TLP	23	1.22	2.01	0	9	184	0.5	0.5	39	0.18	0.39	14	0.31	0.46	24	77
UT	15	6.25	7.62	0	30	120	0.15	0.36	11	0.01	0.11	1	0.82	0.37	58	70
WR	29	3.74	7.88	0	43	232	0.3	0.46	25	0.07	0.26	6	0.62	0.48	52	83
WFPP	22	1.29	4.22	0	32	178	0.18	0.39	6	0.3	0.46	10	0.51	0.5	17	33
Total	480	3.03	6.8	0	438	3842	0.34	0.47	544	0.11	0.32	192	0.53	0.49	856	1592

Descriptive statistics of firms' meetings, total number of meetings, and participation level observations per sector. Sectors are: Banking, Insurance and Financial Services (BIFS); Chemicals, Petro, Rubber & Plastic (CPRP); Industrial, Electric/Electronic/Machinery (IEEM); Business Service (BS); Telecommunications (TCOM); Construction (CONS); Stone, Clay & Glass products (SCGP); Mining & Extraction (ME); Transport, Freight & Storage (TFS); Travel, Personal & Leisure (TPL); Utilities (UT); Wood, Furniture, Printing & Paper (WFPP); Wholesale & retail (WR)

In Table 3, we see the descriptive statistics of firms' encounters, including a sectoral breakdown which provides a detailed account of the number of observations recorded per sector. Whilst the highest number of meetings recorded is 65 (by the financial sector), the lowest sectoral observation is zero. The table shows 3842 overall observations, of which 1592 represent the political meetings conducted by our sampled firms. Hence, 42% of the total number of political meeting observations were recorded by the firms in our sample. As displayed in the table, around 50% of the political meetings observations came from 3 main sectors: Banking, Insurance and Financial Services; Chemicals, Petro, Rubber & Plastic; and Industrial, Electric/Electronic/Machinery. Around 19% of observations came from Business Services and Telecommunications.

3.5 Statistical Tests Performed on the Full Dataset

Because this data is longitudinal, observation of a broad cross-section of firms and variables can be done over time to investigate the dynamic elements of a situation. The data panel comprises cross-sectional and time series elements (Anderson and Hsiao, 1982; Beck and Katz, 1995). We used a panel data model to subject the data to a full range of inferential statistical tests. The heterogeneity of individual firms can be captured with this model because changes in variables over time can be observed; this allows further analysis of the variables that constrain or facilitate firms' political strategy in relation to firm performance.

A balanced panel data was achieved under STATA 17. We had to decide whether to use a fixed or random effect model, and for this, we used a Hausman test. The main difference between the two types of models is that the random effects model argues that variation across firms needs to be treated as random and uncorrelated with the chosen independent variables (Greene, 2008, p.183). Thus, to establish whether firm-specific effects correlated with the regressors, we ran separate linear regressions with a fixed effect and a random effect with a time effect on the sample of firms observed over the investigative period. A fixed effects model is appropriate if the Hausman test confirms correlation between variables. If this is not confirmed, then the random effects model (Baltagi, 1995b) is appropriate. The Hausman test confirmed that the random effects model was most suitable in our case, which is also in line with past studies. The random effects model has the added advantage of ensuring robustness (Arifin et al., 2020).

Our specific methods of analysis and our generation of data were informed throughout by the literature. We strived to ensure that we were producing data that had explanatory power in relation to the research

questions, remaining mindful of Burnham et al.'s (2008:165) argument that: 'If there is no a priori theoretical reason or plausible a posteriori theoretical reason to expect a relationship between two or more variables, then it is not usually a good idea to carry out any analysis on them.' This statement guided our engagement with the literature review, through which we uncovered existing theoretical frameworks used in the field of NMS strategy to comprehend firms' strategic approach to political activity and the implications of these for performance and tax aggressiveness. These learnings informed the generation of our hypotheses. We created a series of tables (see empirical chapters 4;5&6) to address the hypotheses and present the causal relationships between variables (if any).

As already noted, we accessed a range of data sources to facilitate an understanding of how NMS activity is patterned. For instance, although it is interesting to see how many firms within our sample have had encounters with the UK Government, it is more interesting to show whether access is (un)evenly distributed across firms and across industrial sectors. This is important because degree of access helps identify the strategic approach (relational/transactional) taken by firms; this information is necessary for studying the impact of each approach on performance outcomes. Some firm-level factors are also relevant to explaining why some firms achieve greater access than others. We therefore drew on data sources to create firm-level variables such as ROA, firm size, age, level of regulation, level of product diversification, free cash flow, and industry concentration.

In terms of the estimates, the models used to conduct this study are addressed in the relevant chapters. We used General Least Square Random Effect (GLS – RE) to run the regression analyses in chapters 4 and 5. For chapter 6 we took a slightly different approach because in this study, the dependent variable is a dummy variable named tax aggressiveness. Hence, we used a Probit model to run the statistical analyses. Also, only one independent variable Firms Political Meetings (FPM) is considered to run the models. This variable is turned into a dummy variable Firms Political Approach (FPA) taking a value of 1 to denote relational approach and 0 as transactional approach. We were guided in our choice of estimation models by existing literature (Jones and Temouri, 2016; Arifin et al., 2020).

In terms of robustness tests, we used the dynamic panel generalised method of moments (GMM) model. GMM is a comprehensive approach to dealing with endogeneity issues because the model allows more variables to be considered as endogenous or as instruments under the lagged differences approach (Anderson and Hsiao, 1982; Breusch et al., 1989; Culyer, 2014; Lim, 2022). Relevant details about the estimation models and robustness tests are provided in subsequent empirical chapters.

3.5.1 Difficulties

Collating the data to be entered onto an Excel spreadsheet for effective analysis was not without difficulty. Problems were mainly linked to the investigative aspect of the study because not all the information required existed in the form of a readily useable database, and we did not have access to certain potentially useful datasets. Of the datasets that were accessible, some of these were periodically unavailable and/or had time-limited access windows, which created logistical challenges. Our original sample was reduced from 815 to 480 due to missing data. Although Orbis, Bloomberg, and DataStream were rigorously scrutinised to retrieve firms' data, it was important to ensure that variables were downloaded from the same source. Thus, when a source did not contain a variable for all firms in the sample, an alternative source was considered. However, this could not fully overcome the issue of missing variables due to the fact that some firms had been delisted or acquired by other companies during the 10 years of observation. DataStream was useful here for uncovering firms' historical data.

3.6 Limitations

The research features several limitations. First, as mentioned earlier, this study is focused on formal meetings with government departments. For obvious reasons, informal encounters, which are not recorded on OGD, were not captured, and it would be naïve to think that these play no role in the business–government nexus. Second, the OGD does not provide information about the content or conduct of any meetings, or indeed about the progress made on particular policies. Such data would obviously have helped to further investigate the value of NMS for firms' performance outcomes. We thus suggest that future research uses a case study approach to scrutinise firms' engagement with government and more fully identify the impact of such encounters on firm performance. We make this suggestion in full awareness that sensitivities around lobbying render it resistant to qualitative studies of NMS (Smith et al., 2015).

3.7 Ethical Considerations

According to Bulmer (2001:45), matters such as informed consent, the need to respect confidentiality and preserve anonymity, and the principle of 'no harm' are key to ethical considerations. But given that this research involves an examination of publicly available data and that there are no participants, these considerations do not apply here. Hence, there are no ethical considerations associated with this thesis other than the academic requirement to carry out rigorous research and report, with veracity, the facts as they are found.

3.8 Conclusion

This chapter discusses the overall methodology and methods taken to conduct this thesis, in which we have drawn on data to demonstrate the common practices of NMS in the UK, our chosen context. We explain how we clearly linked the research questions to the identified gap in the literature, and we detail the approach taken to our efforts to contribute to knowledge. We outline how we generated our sample of firms, which was drawn from the London Stock Exchange's FTSE350 and from S&P500 firms that operate in the UK. The research design and data gathering procedure are then discussed. We explain why we chose a longitudinal approach to conduct our empirical studies, and we describe the sources of data from which we collected our data (e.g., ORBIS, DataStream, and the OGD). We describe how we created our unique dataset, which we then interrogated using a range of statistical analyses. We present the descriptive statistics of firms' political meetings. From these, we note that our sample of firms captures 20% of the overall UK government political meetings with interest groups during the investigated period (2012 to 2019). A breakdown of meetings and access methods per year and by sector is also presented. We have been able to establish how often meetings took place and which sectors and/or firms had more or fewer encounters. We show that firms routinely engage with the UK government unilaterally and/or collectively, a finding that is in line with the literature (Hillman, 2003).

We demonstrate that we have drawn on the literature to identify the relevant estimation models to answer our research questions, which are GLS RE and Probit RE. We explain why we utilised GMM to conduct robustness tests to deal with endogeneity issues. We conclude this chapter by discussing the difficulties we encountered in generating our dataset and the limitations to our research. We identify from the limitations a key takeaway point: although the OGD records the occurrence of political meetings, it does not record their purpose, or the policy area discussed. This opacity results in a lack of data. We conclude by suggesting that future research considers utilising a case study approach to generate more data from the firm's perspective about the business–government nexus.

The next chapter contains our first empirical study, in which we generate and test our first hypotheses, which are related to the NMS–performance relationship. This chapter paves the way for further discussions around firms–governments relationship, highlighting the pattern of firms' access to political landscapes and the relevance of such interactions on their bottom-line.

4 The Relational versus Transactional Approach of Non-market Strategy and Firms' Performance

4.1 Introduction

Non-market strategy (NMS) has important implications for firms' performance because under the right set of government policies, market operations can be improved. While governments hold the power to enact policies that are beneficial to business activities, they must rely on the expertise of corporations if they are to deliver on their core policy agendas (Getz 1997; Doh et al. 2012; Lawton et al. 2013). This provides the incentive for firms to become actively involved in public policymaking. Firms will compete with one another, utilising their resources capabilities, to secure privileged access to government. Possessing and deploying the correct set of resources can help firms achieve insider status so that they are routinely invited to participate in policymaking (Mellahi et al. 2016). However, firms also seek to advance that policies and ideas that are in their own best interests so they can secure or maintain their competitive edge (Schuler, 1996). Securing access to government via NMS is therefore seen by firms as political activity that is potentially lucrative. Given the resources required, it is an activity that is generally embarked upon by big firms who are more likely to have 'the means to do so' (i.e., resources) (Bonardi et al., 2005; Hafner-Fink et al., 2016). Hence, large corporations are the context of this study.

Research suggests that corporations compete to secure access. Once they have done so successfully, they then need to decide how and how often they need to interact with policymakers. The commitment of resources for policy advantage needs careful consideration because profitability can be affected if resources are not correctly allocated and used (Scott, 2001; Hillman et al., 2004; McWilliams., 2002). The two main strategies that firms utilise to interact with government are the relational approach and the transactional approach (Hillman and Hitt, 2003; Hadany, 2007; Ozer and Alakent, 2012; Rudy and Johnson, 2019; Fu and Sun, 2023.). The relational approach is underpinned by ongoing relations with politicians; here, the aim is to enhance mutual trust so as to proactively influence policy deliberation. The transactional approach is where the firm interacts with government on an issue-by-issue basis, such as in reaction to a crisis or to address policy issues that are affecting the firm's bottom line (see Hillman and Hitt, 1999 for a conceptual discussion). Firms at all times seek to secure domain advantage for better performance, so deciding which approach they ought to adopt and why is important.

Categorising access as relational or transactional is challenging for researchers because of the lack of data capturing encounters between firms and government. Given the sensitivities around policymaking (particularly policies which may generate winners and losers between firms, or which are at an exploratory stage) it is not always sensible or necessary for meetings to occur in public and many are held *in camera*. Hence, studies have assumed firms' degree of access by using data such as contributions to political action committees (PAC) and other soft money expenditures, the political connections of boards of directors, and the hiring of outside lobbyists (Hadani, 2007; Ozer and Alakent, 2012; Rudy and Johnson, 2019). Studies focused on understanding the impact of NMS on performance have tended to use the same data (Hillman, 2005; Lux et al., 2011; Hadani and Schuler, 2013; Sun et al., 2016; Hadani et al., 2017; Rudi and Cavish, 2020), with some studies reporting a positive relationship and others a negative or inconclusive one. Although these studies have advanced knowledge about the importance of NMS (to firms' survival) and have provided valuable insights into the tactics utilised by firms in the non-market arena, the mechanism through which NMS influences firms' performance needs further enquiry (Hillman, 2005; Rudy and Johnson, 2019). Hence, we suggest pursuing answers to the following questions:

Q1: Is NMS likely to be associated with improved firm performance?

Q2: What is the impact of particular NMS approaches on firm performance?

In order to examine the impact of relational and transactional approaches on firm performance, it is first necessary to identify and differentiate between them. This study offers a meaningful expansion of the understanding of performance in relation to NMS by drawing on Open Government Data (OGD). This is official data retrieved from the UK government website which, in the interests of transparency, has published all¹¹ government–business encounters since 2010 (O'Hara, 2011). OGD data provides an excellent record of encounters that can be examined in conjunction with the performance data of the firms involved, enabling us to answer Q1. The answer to Q1 is important for three reasons. First, it provides objective understanding of whether political meetings are likely to increase the fortunes of

¹¹ This study focuses on meetings across Whitehall (Cabinet office and ministerial departments). Obviously, it does not capture all meetings between businesses and agents of the state (e.g., those taking place at town and city level).

firms. Second, it may shed light on the divergence in the findings from past studies. Third, it gives more validity to the second question, Q2.

Answering Q2 is the main objective of this chapter. We do so by using the number of political meetings conducted by firms over the 8-year study period. We can thus distinguish between the relational and transactional approaches. Firms are understood to take a relational approach if the number of their political meetings has been above mean value for at least four years¹². Hence, only one independent variable is considered for our regression analyses. This variable is first used as a count variable of firms' political meetings to answer Q1 and then turned into a dummy coded 1 (for relational) and 0 otherwise (transactional) to address Q2. Our dependent variables are the conventional performance variables (Return on Assets and Tobin's q) commonly used in the literature. We tested our hypotheses and obtained results that indicate that overall, NMS overall exert negative impact on firms' performance. The more often firms meet government, the more likely they are to report negative performance outcomes; this suggests that the relational approach is more detrimental to firm performance than the transactional approach. Both return on assets (ROA) and Tobin's q yielded significant and negative correlations with our political encounters variable, and the results were consistent across all our models.

Our results challenge existing literature that finds positive correlations between NMS and firms' performance (see Lux et al., 2011 and Mellahi et al., 2016 for reviews). Contrary to the view that strong political connections translate into better performance, our finding suggests that the relational approach negatively impacts performance. This is likely because securing and maintaining political access requires a degree of resource leveraging that is disproportionate to the outcomes achieved (Guo et al., 2014). Firms sensibly expect a return on investment that is greater than (or at least similar to) the resources utilised in the investment. NMS does not necessarily allow firms to deal efficiently with the costs incurred, possibly because of the uncertainties associated with the 'dirty' business of politics (Hart, 1995). Hence relational and transactional approaches can be respectively described as bridging and

¹² This begs the question of how much more than the mean does it take for a series of encounters to be classed as relational rather than transactional? Obviously, a firm could meet with government many times in one year, but if those meetings are all focused on a particular problem that requires multiple encounters to solve the relationship can remain transactional. But securing lot of meetings over at least four years provides a good indication that the firm is interested in becoming enmeshed in wider and longer-term socio-economic and socio-political agenda setting and policy formation.

buffering strategies, which are utilised by firms to deal with external pressures (Blumentritt, 2003). Firms use the relational approach by continuously engaging with government to become part of the socio-political and economic agenda setting and policy process. This is a bridging mechanism, in that they adapt their activities to conform to external expectations (e.g., government's core policy agenda). They use the transactional approach of ad hoc encounters with government simply to address policy issues that affect them. Sometimes they do this in a conflictual manner with a view to limiting government interference. As such, the transactional approach is a buffer strategy that allows firms to maintain control over their activities and react to policy issues only when required (Meznar and Nigh, 1995: 976; Dieleman and Boddewyn, 2012; Zheng et al., 2015).

According to scholars, agency takes centre stage in the decision and enactment of NMS (Coates, 2012; Hadani and Shuler, 2013; Doh and Quigley, 2014; Sun et al., 2016). Boards of directors play a pivotal role in choosing the type of political approach adopted by firms. Obviously, NMS strategies may be decided by individual top managers, reflecting their own (personal) readings of the political landscape, which may well be wrong. By finding that NMS (and the relational approach in particular) deliver negative performance outcomes, this study aligns with past studies that find that many firms engage in NMS despite it delivering very little for them. The suggestion is that firms do so because they are wedded to NMS and to their mistaken belief that it will pay off. Since the chosen political approach may not be fit for purpose, their profit maximisation goals are likely to suffer.

The study is structured as follows. The next section reviews the existing literature on the relationship between NMS and performance—with an emphasis on access—in order to acquire understanding of the relational and transactional approaches. The third section discusses the data, measures, and methods used in the research. The fourth section presents the results of the analysis, which are discussed in the fifth section. Theoretical and methodological implications are addressed before we conclude by discussing the limitations of the research and making suggestions for future research.

4.2 Theoretical Framework and Hypotheses

NMS research has attracted considerable interest from scholars because of the impact of government regulations on firms' performance outcomes (Chen et al., 2010). Over the past three decades there has been a proliferation of studies scrutinising the benefits associated with firms' political encounters; these report both positive and negative outcomes (Agrawal and Knoeber, 1999; Hersch et al., 2008; Claessens et al., 2008). Scholars reporting that NMS generates desirable performance outcomes are fuelled by the

argument that there is a direct positive correlation between securing favourable government policy, and profit. Arguably, acquiring insider status enables firms to shape policy 'from the inside' and at an early stage, with a 'you scratch my back and I'll scratch yours' understanding developing between firms and government.

Researchers who take the view that NMS generates undesirable or inconclusive performance outcomes argue that the costs (resources) used to develop NMS outweigh the benefits accrued from such activities (Fan et al., 2007; Boubakri et al., 2008; Rajwani and Liedong, 2015; Mellahi et al., 2016). The political behaviour of firms has been noted to take many forms which will vary with the country context. Activities that have been studied include political action committee (PAC) contributions, soft money expenditure, hiring politically connected directors, providing testimonies to legislators and regulators, and expenditure on government relations staff or office space in Washington, DC. Scholars on both side of the argument have evidenced their empirical studies with data concerning one or more of these political activities. However, whatever form the politicising takes, what firms are seeking is to secure and maintain access to political elites in order to improve performance outcomes. Access has been used as a proxy for influence over policymaking, hence it is viewed as a crucial achievement of NMS endeavours (Hansen, 2000; Bouwen, 2004a, b; Defigueiredo and Tiller, 2001; Hillman, 2003; Eising, 2007a).

Although past studies have depicted the state of knowledge on firms' political behaviours, they often do not clearly identify the level of access that has been generated by a firm. Detail on this is required to facilitate a comprehensive appraisal of how political activities impact performance (Hadani and Schuler, 2013; Rajwani and Liedong, 2015; Barron et al., 2017). Hence there is reason to believe that the dissonant findings of past studies may well be due to a lack of sufficient and objective NMS data.

4.2.1 The Importance of Political Access

Beyers (2002:587) argues that firms' political access is defined as the activity of channelling or exchanging policy-relevant information through formal and/or informal venues with public actors such as government officials. Firms are keen to access government officials so they can monitor and shape decision making over the entire policy cycle (problem definition, formation, implementation, and formative and summative evaluation) and although this can lead to a considerable overlap in information sharing at different levels of the political arena, it increases the chances of success. Truman (1951), Hansen (1991), and Gullberg (2011) argue that access to political elites is viewed by interest groups as a means of securing influence—which is regarded as desirable—and that their tactics pivot

around nurturing or improving such access (Hadani et al., 2017). 'Access' and 'power' are thus conflated (Rehben and Shuller, 1999; De Figueiredo and Tiller, 2001; Blumentrit, 2003).

Even though acquiring access does not necessarily mean that firms will succeed in influencing policy in the manner they desire (Bouwen, 2002; 2004), politically active firms appear to believe that they stand a better chance of doing so than those on the political side-lines (Grant, 1993; Baron, 1997; 1999; Grant, 2000). Unsurprisingly, firms therefore seek to become 'insiders': the 'go to' actors that are considered worthy of speaking, and worth listening to by government (Wilson, 1993; Eising, 2007a). Obviously, however, the level of access will differ among firms because they have neither equal resources nor similar reasons to engage in policy making (Bernhagen and Mitchell, 2009). As such, Binderkrantz et al. (2017) argue that biased access may produce biased influence. Hence the performance outcomes of politically active firms will be sensitive to their degree of access.

The transparency data on the UK government's meetings with firms provides a useful account of the extent of firm directors' access to government officials. We utilise that data in this study to measure the degree of political influence (i.e., access) firms have in order to reach some plausible conclusions about how that access impacts firm performance.

4.2.2 Access and Firms' Performance Outcomes

As argued above, firms' influence or access to government actors should translate into better performance outcomes; this is the *raison d'être* of NMS. Studies have shown that it is difficult for firms to rely purely on marketplace strategies to achieve superior performance, hence they attempt to influence their regulatory environment (Baron, 1995; Getz, 1997). At the start of the 21st century, Shaffer et al. (2000) produced a seminal work that demonstrated that firms can adopt an integrated approach (market and non-market strategy) to secure positive performance outcomes. Peng and Luo (2000) and Hillman (2005) have also established that the political ties (facilitating access) of the board of directors exerts a direct positive impact on firms' performance. More recent studies have mainly focused on the impact of firms' political activity on profit maximisation because of the direct effect of policies on firms' operations (Baron, 2013; Den Hond et al., 2014; Liedong et al., 2017). By way of example, the automotive companies Ford Motor Company and MG Rover had to replace the newly fitted catalytic converters on all their vehicles as a result of EU legislation on vehicle emissions (Gordon and Hafer, 2005).

It has been observed that firms must be present in the political landscape in order to be actively involved in policy decisions that are likely to impact performance. For example, Dieleman and

Boddewyn's (2012) Indonesian case study showed that only firms with a high degree of political influence were able to secure sustainable increases in performance. However, Hadani and Schuler (2013) argued that this study was context specific and did not necessarily apply to Western countries such as the US, where political activity incurs significant costs. Sun et al. (2016) also argue that the personal interests of top managers can override firms' interests, resulting in firms achieving negative performance outcomes. However, further studies in the US have demonstrated that firms with strong government ties can secure policy advantage for better performance (McWilliams et al., 2002; Rodrik, 2014). Rodrik's (2014) case study of the US energy firm Solyndra is illustrative. The Obama administration invested heavily (\$535m) in Solyndra which spent \$1.9m on lobbying in just 3 years (2008-2011) while securing a provisional loan guarantee from the Department of Energy (DoE) in 2009. Rodrik (2014) argues that there are reasons to believe that the company appeared to be treated favourably because of their lobbying efforts and the fact that the top man at Solyndra was a political ally of Obama.

Firms are known for influencing regulation and or achieving policy favour through access to government and Maxwell et al (2002) demonstrates this by arguing that access allows firms to enter policy discussions and share relevant information that can lead to securing competitive advantage such as raising rivals' costs or preventing the use of substitute resources. Clearly, studies are generating different findings; more importantly, the findings imply mixed results on the NMS-performance outcome relationship (Gordon & Hafer, 2005; Lux et al., 2011; Hadani & Schuler, 2013; Sun et al., 2016; Hadani et al., 2017; Rudy & Cavish, 2020). What the studies mostly have in common is that they generally rely on political funding such as PAC investment as a proxy for access. Although it might indirectly be regarded as a proxy for influence, utilising a direct proxy measure for influence such as access data (political meetings) is pivotal to capture the process (mechanism) through which NMS influence firms' performance (Hillman et al., 2004; Brown et al., 2022). Utilising political funding measures confirm two things. First, the absence of any consensus within the field, and second, that a decision to engage in political activity or not will affect firm performance. There is no literature arguing that politics and political activities are irrelevant for firms. But more importantly, although these studies used political funding as a proxy for access, they suggest a relationship between access and performance.

Access confers firms with insider knowledge and advantage to enhance competitive stances. This is also supported by Georgious' (2005) study demonstrating that managers in the financial industry make use of information gathered from political advantage to shape business activities. This is important because it shows that access is deterministic to firm capability to enhance power relationship with government.

Hence, Access has been understood in the NMS literature as the condition sine qua non to achieve policy influence (Rehben and Shuller, 1999; De Figueiredo and Tiller, 2001; Blumentrit, 2003).

Understanding how and how often firms secure access to participate in states' economic decision process can only accurately be captured via objectives measure of firms' political encounters as opposed to political funding (e.g. lobbying expenditure; PAC contribution) which does not help one grasp whether firms have secured one or more encounters with government. Access allows Top Managers to be involved in states' economic decision making, process information to their advantages and be in a privileged position to eventually shape policy (Grant, 1978; Baron, 1997, 1999). Access is therefore best suited to firms' actors pursuing an insider strategy by using tactics (e.g. political fundings) to seek direct negotiation via meetings with government elites (Wilson, 1973; Eising, 2007a). As argued above, past studies have failed to provide an objective measure of firms' access to government. By practicing NMS, firms can only shape policy and or enhance business activities if access or insider policy knowledge has been achieved. Measuring level of access against performance is therefore relevant to accurately study NMS success and this study provides the opportunity to do so by utilising firms' political meetings data made available on the UK OGD. This UK government website provides a clear account of firms' political meetings with relevant ministerial departments including the Cabinet Office. The OGD therefore represents a reliable source to scrutinise firms' access (more discussions on the OGD is provided in the methodology section).

Needless to stress, political funding measures mentioned above do not necessarily provide an accurate or clear indication that firms have secured access let alone the pattern of such access for policy discussions. Therefore, these measures do not accurately capture the mechanism through which NMS influence performance. As demonstrated in our discussions, past studies do not provide a comprehensible and or direct measure of firms' political access. See also Table 22 for a brief summary of relevant literature mentioned above that investigates firms' political activity using political funding measures as a proxy for access in relation to performance.

Every firm is affected by government regulation, and their political commitment to NMS can shape their performance (Lawton et al., 2013b). The objective of NMS is to give firms access to political corridors through which they can mitigate uncertainty and gain an edge in influencing their competitive arena (McWilliams et al., 2002; Holburn & Zelner, 2010). Although past studies have generated mixed results, most of these studies have proceeded from the orthodox view that NMS is beneficial to firms' bottom line (Baysinger, 1984; Synder, 1992). The importance of government policy on firms' profitability

encourages scholars to study the success of firms in policy making arena and a considerable amount of literature have strongly evidenced a positive relationship between access and performance. As such, this study proposes to follow this conventional view by positing that:

H1: Firms' political meetings will be positively associated with performance.

The types of firm performance outcomes examined by the literature (Peng & Luo, 2000; Hillman, 2005; Bonardi et al., 2006; Goldman et al., 2009; Witko, 2011; Carretta et al., 2012; Hadani and Schuler, 2013) include stock performance (e.g., cumulative abnormal returns [CARs]), operating performance (e.g., return on assets and/or equity [ROA; ROE])¹³ Tobin's q, and policy performance (e.g., legislation, bailouts, government contracts). This study proposes to follow existing literature by utilising conventional measures of firms' accounting information (ROA and Tobin's q) to study performance in relation to firms' interactions with government.

Researchers on both sides of the argument with regard to the implications of NMS for firm performance recognise the importance to firms of being politically active. However, the mechanism through which NMS influences firms' performance outcomes remains obscure (Liedong et al., 2020; Fu & Sun, 2023) since so far less objective measures of firms access to political corridors have been used with also little consideration to conceptual framework. This study intends to advance knowledge in this regard by scrutinising firms' access patterns in relation to their performance. Hillman and Hitt (1999) and Hillman (2003) conceptual framework argue that firms will take a relational or transactional approach to their access behaviour.

4.2.3 Firms access behaviour - Political approach.

The instrumentality of NMS is based on the fact that some firms have more expertise to offer governments than others; such expertise can be considered to be 'access goods' in that they can be 'traded'. But as with any good, demand for a firm's expertise will vary; in our context, firms can move in-and-out of demand according to a government's political priorities and the prevailing social, political,

¹³ ROA and ROE are both accounting-based profitability ratios.

ROA: Net profit after tax/Total assets. ROA is used to calculate the operating efficiency for the company based on the firm's generated profits from its total assets.

ROE: Net profit after tax/Total shareholders' equity. ROE measures shareholders rate of return on their investment in the company.

economic, and industrial trends. The UK's industrial strategy, for example, is moving away from horizontal 'whole economy' interventions towards a mixture of strategic, sector-specific, sub-sectoral, and cross-cutting (thematic) interventions that potentially privilege different corporate interests at different times and to different degrees (BIS, 2011; BEIS, 2018). Depending on the objectives being pursued, resourceful firms will seize opportunities at any level of the political landscape to deploy their political approach.

According to Getz (2002), NMS can thus be understood as a transaction whereby firms give something to the government in exchange for access or influence or some other asset, and this often occurs on an issue-by-issue basis. In contrast, relational lobbying is less obviously instrumental. Here, firms focus on developing long-term working relationships with government (Lord, 2000). Even so, Anastasiadis (2006: 16) argues that both approaches pivot around a similar set of concerns: information, communication, reputation, and outcomes. Tactically, the transactional approach may involve direct or indirect (via third party) encounters with government, through which firms can offer information or even financial support. But the approach is also associated with conflict because it is typically aimed at preventing an unwanted government policy or limiting the effects of certain policies on business practices (Meznar and Nigh, 1995; Blumentritt, 2003). Firms taking a transactional approach, whether they act alone, collectively, or through lobbying firms, are therefore likely to adopt a confrontational stance.

If the transactional approach is indicative of a transmission model—wherein firms seek to get government to do something for them (and vice versa)—the relational approach is more indicative of a partnership model, being designed to minimise conflict and encourage shared understandings through the creation and maintenance of durable, interdependent, mutual gain relationships. Hall (1993) argues that social learning processes, in which the sharing of ideas is considered central, should inform policymaking to the extent that it becomes collective puzzle solving rather than a demonstration of power. This view has been echoed by Evans (1995), Rodrik (2007), Bailey et al. (2015), and Bailey et al. (2016), who all argue in favour of achieving embedded autonomy¹⁴ between private and public actors to facilitate and achieve smarter policy. However, Miller and Dinan (2008) reject the notion of NMS as a

¹⁴ Greater and systematic collaboration between private and public actors to facilitate and achieve smarter policymaking (i.e., throughout the policy making decision cycle of formulation, implementation, and monitoring).

rational, economic activity and see it as a communicative process. However, it is perceived, NMS should promote and encourage a deliberative process of policymaking rather than a confrontational and/or competitive one.

Various factors affect firms' decisions to adopt a particular approach. These include the firm's perceptions of how much government policy is likely to affect it, and the nature of the political environment in which it operates (in that pluralist environments facilitate transactional approaches whilst more corporatist environments facilitate relational approaches) (Hillman, 2003). Confusingly, Hauser (2011) and Hawkins and Holden (2014) argue that the pluralist environments of the EU and UK encourage firms to take a more relational approach. However, in such contexts the policymaking landscape can be exclusive, favouring firms that enjoy greater visibility or better connections. Domain specificities can also influence the type of approach. We have already argued that in complex and dynamic domains NMS is common, but it is also the case that firms operating in these sectors are likely to want to develop ongoing relations with government rather than to pick up issues on an 'as and when' transactional basis.

The desirability of the relational approach can be argued from an industrial strategy perspective too, as private and public actors can secure sustainable interactions through the exchange of information. This enables them to enhance their collaboration, which may allow them to respond efficiently to economic crises, or even to prevent them from occurring. For instance, the House of Commons (2005) blamed the Government and the Department of International Trade (DIT) for not doing enough to secure relevant information from private actors to avoid the 2000 crisis at MG Rover¹⁵. The then Labour government was accused of having insufficient experience at engaging with and building relationships with manufacturing firms. The degree of firms' engagement with governments is therefore pivotal to achieve smarter policy and better performance outcomes. This is understood as a mutual gains activity from which both parties can benefit. But the resources that go into such engagement do not necessarily guarantee favourable policy outcomes or tangible benefits for the firms involved (Guo et al., 2014).

¹⁵ <https://publications.parliament.uk/pa/cm200506/cmselect/cmpublic/1003/1003.pdf>

Relational and transactional approaches are widely documented in the literature, but few studies investigate the implications of each approach on performance. We have already argued that firms embark upon NMS to secure better performance outcomes, so it makes sense to not only comprehend the factors that influence how firms engage with government but also to assess the impact of these two main approaches on firms' fortunes.

4.2.3.1 Firms' Performance in Relation to Political Approach

Prior work has examined the political approach taken by firms that have access to government by looking at factors that help determine whether their NMS activities take a transactional or relational approach. Hillman and Hitt's (1999) seminal work has paved the way for such endeavour. The conceptual model built by these authors has been evidenced by other scholars in the NMS field (Hillman, 2003; Hadani; 2007; Rudy and Johnson; 2019); Banerjee and Venaik, 2018). Political activities are not embarked upon lightly; firms must assert their power or influence within a non-market landscape via resources they readily possess or are able to acquire (Getz, 2002; Dahan, 2005a, b; Lawton et al., 2013). Thus, the availability of resources represents a major driver of firms' capability to pursue their preferred access behaviours (McKay, 2012).

Other internal factors have also been found to influence a firm's political approach, such as their public affairs agenda, the information they possess (in terms of type, quality, and quantity) and the presence or absence of directors with political ties (Bouwen, 2002; Blumentritt, 2003; Esing, 2007; Mahoney, 2008; Chalmers, 2013; Liedong et al., 2020). Further, Ozer and Alakent (2012) argue that firms' existing structures influence their decision to take a relational or transactional approach. Firms that have a high percentage of ownership in financial institutions and those where the top managers are shareholders or receive high compensation pay tend to take a transactional approach. In contrast, Hadani (2007) argues that Family Funded firms (FFFs) where the founders maintain an executive role¹⁶ are likely to adopt a relational approach. Executives' influence over the approach taken by a firm has drawn the attention of scholars (Elsahn and Benson-Rea, 2018; Rudy and Johnson, 2019).

¹⁶ Owner-managers are notorious for being rather uninterested in listening to other people or collaborating.

Liedong et al. (2020) insist that information availability (i.e., having a rich stream of information to share with government) drives firms' decisions to take a relational approach. The intuitive assumption in most NMS research is that firms embark on political activity for better performance outcomes. However, although studies are assertive about firm preference in terms of political approach, they do not enhance our understanding about how that political approach impacts on firms' fortunes. Theoretical and empirical evidence has shown that there are two main approaches available to firms in how they interact with government: transactional and relational. But knowledge is lacking about how these approaches influence firms' performance (Rudy and Johnson, 2019; Liedong et al., 2020).

Whilst several theories, including institutional theory and the Resource Based View (RBV), have guided scholars' understanding around firms' decisions to adopt the relational or transactional approach (McWilliams et al., 2002), Resource Dependency Theory (RDT) provides fertile ground for understanding the implications of political activity on firms' bottom line. RDT sees co-optation as a political strategy whereby corporations establish links to the external environment by working closely with government and regulators to mitigate uncertainties with a view to improving performance (Hillman et al., 2009). Hence, RDT offers a promising perspective through which to study the effect of political approach on performance outcomes.

The need to effectively manage the external environment triggers the desire to achieve a connection with government actors. Business regulations take centre stage in firms' dependence on government and fuel their need to nurture political relationships (Pfeffer and Salancik, 1978; Getz, 1997). Bonardi et al. (2005) persuasively argue that firms are the demanders of policy and governments the suppliers. This provides a sense of embeddedness between both parties, which emphasises the need to create durable relationships of trust in order to acquire social capital (Nahapiet and Ghoshal, 1998; Hillman and Hitt, 1999). Politically connected firms are therefore understood to be well versed in the policy process, echoing RDT views about the need for firms to enhance their political leverage (Griffin and Dunn, 2004).

RBV explains how the most resourceful firms are best able to actively secure political power (Hillman, 2003; Lawton et al., 2011; 2013) and this has informed our decision to investigate only big corporations and explore how they control their political resources. As already noted, RDT investigates how firms manage their external environment; possessing the right strategy to deal with suppliers of external policies (such as government) and regulatory bodies is part and parcel of this (Pfeffer and Salancik, 1978). Hiring board members with political capital represents a distinct approach that firms take to formally and/or informally access the policymaking arena. Opting for a relational or transactional

approach is therefore pivotal to firms' political activities, and differentiating between the two can help with the examination of the implications of NMS on firms' performance outcomes.

4.2.3.2 *Firms' Political approach and Resources theories – RDT/RBV*

Resources' view will inform the hypotheses that are relevant to the purpose of this study. One of the main reasons for choosing these theories stems from the fact that it regards political influence as a good indicator of firms' performance outcomes (Griffin & Dunn, 2004). We have already argued that firms are keen to maximise profit through the channel of non-market activities. Hence their commitment to political behaviour and the resulting performance outcomes have been linked to the availability of political resources and perceptions of their degree of dependence (high/low) on government policy (Getz, 2001; Griffin & Dunn, 2004; Hillman, 2005; Schuler et al., 2002; Sutton et al., 2021). Our study is inspired by Hillman (2005) and Fu and Sun (2023), both of which draw on RDT. However, we differ from these works by looking in particular at the performance-related effects of the relational and transactional approaches.

Despite the high levels of economic liberalisation in Western countries, governments still have to manage their country's economic structures. This can be done by providing actors with an array of incentives that will drive how the economic landscape is shaped. Legislation thus influences the way firms function in the market and, consequently, their political behaviours. As such, Abolafia and Kilduff argue that market processes reflect "economic behavior that is strategic, political and embedded in institutional structure" (1988:177). As Baron states (1995), non-market components, which continue to be shaped by governments (e.g., regulations, policy) provide the structures that mediate how firms engage with the market. Firms therefore engage in political activity in order to seek better structures through which they can unleash their market strategy. According to Hillman and Hitt (1999), the first critical decision taken by firms when they are formulating their strategy for engaging with government is to decide on the overall approach. The choice between a relational or transactional relationship takes a number of factors into account, including the political context, the structure of the firm, and the firm's (tradeable) political resources. But more importantly, it is generally how often the encounters with political leaders take place that determines whether firms can adequately advance their political agenda to satisfy their interests (Lux et al., 2011). RDT sees political linkages as a mechanism put in place by firms to interact and exchange with policymakers. Political linkages are therefore conducive to a number of benefits, including accessing unique (crucial/complex/scarcely) policy process information (Pfeffer, 1972; Hillman et al., 1999) and legitimacy over policy decisions (Galaskiewicz & Wasserman, 1989). RDT

suggests a relationship between political power and such benefits, and scholars within the field have evidenced this. However, as demonstrated, the relationship only proceeds from the particular type of political approach utilised by firms to advance their interests.

As already mentioned, regulations represent the structure that informs firms' market strategy. Firms might decide to proactively shape this structure by attempting to influence policies before they are finalised (Baysinger, 1984) or they may react post-implementation if policies are found to negatively affect their activities (Lawton & Rajwani, 2011). Firms' regular involvement in policymaking is most obviously achieved through the relational approach, which can allow firms to exercise some form of control over decisions. This is supported by RDT, which suggests that firms seek to establish a channel of continuous engagement with government to pre-empt adverse policies capable of disturbing their activities (Hillman et al., 2009). Firms therefore seek regular contact with politicians via direct negotiation and exchange information (Wilson, 1973; Eising, 2007a). This privileged positioning within the political landscape can help firms secure and/or maintain a competitive edge in their market operations.

However, maintaining a continuous political presence (relational approach) does not necessarily translate into better market performance (Hadani & Schuler, 2013; Mellahi et al., 2015; Sun., 2015a; Sun et al., 2016). The literature identifies factors that can limit firms' abilities to leverage benefits despite their strong political ties to achieve relational approach. Personal gain motivations, such as self-aggrandisement and appropriation of firms' wealth, have been seen as some of the reasons ex-politicians may want to work for the firms they once regulated. Hence, as demonstrated by Sun et al. (2016), their commitment to their employer firm's political agenda using a relational approach may be for personal interest rather than to further the interest of the firm; this might potentially limit their ability to positively influence firms' performance. Further, conflicting behaviours amongst top individuals can generate disagreement regarding how, exactly, to advance the firm's political agenda (Shaffer & Hillman, 2000). Management theory argues that a firm's decision to engage in political activities emanates from an internal decision-making process. Selecting both the issues to bring forward to government and the appropriate individuals to represent the firm at government level can be a contested process that can result in strategic choices that do not reflect the firm's interests; the egos of top managers can therefore effectively undermine the benefits the firm might otherwise receive from their closeness (relational approach) to government (Shaffer & Hillman, 2000; Sun et al., 2016).

Political activities are resource intensive, requiring a shift of resources from the market to the non-market landscape and this can bring about a conflict of interest within the board (Lawton et al., 2013).

This is often due to a diversity of functional background in the top management team (TMT) (Rudy & Johnson, 2019). Those with legal and political backgrounds may be keen to routinely engage with government; other board members with different histories may prefer to focus on market operations, limiting political encounters and maintaining an arm's-length relationship with government. Such theorising is in line with the logic of RDT regarding the challenges facing firms who wish to achieve resource efficiency by effectively managing the political landscape for better performance (Boyd, 1990; Pfeffer & Salancik, 1978). Motives—be they economic or personal—are therefore pivotal to the choice of political approach, which may not necessarily be fit for purpose. Accessing political corridors might not be something that is founded in economic viability but rather an exercise driven by various preferences at board level.

Nevertheless, firms' active participation on the policymaking landscape is viewed as crucial for policy influence and continuous or relational approach to political encounters is identified as the mean through which firms achieve insiders' status for policy capture and or leverage vital business information to secure competitive edge. As such it can be posited that:

H2a: Relational approach to political activity is positively associated with firm's performance outcomes.

Sporadic encounters can be seen as a safe approach to achieve efficiency in political inputs by limiting the resources that are targeted at political operations. Infrequent encounters that respond to as-and-when demand may also signal to shareholders that the firm's senior management team is responding to potential crises. But these do not necessarily guaranty policy influence. Faccio (2006) argues that heterogeneity of political knowledge and connections within the TMT influence management's ability to efficiently deal with a 'business policy situation'. The need to secure and continuously maintain political linkages is viewed as fundamental to policy influence endeavour. Firms' political power can be dynamic and/or short-lived because of unexpected environmental crises or changes in government (Lester et al., 2008; Goldman et al., 2009; Sun et al., 2015). The latter is especially likely to see firms lose the insider status they achieved with the previous incumbent, leaving them reliant on transactional encounters. According to Liedong et al (2020) sporadic political encounters limit firms' ability to continuously share information with government and shape policy. Firms' lack of constant engagement with government for policy discussions can undermine their chances of being perceived as trustworthy and reliable policy-related information supplier. Hence transactional approach may not be sufficient for

firms to achieve policy capture for better performance. In that regard, and based on the rationale provided by the literature review, we posit that:

H2b: Transactional approach to political activity is negatively associated with firm's performance.

As depicted in the literature, several motives underlie the choice of political approach (Luo et al., 2021; Nalick et al., 2023). The effect of these motives on the NMS–performance outcome relationship is beyond the scope of this study, which focuses on whether positive or negative performance is achieved by the adoption of a transactional or relational political approach.

This conceptual discussion of the NMS literature has demonstrated that there is a shortage of studies that address the relationship between a firm's chosen political approach and its performance outcomes. This study proposes to explore that relationship. We therefore now proceed by discussing the methodology section to provide details on the methods we utilised to address this identified gap.

4.3 Methodology

In this methodology section, we describe and justify the research strategy adopted for the study of our hypotheses. According to Bryman (2015), research should be approached rigorously to ensure key variables are valid and accurately measure the phenomenon under investigation. Findings should be reliable and the research should be replicable. The chapter describes the overall research design. It then describes the data, and how it is sampled, analysed, and interpreted. The limitations associated with this investigation are also presented and evaluated.

Research Design

This study investigates the impact of firms' political approach on their performance. It comprises a longitudinal research design that analyses phenomena over a long period of time (Bryman, 2004). Time is viewed as a deterministic factor that helps improve understanding about the behaviours of variables. When conducting research, many phenomena can be better captured through a longitudinal examination (Rogosa et al., 1982), which involves repetitively measuring variables over a period of time to identify trends or patterns (Singer and Willett, 2003). A longitudinal study is also an appropriate methodology for linking variables and identifying causal relationships (which may be probabilistic, deterministic, or non-existent) and potential changes in those relationships (Willett, 1989). Rather than producing detailed analysis of a small number of firms' engagements with government on specific policy

issues, this study therefore utilises broad brushstrokes to comprehend the impact of firms' degree of access to government on performance outcomes.

The dataset was constructed based on data obtained from secondary sources; hence the sample was limited to publicly traded firms' activities from 2011 to 2020. However, we have commenced the study period with 2012 because this is the year the UK Government started to systematically release details of its meetings with firms; we chose 2019 as the end point because the coronavirus pandemic in 2020 interrupted established behaviours (Li and Lu, 2020; Bordo and Duca, 2021).

Given that this research examines the interaction of firms with the government of the UK, we collected data on firms listed on the London Stock Exchange (LSE)¹⁷, through which we could identify the market capitalisation of firms (i.e., whether firms were small, medium, or large in terms of stock value). Our initial sample consisted of all firms from the FTSE index as at 2019, and those with similar market capitalisation that were listed on the LSE. That sample amounted to around 650 firms. To increase sample size and allow comparison between firms, we included firms from the market indexes operated by Standard & Poor's: S&P Composite. We chose this index because of the strong financial market link between the US and UK, and also because the S&P index is frequently used in the NMS literature (Schuler et al., 2002; Schuler and Rehbein, 2012; Alakent and Ozer, 2014; DeBoskey and Luo, 2018). The defining criteria for market capitalisation value was based on the FTSE 350 index. Large firms are those with minimum value of £3 billion; firms valued below this figure but with minimum value of £500 million are deemed to be medium firms. The firms in both the large and medium categories are considered to be resourceful, with sufficient means to be politically active (Hadani and Schuler, 2013).

At this point it is important to mention that some firms on the LSE were also listed on the S&P, so the focus has been on collecting firms with higher or similar market capitalisation that were not already on the LSE and which operate within industrial sectors that were underrepresented in the starting sample. In total, 850 companies constituted the complete sample. Missing data meant that some firms had to be excluded from the analysis, which left a final sample of 480 firms. These were organised according to their key industrial sector using their US SIC code (Sun et al., 2016). Fourteen main industries were

¹⁷ An established UK market institution through which firms mainly based in the UK and or with subsidiaries in the UK trade their stocks.

therefore represented; the categories mirror those commonly referred to in business literature (Hillman, 2005; Sun et al., 2016; Hadani and Schuler, 2017). A list of the industries, together with their descriptions and subcategories, is provided in Table 16. It is worth mentioning that the ORBIS dataset was useful in providing a clear breakdown of firms and their main area of activities.

The dataset was thus compiled using various sources (Open access transparency UK, data.gov.uk, Orbis, and DataStream) to build an MS Excel spreadsheet upon which we performed several statistical analyses (e.g., descriptive analysis, regression). The next section provides details of the data gathering process.

4.3.1 Data Sources and Collation

The UK government's decision to promote transparency is demonstrated by the development of legislation that permits the regular release of information into the public domain (O'Hara, 2011; Cabinet Office, 2012). The 2010 UK Coalition Open Government's Data (OGD) Initiative consisted of publicly disclosing government information over the internet. OGD can be freely accessed and used by the public (O'Hara, 2011). The data is authorised for use and provides details of meetings that have occurred since 2012 between UK government departments and large numbers of corporate and non-corporate interests (Bates, 2012).

Government transparency data covers all 25 ministerial departments that act with the executive authority of the UK's government. These ministerial departments engage in delivering and coordinating the government's core policy agenda and making final decisions on policy consultations and proposals (Hennessy, 2000; Foster, 2005). Nevertheless, the Prime Minister exercises the highest political authority, followed by the Deputy Prime Minister. The assignment of functional tasks is within the sole remit of the Prime Minister (Eising, 2007) and the allocation of policy responsibilities generally remains stable for as long as the Prime Minister wishes (Foster, 2005). Thus, the Prime Minister allocates competencies to the heads of each ministerial department, which has implications for firms' strategies because they are required to coordinate and collaborate with political actors at different government levels. Firms are therefore keen to have multiple points of access to government to ensure that they can shape policy at different stages of development: when it is being formulated, when it is being implemented, and when it is being evaluated (Kohler-Koch, 1997). Only the firms with the relevant resources (access goods: Bowen, 2004) are able to do this effectively. Having access to government offers firms opportunities to be close to decision making, but they will also need to consistently represent their interests in a manner that allows room for flexibility. This flexibility means that they may have to change stance regarding a

policy if it proves to unpopular, unworkable, or has demonstrably failed to achieve stated outcomes (Hennessy, 2000). Firms therefore carefully plan their access and participation strategy (which may be individual and/or collective) to reflect the dynamism of public policy.

Existing studies have made assumptions regarding firms' level of access to government based on data such as corporate political investment (CPI) and PAC contributions (Schuler et al., 2002, Hadani et al., 2013; Sutton et al., 2021). In this study, we take advantage of a unique opportunity to capture the extent to which large and medium capitalised firms have access to UK government. The data is available from the UK government website and the Open Access Transparency UK; it provides information on meetings between the directors of our sample firms and government officials. Although these are, on the face of it, legitimate data sources, we nevertheless adhered to Scott's (1990:6) four criteria for legitimate data: Is the data genuine? Does it contain errors? Is it likely to be typical? Can it be interpreted effectively? The OGD provides an account of meetings between various government departments and interest groups (corporate and non-corporate), which facilitates a comprehensive account of the access achieved by a range of interest groups. However, only limited information about the subject matter discussed during the encounters is disclosed. Nevertheless, the data meets Scott's criteria.

We take a longitudinal approach in this study. interrogating UK's government website to identify which firms in our sample conducted meetings with policy decision makers and officials from the 25 ministerial departments over the eight consecutive years of the study period. We used this information to build a dataset, which we supplemented with firms' financial data obtained from sources such as Orbis and DataStream.

4.3.2 Dataset Development

The data did not pre-exist as a single and 'clean' dataset. Extensive investigation was undertaken to produce a useable dataset by examining and evaluating numerous spreadsheets from UK Government Transparency Data and the open access UK database of meetings between government ministers and business from 2012. The Office of National Statistics, as well as other valuable sources such as ORBIS and Bloomberg, have been helpful and we have been able to capture a true representation of the list of companies that have been listed on the London Stock Exchange and S&P indexes. We now discuss those data sources in more detail.

4.3.2.1 *Financial Times Stock Exchange (FTSE)*

FTSE is a system of quarterly ranking firms (subject to UK regulatory control) based on their market capitalisation (Biktimirov, 2004). Whilst only the 100 largest firms (i.e., those with market capitalisation reaching trillions of dollars) are included in the FTSE 100, the FTSE 250 includes mid-cap firms which have market capitalisation reaching just under \$4 billion. The FTSE 350 amalgamates the FTSE 100 and FTSE 250. Firms in the FTSE 350 are listed quarterly on the LSE (Danbolt et al., 2018).

4.3.2.2 *Bloomberg*

This is a relatively new professional system put in place by Bloomberg to retrieve firms' financial information (Coe, 2007). Using Aston University's Bloomberg Centre, we retrieved a dataset comprising all the firms that were listed on the LSE and S&P as at December 2019. This dataset provides information on firm size (number of employees and turnover), working capital, and other financial information which was necessary for creating the dependent and independent variables.

Retrieving data from Bloomberg was tricky because some of the firms had changed their names due to mergers or acquisitions. In such instances, Bloomberg tends not to store firms' past information and only data under the new name is available. This limitation was overcome by researching the historical data available from DataStream and Orbis.

4.3.2.3 *Fame/Orbis*

These are well-established systems that academic institutions utilise to retrieve businesses' information. Fame is more focused on disclosing the information that UK and Irish companies have provided to Companies House¹⁸. Orbis goes further by covering the information of companies across the world. This was particularly useful for identifying the SIC codes for the sample firms.

¹⁸ Processing firms' information that needs to be legally released in the public domain (Souitaris and Maestro, 2010).

4.3.2.4 *DataStream*

This is another very reliable database source that covers both the S&P and Compustat datasets (which are commonly used in the NMS literature). Hence, it provides a more accurate financial statement of the S&P firms.

We chose to engage with a number of databases to ensure that we had reliable financial information for our sampled firms and to secure homogeneity between variables. There was another advantage in that when we were identifying firm-level information, we could ensure that the financial data that informed the variables emanated from sources with the most information; hence we could mitigate the issue of missing data.

4.3.3 **Dependent Variables**

We now describe how we went about capturing and measuring the implications of firms' political strategy for firm performance. Existing studies argue that measuring firms' NMS performance outcomes requires both market and accounting-based measures. This is due to the multidimensional nature of firms' performance (Dalton et al., 1998). Scholars recognise that institutional factors have implications for firm performance. Formal institutions, such as regulatory systems, provide the boundaries within which firms conduct their activities and engage with the market. Regulatory regimes can facilitate or constrain firm behaviour (Kling and Schulz, 2009), potentially standing in the way of firms' ability to realise profits. Firms, therefore, always seek out favourable regulatory frameworks in their interactions with government. Whilst accounting-based measures such as Return on Assets (ROA)¹⁹ and Return on Sales (ROS)²⁰ are objective hard performance metrics that can help understand historical success, market-based measures such as Tobin's q encompass subjective measures for better predictions and are considered useful ways of capturing future performance (Dess and Robinson, 1984; Gentry and Shen, 2010). Hence, both measures provide a comprehensive understanding of firms' performance.

¹⁹ ROA is a ratio measure that determines how much profitability is generated through a company assets (Wijayanto, 2010).

²⁰ ROS or operating profit margin is a ration measuring performance by analyzing the percentage of the total revenue converted in net income (Mishra et al., 2009).

This study follows the prevailing approach taken by the NMS literature to measuring firms' performance outcomes (see Tuschke and Sanders, 2003; Hillman, 2005). Market-to-Book ratio (Tobin's q) has been used for market-based measures because it is a good indicator of value creation at shareholder level (Montgomery and Wernerfelt, 1988). Unlike market capitalisation, which captures capital market data, Tobin's q captures intangible assets (e.g., reputation, top management team's social capital, regulation advantages) that are associated with firms' performance. According to Hillman (2005), firms' efforts to shape regulation can also be comprehended through this measure. So the level or extent to which firms are 'inserted' into or embedded within the political arena must be regarded as an indicator of performance rather than merely a product of it. The Tobin's q of firms were retrieved from DataStream.

Financial and strategic measures can also be captured through accounting-based measures (for a discussion, see Pen and Luo, 2000). The accounting-based measure we used was Return on Asset (ROA), which, like Return on Sales (ROS) and Return on Equity (ROE), is a default measure widely utilised in the literature (for a review, see Lux et al., 2011).

4.3.4 Independent Variable

This study focuses on how level of political access impacts on firm performance. Our main independent variable is therefore Level of Access, which is a count variable recording the number of meetings a firm has with the UK government over an eight-year period. We subjected this variable to further statistical analysis, turning it into a dummy variable to better categorise and understand the relationship between firms' political approach and performance.

The operationalisation of the variables is informed by prior research. For example, Eising (2007) utilised a six-fold scale (no contacts/annual contacts/half yearly contacts/quarter yearly contacts/monthly contacts/weekly contacts) to conduct pairwise comparisons (T-tests) and establish the mean of access for specific interest groups at EU level. Although Eising's study is broad in nature and aimed at comparing the access levels of firms and umbrella bodies, it validates the appropriateness of utilising access types (number of meetings) to gauge firms' political strategy. His approach has been further evidenced by Hillman (2003), in which a survey asked four main questions that allowed a clear differentiation in the extent to which firms were engaged in government interactions (i.e., continuous or sporadic).

Utilising a 5-point Likert scale measurement, an average score of 3 was recorded for firms falling into the response category of 'continuous meetings', and a score of 2 was recorded for those with ad hoc

interactions. Comparing these averages, Hillman captured relational approaches (coded as 1) if, and only if, a firm response score was above 3; otherwise, firms were deemed to be using a transactional approach (coded as 0). Hillman's study does not provide a clear count of the number of encounters firms had with government over a year, but it does confirm that firms will take either a transactional or a relational approach to navigating the political landscape.

Like Hillman, we found that the average meeting score is 3; hence we coded the relational approach as firms that have had more than 3 meetings per year. We acknowledge that there is no objectively 'correct' number of encounters that clearly denotes use of a specific approach. But working with the mean is both common and useful, and we took additional steps to validate the categorisations. For example, we use the median and upper quartile of number of meetings to operationalise the relational and transactional approach. We conducted inferential analysis to gauge the implications of the two approaches on firm performance using a panel data model. To summarise: relational approach is therefore operationalised as number of meetings above 3; a dummy variable is then created with relational coded as 1, and transactional coded as 0.

Although this study is not intended to simply replicate previous studies, our method is consistent with prior empirical research that attempts to gauge firms' political strategies and performance. Again, the NMS field identified an extensive list of variables that can be considered to understand firms' propensity to be politically active and the implications of such a decision on performance. The variables we selected for use in this study are underpinned by the theoretical and empirical literature, and we discuss them next.

4.3.5 Control Variables

The NMS literature suggests that certain firm- and industry-level characteristics may influence the relationship between firms' willingness and/or capacity to engage in political activity and performance. We regard regulation/non-regulation as an intervening variable that is capable of contaminating the results. We therefore sought to discount its influence because if an industry is highly regulated, the firms that operate within it will probably be required to meet government agents (who may be local, regional, or central depending on the size and importance of the firm) on a regular basis.

Hence, we first controlled for the level of regulation at industry level. The literature distinguishes between regulated and non-regulated industries. According to Grier et al. (1994) the regulated industries are utilities, telecom, transportation, energy, banking, oil, and insurance. Baron (2000)

supplements these with biotechnology and various cultural 'sin' industries (e.g., tobacco, alcohol, and gambling). A dummy variable coded regulated industries as 1, and 0 otherwise to distinguish between regulated and non-regulated industries. We note that some industries are more regulated than others but since that debate is beyond the scope of this study, we have adopted the literature's consensus view of which industries are 'regulated' and which are 'non-regulated'.

Measuring firm size (logged market capitalisation) is relevant to assess the capability of firms to be politically active (Schuler et al., 2002; Bonardi et al., 2006; Hillman, 2005; Hadani and Schuler, 2013). Firms' years of experience (age) is used as a proxy for credibility and to scrutinise performance (which is crucial for NMS: Boddewyn, 1993; Luo, 2001). Indeed, Luo (2001) argues that the length of time a firm has been doing business and/or operating in a particular jurisdiction can be viewed as an indicator of their commitment to activities within this environment and the wider socio-political landscape. Firms that have been around for a long time have simply had more time to establish the sort of relationship with government they want (e.g., there is a longer period of time over which they can meet government more often).

Product diversification is viewed as an attempt by firms to increase their portfolio for better profit and it has been associated with a firm's propensity to be politically active (Schuler, 1996). Related diversification describes a firm that offers a fairly homogenous range of products and/or services; unrelated diversification describes a firm with activities spanning across industries (Palepu, 1985; Rumelt, 1991). Firms' degree of product diversification (related/unrelated) influences their scope of focus and participation on policy issues. For example, Hillman (2003) found that diversified firms tend to constantly engage with government. Firm's total diversification was measured based on their SIC codes, which allowed us to identify their related and unrelated products range. We go into more detail about our diversification measurement later in this section.

Working capital has also been controlled for because it is understood to have a direct impact on both short- and long-term performance, allowing firms to utilise their resources more efficiently (or not, as the case may be) (Raheman and Nasr, 2007). We also considered firm's intangible assets because these helps determine its value or performance; intangible assets can include the firm's technological sophistication, leadership capital, or TMT networking (Kaplan and Notron, 2004; Van et al., 2009; Jones and Temouri, 2017). We accounted for intangible assets using the ratio of intangible assets over total assets (IATA).

These controlled variables are viewed as political resources that are also relevant to the analysis of firm performance (Lawton et al., 2013). Slack resources—such as free cashflow—have also been considered as political resources and controlled for. Other conventional firm-level characteristics such as leverage (defined as total liability to total assets) and taxation (seen as an incentive to political activity because of its potential to impact profitability) were also controlled for (Salomon and Siegfried, 1977; Macher and Mayo, 2015; Sun et al., 2017). Finally, sector and year dummies are included to account for unobservable effects.

4.3.5.1 Note on Diversification.

The literature argues that depending on the context of a study, researchers can calculate the degree of diversification using the entropy measure by choosing between sales (Rugman, 1979; Geringer et al., 1989), number of employees (Caves, Porter, Spence and Scott, 1980; Kim et al., 1989), or value of asset (Horst, 1972; Caves, 1974) to represent firms' size. Hence, firms' sales across industries were used to calculate the degree of product diversification²¹ (TD: Total Diversification)²² using the entropy measure.

²¹ Product diversification: this represents the total diversification of the firm, accounting for Related (RD) and Unrelated (UD) level of diversification. Because secondary data in the public domain does not provide sales revenue by segments (SIC code) the operationalisation of the entropy index is based on *hypothetical numerical illustration* (see Palepu, 1985; Choi and Russell, 2005), whereby percentages of sales are spread equally based on the number of industry segments (4 digits SIC code [s]) in which a firm operates. This estimation method, which reflects a *subjective categorisation* initially used by Rumelt (1974) to understand firms' level of product diversification, generates results consistent with many strategic management studies (Palepu, 1985; Baysinger and Hoskisson, 1989; Hill, Hitt, and Hoskisson, 1992; Johnson and Moesel, 1994; Hitt et al., 1996), therefore demonstrating *construct validity* (Hoskisson et al., 1993).

Related Diversification: $RD = \sum_{j=1}^M RD_j p^j$; Unrelated Diversification: $UD = \sum_{j=1}^M RD_j p^j \ln\left(\frac{1}{p^j}\right)$

Pi = sales share of the ith segment; M= industry groups; RDj = Related Diversification from all business segments of industry j

ΣRD= sum of RDj; RD = Total related diversification per industry groups; UD = weighted sum per industry sales share of firm's total sales.

Firm's total diversification is obtained by using $TD = \sum_{i=1}^N RD_i p^i \ln\left(\frac{1}{p^i}\right)$; TD is sales share weight average and their log transformed taking the algebra form

²² **TD = RD+UD** See Jacquemin and Berry (1979) and Choi and Russell (2005) for detailed explanations.

4.4 Modelling

We estimated the following two Random Effect regression models to study the implications of firms' meetings and relational versus transactional strategies on firm performance (measured using Tobin's q and ROA).

$$Y_{it} = \beta_0 + \beta_1 FPM + \beta_2 TD + \delta_1 REGU + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \epsilon_{it}$$

$$Y_{it} = \beta_0 + \delta_1 FPA + \beta_1 TD + \delta_2 REGU + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \epsilon_{it}$$

Y_{it} represents firm performance variables ROA or Tobin's q, which are used interchangeably for firm i in year t . FPM represents the count variable of the number of meetings by firm i at time t . FPA is the measure of political approach, a dummy variable in which relational is coded 1 and transactional is coded 0. X is a vector of firm-specific control variables. TD represents total diversification of firm i at time t , and REGU measures the level of regulation at industry level, a dummy variable taking the value of 1 if regulated and 0 otherwise. Because this is a longitudinal study, it is important to control for year and industry fixed effects (η_t ; ν_t), which helps mitigate endogeneity and accounts for unobserved fixed effects (Baltagi and Chang, 1994; Singer, 1998; Pathan, 2009; Arifin et al., 2020). ϵ_{it} represents the error term at individual level with an expected value of 0. Most of the control variables were lagged by one year to alleviate potential endogeneity (Wooldridge, 2002; Sun et al., 2016) and account for the fact that performance outcomes can be affected by past political and financial variables.

We used Generalised Least Square (GLS) Random-Effect for our two regression models. Whilst the first model is operationalised with the initial count of firms' political meetings (FPM) as the main independent variable, the second model uses the dummy variables FPA (relational = 1 and transactional = 0) which are generated from the count of meetings.

Since the relational and transactional dummies created represent key variables for this study, the first estimation model is used to secure rigour and ensure that the analysis accounts for a possible loss of information when the independent variable (count of political meetings) is transformed into a binary (Shuler et al., 2002; Jones and Temouri, 2016). We take into account the potential for heteroskedasticity and ensure robustness by controlling for firms' headquarters (Arifin et al., 2020) when we run additional models based on our first two. Hence, four models were run for each performance outcome variable to help achieve robustness and consistency (Pathan, 2009).

4.5 Results

Various descriptive statistics and correlations are provided in Table 4. Variance Inflation Factors (VIFs) have been checked and were under the conventional cut-off point of 10 for all variables, demonstrating that multicollinearity is not present (Hair et al., 1998).

We started the multivariate analysis by performing the General Least Square Random Effect²³ method of estimation. Table 5 presents the regression results for the two dependent variables used. First, we take a general approach by analysing the effect of number of political meetings on firm performance outcomes. Models 1 and 5 are the first analyses conducted in this regard and they include all the control variables. In Models 2 and 6 we entered a new control variable: country group. This was a dummy variable in which we clustered countries based on their region. Models 3 and 7, and models 4 and 8 repeat the analyses conducted for the first four models but they replace the FPM independent variable with the FPA dummy variable (firm's political approach: relational or transactional). We conducted each set of analysis for the 2 dependent variables (ROA and Tobin's q), which meant that we ran a total of eight sets of analysis (i.e., 4 analyses per dependent variable). The results were overall consistent, and thus we discuss them interchangeably. The full specification of the model is considered in the discussion of the hypotheses.

In model 1, Firms' Political Meetings (FPM) have a negative and significant effect ($b = -0.142$, $p = 0.002$) on the likelihood of increase in performance. The standard deviation is 0.046, suggesting that on average, when FPM increases by one standard deviation, the probability of securing high ROA decreases by 0.006 percentage points (i.e., -0.142×0.046). Likewise, model 5 which analyses FOM using the alternative measure of Tobin's q, reports a negative coefficient and significant effect ($b = -0.021$, $p = 0.001$) on performance; one standard deviation increase in FPM generates a decrease of 0.0001 (i.e., -0.021×0.006) percentage points of Tobin's q. The hypothesis 1a that FPM can lead to positive performance is therefore not supported. However, hypothesis 1b (that FPM has a negative association with performance outcomes) is somewhat supported in that the average performance outcomes are lower for firms who are more politically active than they are for the firms that are less politically active.

²³ GLS-RE is mainly chosen because the explanatory variable Political Approach and some of the control variables (e.g., Regulation; Total Diversification) are time-invariant, thus can be estimated efficiently.

The fundamental aim of this study is to objectively comprehend the implication of political approach (relational versus transactional) on firms' fortunes. Although these results are promising, it is important to check their consistency and validity (Wooldridge, 2002).

Consequently, in models 3 and 7 we re-estimated the generalised least square random effect regressions for the FPA political meetings dummy variable (relational=1; transactional =0) instead of FPM. In model 3, the result shows that the estimated coefficient of FPA²⁴ is negative and statistically significant at 1% level. The difference in performance between the relational and transactional approaches is -3.260%. A relational approach will therefore see an average decrease of -3.260% in ROA as opposed to an increase in performance by a transactional approach. This increase in performance for transactional approach is further confirmed when, by changing the reference level (Transactional approach coded as 1) of the dummy variable FPA we obtain a positive coefficient 3.260%. In our model the dummy variable FPA is coded as 1 for relational approach and 0 for transactional approach which therefore represents the reference level. However, the model remains the same regardless of which approach is chosen as the reference level (Cohen et al.,1986, Lavrakas, 2008). Hence the coefficient (3.260%) is the same for relational and transactional, but it takes a negative sign for relational and positive for transactional. This is merely because of the difference in the mean of the response when transactional is at the reference level. Whilst the relational approach will see a decrease of 3.260% in performance, the transactional approach will see an increase of 3.260%. The same story holds for model 7, in which a relational approach produces an average decrease of -0.892 in Tobin's q as opposed to an increase of 0.892 for a transactional approach. For both performance measurement variables, the dummy variable transactional (+0) provides a baseline of comparison with the relational category.

It can be seen that the FPA coefficient is bigger in models 3 and 7 than the FPM coefficient in models 1 and 5. This suggests that the dummy variable FPA provides a circumference of FPM by assigning 1 to a relational category (meetings above the mean: 3.04) and 0 otherwise (transactional category). The geometrical implication of this is that there is only one unit difference between them and the determined categories (relational =1 and transactional =0) which produces only two regression lines with the coefficient and a vertical separation of the performance outcome variable (Aigner et al., 1975).

²⁴ Here the standard deviation is 1.018, suggesting that on average, a one standard deviation increase from the mean of count of meetings (3.04) leads to a reduction in ROA rate by 3.31 percentage points (i.e., -3.260×1.018)

This induces more accuracy between the 95% level of confidence of the true value at which firms' performance is negatively impacted by FPA. Hence, the use of the FPA dummy has increased the precision of the results by providing narrowed coefficients; the fact that our panel data set is balanced also assists with result precision (Mohr et al., 2021).

The results from models 3 and 7 are consistent with those from models 1 and 5, which helps confirm that better performance in our sample could only be achieved if a firm's political strategy was transactional as opposed to relational. This supports hypothesis 2. Firms that take a relational approach to NMS will probably have to embark on long-term relationship building and this could increase the costs of inputs for overall firm activities. Positive returns on performance outcomes are not associated with relational endeavours according to our study. Instead, the transactional approach limits resource costs by reducing encounters with government and using firm resources more efficiently.

Table 4: Descriptive Statistics and Correlations

Variables	N	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) Tobins' Q	4,455	2.912	42.57	1.000											
(2) ROA	3,201	6.547	8.252	0.447	1.000										
(3) FPMs	3,840	3.041	6.826	-0.013	-0.079	1.000									
(4) FPA	3,840	0.231	0.422	-0.016	-0.105	0.673	1.000								
(5) Leverage	4,625	24.62	19.8	-0.029	-0.188	-0.02	-0.01	1.000							
(6) TD	4,800	0.682	0.722	-0.020	-0.080	0.135	0.172	0.005	1.000						
(7) Regulation	4,800	0.702	0.457	0.004	-0.026	0.090	0.087	-0.025	0.122	1.000					
(8) AGE	4,635	3.343	0.942	-0.075	0.066	0.203	0.224	-0.028	0.266	-0.05	1.000				
(9) Market Cap	4,461	15.80	2.008	-0.021	0.095	0.350	0.378	0.165	0.475	0.230	0.307	1.000			
(10) Cash Flow	4,325	13.27	2.253	-0.066	-0.027	0.390	0.426	0.159	0.492	0.235	0.331	0.91	1.000		
(11) IATA	2,955	0.268	0.222	0.037	-0.067	-0.08	-0.16	0.083	-0.06	-0.15	-0.07	-0.08	-0.173	1.000	
(12) Working Cap	2,886	20.08	2.285	-0.087	-0.025	0.311	0.342	0.096	0.471	0.168	0.353	0.760	0.758	-0.140	1.000
(13) Taxation	3,536	18.20	2.375	-0.016	0.103	0.330	0.357	0.105	0.481	0.164	0.335	0.870	0.868	-0.140	0.799

Table 4 reports descriptive statistics and correlations of main variables used in this study, the N value differs per variables because of missing data. Summary statistics is reported on the sample achieved through the regression models. The tests are two-tailed and pairwise correlation indicates values with statistical significance at the 10 percent level.

Table 5: The effect of Firms' Political meetings (FPMs) and Political Approach (FPA) on performance

Variables	ROA				TOBIN'S Q			
	1 RE	2 RE-Robust	3 RE	4 RE-Robust	5 RE	6 RE-Robust	7 RE	8 RE-Robust
FPM	-0.142*** (0.046)	-0.125*** (0.06)			-0.209*** (0.006)	-0.015*** (0.004)		
FPA			-3.260*** (1.018)	-2.999*** (1.112)			-0.860*** (0.177)	-0.777*** (0.078)
AGE	0.096 (0.458)	-0.293* (0.155)	-0.046 (0.425)	-0.373*** (0.123)	-0.066 (0.077)	-0.088* (0.046)	-0.043 (0.069)	-0.061** (0.031)
Leverage	-0.032* (0.018)	-0.021 (0.030)	-0.029* (0.017)	-0.019 (0.031)	0.002 (0.002)	0.002 (0.0050)	0.003 (0.002)	0.003 (0.005)
TD	-2.078*** (0.703)	-2.697*** (0.776)	-2.086*** (0.651)	-2.652*** (0.813)	-0.410*** (0.128)	-0.473*** (0.056)	-0.455*** (0.112)	-0.510*** (0.057)
Market Cap	2.432*** (0.396)	2.162*** (0.61)	2.513*** (0.368)	2.252*** (0.513)	0.645*** (0.051)	0.617** (0.245)	0.572*** (0.049)	0.536*** (0.167)
Working Cap	-0.997*** (0.222)	-0.993*** (0.372)	-0.993*** (0.206)	-0.994*** (0.311)	-0.143*** (0.028)	-0.140** (0.061)	-0.160*** (0.028)	-0.156** (0.063)
Cash Flow	-0.605** (0.289)	-0.442 (0.271)	-0.700*** (0.270)	-0.542** (0.228)	-0.197*** (0.037)	-0.181* (0.107)	-0.167*** (0.034)	-0.154* (0.081)
IATA	-2.540* (1.541)	-3.934 (4.681)	-2.562* (1.427)	-3.973 (4.286)	-0.34 (0.209)	-0.518 (0.384)	-0.459** (0.199)	-0.651*** (0.216)
Taxation	0.326 (0.22)	0.387*** (0.140)	0.375* (0.207)	0.434*** (0.166)	-0.033 (0.026)	-0.033 (0.033)	-0.005 (0.026)	-0.002 (0.015)
REGU	-1.661* (0.987)	-0.27 (1.088)	-1.735* (0.916)	-0.273 (1.122)	-0.339* (0.183)	-0.118 (0.181)	-0.313** (0.159)	-0.079 (0.166)
Constant	-5.385 (4.043)	-3.365 (5.108)	-4.26 (3.77)	-2.691 (4.542)	-0.933 (0.635)	-0.892 (1.882)	-0.487 (0.578)	-0.38 (1.565)
Observations	1,431	1,431	1,628	1,628	1,658	1,658	1,632	1,632
Number of ID	289	289	293	293	298	298	293	293
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	NO	YES	NO	YES	NO	YES	NO	YES
Adjusted R2	0.0985	0.16	0.101	0.161	0.14	0.223	0.161	0.251

The table presents the GLS regression results of firms' performance outcomes on political meetings and political approach. The variables used are defined in table 4. Variables have been logged to improve homoscedasticity of the residuals and enable more detailed statistical analysis of the results. The statistical significance of the estimates is denoted with asterisks: ***, **, and * correspond to 1%, 5%, and 10% levels of significance, respectively.

Although consistency was achieved with the first four models, further analyses were conducted to check validity and robustness by controlling for heteroskedasticity and re-running the models. Hence, we introduced a control variable country group in models 2, 4, 6, and 8, re-running models 1, 3, 5, and 7 respectively. In STATA the command VCE was entered in the regressions model to allow independence between clustered regions and make the standard error robust (Duflo et al., 2008). Once again, as shown in Table 5, all the estimated coefficients are negative and statistically significant at 1% level. Models 4 and 8 strengthen our results for models 3 and 7 by confirming that the relational political approach has a negative impact on firms' performance. Given the mixed findings of past research and the arguments put forward in the literature review, we hypothesised that the two types of political approach would have opposing effects on firm performance: the impact of a relational approach would be positive (H2a), and the impact of a transactional approach would be negative (H2b). Our findings from this set of analyses show that instead of securing positive performance outcomes via the relational approach as predicted in H2a, firms experience a negative impact on performance. Moreover, instead of generating negative performance as predicted in H2b, firms adopting the transactional approach experience a positive impact on performance. While models 1 and 5 set the scene by showing that more political meetings are detrimental to firms' performance, models 3 to 7 confirm this by showing the precise effect that each type of political interaction has on firm performance.

Since the explanatory variable is a count variable that allows flexibility with the data, and given the mixed results generated by past studies, we decided to create further dummy variables from the FPM variable upon which we could conduct additional analysis to see if the results in Table 5 would be different. As such, we considered firms from the upper quartile of total meetings to create a dummy variable of political meetings. For this, we coded the relational approach as 1 for firms that conducted between 6 and 65 political meetings,²⁵ and 0 otherwise (0=transactional). The results are displayed in Table 19. Although in some of the models the FPA variable is not shown to be statistically significant (see models 4, 5, 6, 7, and 8)²⁶, its coefficient for all 8 models is still negative. This analysis therefore

²⁵ The maximum number of political encounters achieved by firms in the sample over one year.

²⁶ This could be due to the sample size alteration we performed that reduced the sample of firms with meetings (\geq to 6 or \geq to 16) to create the new FPA dummy variable. Hackshaw (2008) argues that it is hard to estimate the true effect with a small sample size as the p-value tends to be large, indicating that decrease in performance is likely to be also due to unobservable factors.

does not contradict the results shown in Table 5. Political meetings that evidence the relational approach negatively influence firms' performance outcomes. These last results confer legitimacy on our first approach of utilising the mean of political meetings as a threshold above which firms' political meetings were categorised as relational, while those from 0 to the mean (3.04) were categorised as transactional. This is because the new set of analyses conducted with dummy variables have all yielded negative performance outcome results.

4.6 Robustness checks

Although the above findings are consistent and valid, additional robustness checks were conducted to substantiate the initial results in Table 5. NMS is path-dependent by nature: firms make decisions and embark on certain behaviours based on, *inter alia*, internal (organisational) predispositions, and potential and actual shifts in the external environment (Perchard and MacKenzie, 2021). They may also do because senior management perceives certain behaviours to be a way of improving the organisation's competitiveness and profits (Hambrick, 2010). Thus, it may be important to ask whether firm performance triggers a decision to interact with government, or whether interactions with government shape firm performance²⁷. Therefore, the issue of endogeneity²⁷ needs to be addressed to make sure that the error term is not correlated with the explanatory variable and to mitigate for reverse causality in our estimation model (Duflo et al., 2008; Lynch and Brown, 2011). We follow the approach of past studies and use a dynamic panel generalised method of moments (GMM) model, which includes as instruments lagged differences of endogenous controls or less relevant independent variables (Anderson and Hsiao, 1982; Breusch et al., 1989; Culyer, 2014; Lim, 2022).

To enhance the efficiency of the results, System GMM, which allows for the inclusion of more instruments, was used. Hence, we were able to account for temporal dependence by lagging the values of the dependent variable so they could be used as explanatory variables also. Further, both the dependent and independent values were lagged so they could be used as instruments, which offered another way of dealing with the issues of reverse causality and simultaneity.

²⁷ Outcome variables Performance: ROA and Tobin's q are in fact predictors of firms' political meetings, so simultaneity or the reciprocal effect between the dependent variables and the explanatory variable need to be investigated. Failing to take this into account increases the likelihood that our results present biased coefficients, which can engender overestimation of the effect size of the explanatory variable (Lynch and Brown, 2011).

The results in Table 6 generally show a similar pattern to the initial results in Table 5. Although use of the lagged approach proved that firms' performance outcomes were statistically significant, as were some of the control variables across all 4 models, the most revealing findings concerned the negative coefficient of the independent variables FPM and FPA, and the significance of the p value at 1% level across all 4 models. After controlling for unobserved heterogeneity, simultaneity, and dynamic endogeneity through use of the GMM approach (Schultz et al. 2010), we can confirm that the results achieved in Table 5 hold true: conducting more political meetings (i.e., adopting a relational approach to political activity) has a negative effect on firm performance.

To perform the GMM analysis, Xtabond2 command was used in STATA to make sure that the Sargan and Hansen tests (for overidentification and serial autocorrelation of the error term) were reported directly (Labra and Torrecillas, 2018). These tests are important to make sure that the model is correctly specified and that the instruments chosen are exogenous. The results validate the model because the tests did not reject the null hypothesis (see Table 6). Neither test is significant, implying that our instruments are exogenous. We scrutinised this further by using the Arellano-Bond test for serial correlation, given the expectation that the error terms of two different time periods are uncorrelated. With this test, AR (1) should reject the null hypothesis and AR (2) should accept the null hypothesis; this evidence that the lagged dependent and independent variables are not correlated. Our models met these specifications; therefore, we can comfortably confirm that the chosen instruments for the estimation of our models are valid.

Table 6: GMM estimation for the effects of NMS political meetings on firms' performance outcomes

Variables	SYSTEM GMM			
	Model 1	Model 2	Model 3	Model 4
L. Tobins'Q	0.196* (0.107)	0.116 (0.094)		
L2. Tobins'Q	0.285*** (0.082)	0.249*** (0.070)		
L.FPMs	-0.023*** (0.006)		-0.102*** (0.035)	
Age	-0.06 (0.049)	-0.066 (0.052)	0.089 (0.295)	0.143 (0.294)
LEVERAGE_4	-0.006** (0.003)	-0.006** (0.003)	-0.064** (0.025)	-0.067*** (0.025)
TD	-0.179*** (0.069)	-0.222*** (0.070)	-0.870** (0.418)	-0.947** (0.416)
MARKET Cap	0.557*** (0.159)	0.668*** (0.166)	-0.723 (0.815)	-0.650 (0.822)
Working Cap	0.112 (0.124)	0.084 (0.119)	-1.571*** (0.316)	-1.543*** (0.312)
Cash Flow	-0.395*** (0.084)	-0.469*** (0.085)	1.093* (0.616)	1.105* (0.628)
Taxation	-0.094 (0.151)	-0.079 (0.140)	1.681*** (0.513)	1.679*** (0.503)
REGU	-0.106 (0.078)	-0.106 (0.082)	-0.931 (0.567)	-0.922 (0.566)
IATA	-0.386* (0.198)	-0.444** (0.217)	-0.488 (1.444)	-0.899 (1.450)
FPA		-0.466*** (0.093)		-2.361*** (0.673)
L.ROA			0.358*** (0.070)	0.359*** (0.068)
L2.ROA			-0.014 (0.027)	-0.015 (0.029)
Constant	-2.243** (0.944)	-2.330** (0.944)	6.152* (3.512)	4.628 (3.550)
Observations	1,452	1,452	1,462	1,462
ID	294	294	293	293
AR (1)	0.0512	0.0542	0.0001	0.0001
AR (2)	0.100	0.116	0.244	0.235
Hansen	0.728	0.874	0.586	0.788
Sargan	0.323	0.243	0.602	0.728
Instruments	21	24	27	27

GMM: generalized method of moments. Notes: Robust standard errors are in parentheses. The statistical significance of the estimates is denoted with asterisks: ***, **, and * correspond to 1%, 5%, and 10% levels of significance, respectively.

4.7 Discussion

Using the UK open government data, we identified a list of large firms (drawn from the FTSE) which had conducted political meetings over a study period of 8 years. We constructed a dataset comprising the key characteristics of the firms, their SIC, and the number of meetings they had conducted over the study period. We examined how these political meetings affected firms' performance outcomes and found consistent results across our analyses. We first looked at how the number of political encounters of a firm related to its performance outcomes, measured by ROA and Tobin's q. The results showed a significant negative association between FPM and these performance measurement variables. Then, using Hillman and Hitt's (1999) conceptual framework of firms' political strategies, we operationalised the count of political meetings variable (FPM) and classified firms' political relationship based on the mean number of political meetings to produce two categories of political approach: transactional and relational. These were coded as dummy variable FPA to study their impact on performance outcomes. The results are consistent with those from the first analysis, and show that the relational political approach has significant negative association with both ROA and Tobin's q. These results are robust after controlling for year, industry effects, and region clusters, through which we account for contextual factors at industry and country level. We also found consistent results when we conducted the GMM test for robustness.

The study makes a useful contribution to the NMS literature by explicitly and objectively using data on firms' political meetings to understand the effects of relational and transactional political approaches on firm performance. Such an approach is long overdue, given that scholars in the field have hitherto failed to fully capture either the frequency of meetings (which is how we classify an approach as relational or transactional) or their impact on performance. Access to political corridors is central to political activity, so a study of this nature is clearly valuable.²⁸ For instance, Hillman (2005) points at mixed support on the association between firms' political bonds and better performance. Clear and consistent results could not be achieved, which might be because the study took the number of board-level directors with political backgrounds as an indication of frequency of political access, through which

²⁸ We accept here that our findings are somewhat counterintuitive. Given the choice, few business people would think that a relational approach is inappropriate. Even on the basis of this research, it would take a brave Chief Executive Officer to abandon their firm's objective or current practice of getting as close to government as possible, not least because it requires firms to swim against the current.

policy could be influenced. Although this method has merit, it lacks the directness and elegance of our approach. Similarly, a majority of the studies investigating performance in relation to NMS have been unable to objectively identify the number of encounters taking place between firms and political actors in their quest to understand how NMS might impact on firms' performance (Bonardi et al., 2006; Sun et al., 2016; Hadani et al., 2017; Rudy and Cavish, 2020). In short, there is no consensus.

What is exceptionally interesting about our study is that it has identified a negative and significant association between a relational approach to political activity and performance. Although the literature and RDT claim that such an approach will generate clear benefits for firms (Amore and Bennedsen, 2013; Ridge et al., 2017), this is not supported by our findings. Indeed, we found that fewer, targeted meetings are more beneficial. Clearly, firms should carefully weigh up the costs of their political activities. In this case, more is definitely not necessarily better. Firms cannot just assume that more meetings automatically mean greater influence, which will then unproblematically translate into improved performance outcomes. Ad hoc meetings convened to discuss particular issues may make meetings more productive. Firms would also be able to clearly identify if they had achieved their target, which would allow them to make informed decisions on their next political move. Arifin et al. (2020) support this view by arguing from the stance that the transactional approach is inherently risky in that the firms that are seen to be getting too close to particular administrations are liable to experience a turn in their fortunes once there is a change of government.

By taking a transactional approach, firms may be more in charge of their destiny and better able to pursue policy goals that are more aligned with their overall business objectives. This has been described as a buffering strategy through which firms can protect their activities from potentially adverse developments in the external environment by limiting their engagement with government. It may be more cost-effective for firms to limit their political involvement to coping with known and concrete problems that are of immediate concern and for which there are often known and concrete policy solutions available (Meznar and Nigh, 1995). In contrast, the relational bridging strategy is typically used by firms to align their internal goals with those of the government via the cultivation of a long-term, mutual gain relationship (Blumentritt, 2003).

Given our findings, it is arguable that a relational approach is of more benefit to government than it is to firms. This aligns with Kooiman (1993) and Baldwin et al. (1998) who argue that public policy problems and policymaking processes are complex; firms' expertise is therefore a valuable commodity that is welcomed by government. For instance, the governments of Singapore, Malaysia, Thailand, and

Vietnam were able to develop advanced technological capabilities by developing very close relationships with multinational companies (MNCs) to deliver on industrial policy (Amsden and Tschang, 2003; Felker, 2003; Jomo, 2004). The political expertise of MNCs was particularly highly valued because many members of their boards of directors were ex-politicians. Hadani and Schuler (2013) and Hambrick and Mason (1984) argue that ex-politicians who sit on boards of directors often continue to pursue an explicitly political *modus vivendi* in business by supporting governments with valuable information. And their expertise and knowledge of the political landscape are pivotal to firms' policy success because they understand how to utilise the firms' political resources to deploy and coordinate their NMS (Sutton et al., 2021; Wei et al., 2022). Hence the explicitly political approach of some TMTs is seen as a tried and trusted way of advancing the firm's interests.

Top managers are also relatively free to shape firms' NMS in this manner because firms' political activities are less visible and largely unreported (Chaney et al., 2011; Hadani, 2012). Hadani and Schuler (2013) observe that shareholders are not routinely notified of NMS expenditure in what is described by Igan et al. (2009) as a moral hazard resulting in increased level of agency costs. By pursuing their personal interest, managers are likely to generate additional costs to firms merely because they possess superior information (i.e., informational asymmetry), which allows them great control over firms' political strategic choices. As such, resources diverted to political purposes might just be too much or too little to deliver the expected positive returns on performance—there is a lack of transparency and scrutiny. For obvious reasons these problems occur less frequently and are less salient within the transactional approach.

Overall, we argue that the relational approach is labour and resource intensive. It might be advisable to reserve it for fuzzy, long-term issues that have no serious implications either way; the transactional approach, on the other hand, should be used for big important issues that have strong implications (win or lose). It is possible that firms adopting the relational approach do not want to push too hard on policy matters because they are more interested in cultivating a long-term relationship than quick wins. But we need to recognise that there is a power asymmetry in this relationship: government remains the most powerful actor. It is possible that governments allow certain firms to get close in order to 'incorporate' or 'capture' them, blunting their effectiveness with promises of 'you scratch my back and I'll scratch yours'. Or it could even be a case of 'keep your friends close but your enemies closer'! Maybe the firms that gain most benefit from the transactional approach are those from sectors with particular constellations of problems that (i) crop-up relatively infrequently, and (ii) are concrete, immediate

and/or solvable (and therefore winnable). Whereas firms engaging in the relational approach are from sectors with problems that are less immediately identifiable/serious/solvable/winnable. These are interesting points, and likely require discussions that are exploratory and horizon-scanning in nature.

4.8 Limitations

Our study has several limitations. First, only 40% of firms from the dataset had political meetings. A bigger sample would have seen an increase in the number of politically active firms. So, we were not able to repeat our analyses with only politically connected firms to see the difference in performance between both groups (Arifin et al., 2020).

Hogge (2010) argues that the open government database was designed to achieve greater transparency. However, the data does not provide detailed information about the issues being discussed. Nor do we see the psychological distance between the parties: some issues may easily result in agreement whilst others may not. A relational approach may be reserved for less important matters or for exploratory discussions. Neither of these are therefore likely to have a serious impact on either party's fortunes, but they may not be cost effective at the firm's level. The transactional approach may therefore be used for immediate, important, big issues—such as tax policy negotiations—the outcomes of which will have a very big impact on the parties (good/bad; win/lose).

Second, the Holy Grail of NMS research must, surely, be to identify whether these meetings affect public policymaking outcomes to the benefit of firms. Unfortunately, the OGD data cannot answer this question; indeed, it would be difficult to imagine any research design capable of unequivocally doing so given the acknowledged difficulties of proving that Policy A would not have become Policy B had Actor X not intervened using Strategy Y because, of course, X *did* intervene in the manner it did. Careful (most similar) comparative work (particularly those adopting a case study approach) investigating changes to Policy A in the absence of Actor X (or in the presence of Actor X using Strategy Z) might hold the answer (Greer, 1991; Hawkins and Holden, 2014; Smith et al., 2015) but such exercises are outside the remit of this study.

Our study has revealed the crucial role played by the agency of boards of directors in firms' decisions to adopt a relational or transactional approach, and the implications of this for firms' performance. Regardless of the issues at play and the circumstances in which strategic decisions are being made, managers' agency might prevail, shaping their perceptions and guiding their actions (Hambrik et al., 2005). Whittington (2007) argues that managers are central to strategic decision making. Hence, future

studies should explore boards of directors' demographic traits and political background to understand their role better. We suggest that upper echelon theory offers a promising jumping-off point here (Ozer, 2010; Rudy and Johnson, 2019).

Finally, since performance outcomes are measured by looking at firms' inputs in relation to outputs, ROA and Tobin's q are default measures used in the NMS literature, but they do not really advance our understanding about the dynamism between the utilisation of tangible and intangible resources in relation to outcomes. ROA does not really capture intangible resources (e.g., managers' political expertise) so it is not viewed as a meaningful performance measure in sectors such as finance, insurance and real estate (Bertrand et al., 2007). And although Tobin's q does encompass intangible assets, it provides only a broad indication of how managers use firms' resources to improve performance (Hersch et al., 2008). Further financial measurements, such as Total Factor Production, should be considered to more fully understand how the resources deployed in either the relational or transactional approach have been used. Intangible resources are critical to firms' performance and relevant to the NMS field because they capture managers' expert ability to make informed political decisions (Ozer and Markóczy, 2010).

5 The Political Approach and Conduct of Non-market Strategy and Firms' Performance

5.1 Introduction

Over recent decades, firms have shown significant interest in participating in the non-market landscape. Their involvement is permitted because they possess resources and expertise that are deemed relevant to the delivery of smart policies (Dahan, 2005; Mahoney, 2007; Abdel-Latif and Schmitz, 2011). Governments value firm input into their policy decision-making processes because it helps achieve legitimacy and positively influences economic prospects (Baumgartner et al., 2009). However, firms are keen to influence policy in a way that benefits their bottom line. Non-Market Strategy (NMS) is designed and enacted at firm level to achieve policy capture (i.e., policy decisions that best support the interests of the firm) for better firm performance. It is, therefore, a normative behaviour that is very much understood and promoted in the business field (Baron, 1996a; Schuler et al., 2002; Dowding 2012). Firms display considerable heterogeneity in their ability to compete in the political environment to access government and influence policy, and they may act alone and/or with other firms (Capron and Chatain, 2008; Ozer and Lee, 2009).

A plethora of studies argues that NMS does not happen in a vacuum. Firms craft their NMS, so it reflects their capabilities and potential; their underlying objective is to create value for shareholders (Baron, 1997; McWilliams et al., 2002; Aragon-Correa and Sharma, 2003; McWilliams and Siegel, 2011; Bonardi, 2011; Lawton et al., 2013; Hadani et al., 2017). Firms who wish to secure policy advantage must decide how often it will suit them to meet with government, and whether their meetings are to be conducted individually and/or collectively (Baron, 1999; De Figueiredo and Tiller, 2001). The number of meetings will affect their strategic approach to NMS (i.e., it may be relational or transactional) and they can work alone in this or with other firms (Hillman, 2003). These strategic decisions are important because, just like market activities, non-market activities are designed to achieve a return on investment. Whilst the relational approach is typified by frequent encounters with policymakers to proactively mitigate policy risks, the transactional approach is associated with irregular meetings to reactively address policy issues when needed (Hillman and Hitt, 1999). Collective action is observed when two or more firms collaborate to advance policy interests; individual participation refers to firms' decision to act unilaterally in the political landscape (De Figueiredo and Tiller, 2001; Jia, 2014; Rajwani et al., 2015).

According to the literature, the factors that underlie how these strategic decisions are made include resource availability at firm level, industry conditions, political systems, and top managers' political inclinations (Salamon and Siegfried, 1977; Masters and Keim, 1985; Coen, 1999; Hillman and Wan, 2005; Oliver and Holzinger, 2008; Lawton et al., 2013; Liedong, Peprah, Amartey and Rajwani., 2020). Whilst resource endowment remains central to leveraging political capabilities, competition at industry-level enhances or prevents coalition-building behaviours. The context in which political activities take place sets the norms and rules of the political game, with corporatist systems facilitating relational and consensus-building strategies, and pluralist systems prompting individualistic behaviour under both the transactional and relational approaches. The political expertise and commitment of the firm's management to non-market activities also influences the firm's political strategy (Hadani and Schuler, 2013).

It is evident from the clear strategies that firms have for engaging in explicitly political activities that firms regard NMS activities as having utility. The existence of such clear strategies also facilitates the examination of NMS. However, we still do not have a full picture of the implications of these strategies for firm performance. The literature does not agree on whether NMS generates positive or negative outcomes, and the lack of objective data means there has been little scholarly interest in scrutinising the direct effects of either the political approaches and/or the meeting participation levels on performance (Hillman et al., 2004; Lux et al., 2011; Chaney et al., 2011; Hadani and Schuler, 2013; Chen et al., 2015; Liedong and Rajwani, 2018; Sun et al., 2016; Liedong et al., 2020; Rudi and Cavish, 2020). We propose to try to fill these gaps in the literature by asking three questions:

Q1: What is the effect of NMS (firms' political meetings) on firm performance measured by Total Factor Production (TFP)?

Q2: How is the firm's performance influenced by its chosen political approach and its chosen participation level?

Q3: How does the combination of chosen political approach and participation level shape firm performance?

Studies have provided limited empirical support to answer these questions, especially with regard to the direct relationship between firm performance and the two strategic choices firms make when they operate in the non-market landscape (Hillman et al., 2004). Sensitivity around policy decision-making process with regard to the potential for firms' undue influence limits the availability of objective data.

Studies into the impact of the choice of NMS on firms have dealt with the lack of direct measures of political meetings by utilising indirect measures such as political action contribution (PAC) donations, soft money expenditure, trade association membership, the political connections of boards of directors, firms' ownership structures, and petitions or testimonies given to policymakers (for review, see Lux et al., 2011; Hadani et al., 2017). The studies that do manage to directly study encounters between firms and legislators do not show how these relate to firm performance (Schuler, 1996; De Figueiredo and Tiller, 2001; Hillman, 2003).

This thesis provides a major addition to the literature by directly scrutinising not only the effect that the number of political encounters has on performance, but also the effect of individual and/or collective encounters. The UK Government OGD (Open Government Data) data provides a clear account of how often individual firms and/or groups of firms interact with government. As such, we can objectively construct relational versus transactional encounters as a dummy variable using the mean threshold (3.04) of firms' meetings, which we control for in some of the models that analyse both political approach and participation mode in relation to performance. The objectivity of the data allows us to answer our first research question; we thereby address the divergence in performance results noted in the literature. More importantly, our results also confer robustness on how we answer the second question, given that this requires us to transform the political meetings count variable into a dummy variable, with consequent potential loss of information (Luo, 2001; Jones and Temouri, 2016). For question 2, we utilise the count variables of the unilateral, collaborative, and hybridised (Individual and collective) meetings of firms before introducing a political approach dummy variable, though which we confer legitimacy on question 3. We potentially add to knowledge by directly scrutinising firms' two strategic choices for NMS, and how these relate to performance. We use Total Factor Production (TFP) as a measure of firm performance because it captures more accurately the resource utilisation of firms for political purposes. This is a very comprehensive measure that is frequently overlooked in the field, but which can generate an insightful cost–benefits assessment of firms' inputs versus outputs (Brooks, 2008).

Testing the hypotheses built under our three questions, we obtain a clear breakdown of scenarios under which NMS tends to generate positive or negative performance. We found that, overall, NMS generates negative performance only if the relational approach is chosen instead of a transactional one. This is confirmed to be the case regardless of meeting participation mode. The transactional approach generates positive outcomes via unilateral or hybridised meetings as opposed to collaborative

meetings. These results were consistent over all models and reinforced the importance of using valid objective data in the study of NMS. Our novel data generation method has put us in a better position to align both sides of the argument and to provide a clear account of how NMS achieves positive versus negative performance.

The challenge of achieving positive performance is, therefore, not just about securing strong political ties, as has been argued somewhat simplistically by the literature, but also by making sure that efficient, constructive meetings are held when they are required. NMS is a resource-intensive exercise and although taking a proactive approach to meetings can pre-empt imminent political problems and enhance firms' competitive edge, the costs of non-market activities can render them counter-productive, especially in a field of action that is risky and dynamic at the best of times (McKay, 2012; Arifin et al., 2020; Fu and Sun, 2023). Hence, our results help minimise the risks to firms by showing that firms that adopt the transactional approach in unilateral or hybridised meetings can bring more constructiveness to interactions, which makes them more cost-effective.

Our results highlight the importance of understanding the mechanism through which NMS is implemented, as the two strategic choices made by firms to conduct political activity are decisive and can generate winners or losers. We therefore caution firms to scrutinise the political inclinations of their boards of directors, as the level of expertise they display is not always utilised in the best interests of the firm. We believe that boards of directors' agency often prevail in the strategic choices firms make for NMS, as indeed has been confirmed in past studies (Ozer and Lee, 2009; Barron, 2010). Hadani and Schuler (2013) argue that some big firms have boards characterised by outside directorships on umbrella bodies, which are intended to enhance their political presence. Hence, the boards are likely to take a relational approach (collaboratively and/or unilaterally) to participation with government; this, as demonstrated by our study, can negatively influence their firms' performance. Further, contextual factors—such as national culture, customs, and practice—can facilitate firms' access to the political landscape and legitimise and/or circumscribe top managers' control over NMS strategies (Hillman et al., 2004).

In the next section, we depict the state of knowledge of the literature by attempting to identify and scrutinise relevant discussions around the narrative of the relationship between NMS and firms' performance. The methodology section discusses the data. The measures used and methods adopted by this study are covered in the third section. The fourth section presents the key findings. Finally, the fifth section discusses the results, considering the mechanisms through which different configurations

of NMS influence performance. National contexts, resource endowment, and top management agency are central to firms' choice of political approach and participation level in non-market environments (Sun et al., 2016).

5.2 Theoretical Framework and Hypotheses.

NMS is an important field of study. Whilst early studies primarily concerned themselves with understanding how firms orchestrate their political strategies, more recent work is interested in scrutinising the implications of such endeavours on firms' performance (Holburn and Zelner, 2010; Lawton et al., 2013a, 2013b; Brown, 2016a, 2016b; Kotabe et al., 2017; Riaz et al., 2022). The pivotal role of government policy on firms' fortunes motivates firms' attempts to build political leverage. For the principal actors, NMS can be a sensitive and secretive arena (Greer, 1991; Souza, 1998); hence the difficulty of identifying reliable data and the shortage of empirical studies that measure firms' encounters with government and any resultant impact on performance. For instance, whilst firms' forays into politics and their encounters with the body politic has been studied indirectly—looking at data such as PAC contributions, soft money expenditure, and hiring political connected directors—the qualitative nature of such activity (transactional or relational) and the precise mode of engagement has either escaped attention or remains poorly understood. The closest the literature has come to quantifying whether firms act collaboratively or unilaterally has emerged from studies using the rather blunt instrument of their exploitation (or not) of membership of trade associations (Barron et al., 2010; see Lux et al., 2011; Jia, 2014; Rajwani and Liedong, 2015; Liedong et al., 2020 review). A keener level of resolution is required.

The implicit and dynamic nature of NMS requires not just a clear grasp of firms' access to policymaking but also an assessment of whether this is done individually and/or collectively. Access is by no means the same as influence, but it has nevertheless been used as a proxy for measuring influence, and it is certainly a prerequisite for securing policy advantage (Bouwen, 2004). According to Dahan (2005), the decision to act unilaterally and/or collectively is central to the way firms access the political arena. The decision is linked to the amount of resources they possess and are able and prepared to commit. Resource allocations and capabilities certainly differ among firms and influence their chosen mode of

engagement, which might also generate different performance outcomes. So far, most of the data²⁹ used in the field have fallen short of achieving the aim of identifying the relationship between mode of NMS engagement and firm performance outcome (Hillman, 2005). This study seeks to fill this gap.

5.2.1 Firms' Political Approach to Access and Performance.

Many firms rightly view government as a powerful stakeholder which whom they must engage (Freeman, 1994; Mahon, 2002). The state is, therefore, an essential target for firms seeking to formulate and channel their self-interests. But firms involved in NMS are primarily concerned with their individual survival (Drutman, 2015). NMS is deployed to secure domain advantage, protection, or preservation, to influence profitability, and/or mitigate uncertainty (Grossman and Helpman, 2001). Indeed, NMS has moved from a defensive strategic approach³⁰ to one that is much more aggressive³¹ (Gordon and Hafer, 2005). The ultimate goal of NMS remains better performance achievement, which NMS research insists is influenced by the way in which firms go about accessing the political arena. It is argued that access increases the chances of policy capture as firms understand and utilise the potential of their resources (e.g., expertise, information, financial capability, size) to achieve policy that is relevant to their economic activities. As such, Bonardi (2011) argues that these resources represent a potential tool through which firms actively compete in order to secure access to policy makers so that they can improve their chances of driving the enactment of policy solutions that will increase their benefits while reducing their costs. Resources are therefore viewed as the main determinant of NMS, and this explains the popularity of the RBV (Resource Based View) in NMS studies (Capron and Chatain, 2008; McWilliams and Siegel, 2011). RBV considers firms' resources in relation to their NMS capabilities and success.

Firms' NMS propensity can be comprehended through resource capabilities because these constitute political resources. Firms not only vary in terms of what they have to offer but also in terms of their

²⁹ PAC contributions, soft money expenditure, hiring political connected directors. providing testimony to legislators and regulators, expenditure on government relations employees or office space in Washington, D.C.

³⁰ That is, trying to limit any attempt from government to enact policies viewed as detrimental to the business performance.

³¹ For example, new EU legislation on vehicle emission was already in place for some car manufacturers, therefore companies such as Volkswagen/Audi secured competitive edge at the expense of companies such as Ford MG and Rover who had to change their newly fitted catalytic converters (Gordon and Hafer, 2005).

capacity to engage in political activities for value creation. RBV illuminates how NMS can be both labour-intensive and expensive, requiring considerable expertise and resources which not all firms readily possess (Getz, 2002). Factors such as firm size (e.g., number of employees, market capitalisation, turnover), financial capability, level of diversification, and political ties (e.g., revolving door: hiring ex politicians as top executives) are considered to be political resources (Schuler and Rehbein, 1997; Dieleman and Boddewyn, 2012; Barron et al., 2016) that may determine firms' decisions and abilities to deliver NMS effectively for positive outcomes.

RBV also argues that larger firms have the means to be more politically active, and the theory clearly shows how firms' market capabilities function as political assets (McWilliams et al., 2002; Hillman, 2003). Firms are always keen to increase political resources and several strategies—including establishing in-house public relations departments or hiring lobbying experts—are commonly used to achieve political leverage (Attarca, 2000; Blumentritt, 2003; Dahan, 2005a). Acquiring and nurturing various political resources does not necessarily guarantee value creation for firms because resources do not come cheap. It is likely that those who can shout louder on the political landscape can achieve better returns on their investment because in an arena where competition is fierce, only the most strongly resourced firms are likely to be heard. Hence, just like in the marketplace, NMS requires firms to secure competitive advantage by acquiring and utilising valuable, rare, inimitable, and non-substitutable resources so they can stand out from the crowd (Barney, 1991; Getz, 1993b). NMS requires a great deal of capital, and it is therefore not to be embarked upon lightly. Although securing meetings with government provides firms with the opportunity to exercise their political prowess, the costs implications can exceed the potential benefits of doing so. Consequently, it is hypothesised that:

H1: The extent of a firm's political meetings will be negatively associated with performance.

Instead of using conventional performance measures such as Return On Asset, Return on Sales, or Tobin's q, we use Total Factor production (TFP) because it clearly links inputs (resources) to outputs and takes into account value adding activities such as NMS (Morrison, 1986). According to Lawton et al. (2013), market and political activities are undertaken using similar resources, and NMS has been used by as a substitute and/or complementary approach to their market activities to maintain competitive advantage (Shaffer et al., 2000). Productivity measures the efficiency of the total tangible and intangible resources utilised by firms to generates desirable outcomes; hence TFP provides a good opportunity to better capture NMS-related effects on firms' performance. It is also worth noting that that this measure

also allows the efficiency around strategic choices made by boards of directors to be better assessed (Petrin et al., 2004).

Strategic choices are made based on the availability of options. Managers tend to scan their internal and external environment to gather information. This information is processed, and strategic decisions are made. Scholars in the management field strongly believe that strategic flexibility underpins firms' capabilities to secure competitive advantage (Grewal and Tansuhaj, 2001; Worren et al., 2002; Nadkarni and Narayanan, 2007). Further, NMS practices increase firms' ability to remain flexible in their approach to strategic choices, since they are able to pursue their interests in both the market and the non-market.

NMS strategies require serious forethought (Hillman and Hitt, 1999) The first decision is to choose the approach, which may be relational or transactional. The transactional approach often requires firms to react to policy problems on an issue-by-issue basis (Buchholz, 1992), whilst the relational approach is concerned with firms' ability to pre-empt future political issues by proactively engaging with government to nurture a continuous relationship. Resource utilisation differs between these, because the former requires only a short-lived relationship, whilst the latter suggests a more permanent one. Unsurprisingly, past studies have equated political resources, such as the creation of public affairs units or establishing a permanent presence in key centres of power (such as Brussels or Washington D.C.), as evidence of the relational approach (Johnson, 1996; Wartick and Rude, 1986; Mahoney, 2008; Chalmers, 2013; Liedong et al., 2020). In contrast, the transactional approach is associated with hiring external lobbyists, and making PAC contributions and donations to political parties (Hadani, 2007; Ozer and Alakent, 2012). Also, Hillman (2003) and Hillman and Keim (1995) insist that the extent to which firms rely on government policy, their levels of product diversification, and the political system under which they operate are underpinning factors influencing firms' political approaches.

As already mentioned, access is typically used as a proxy for policy influence and although it is by no means perfect—firms can achieve access but still fail to achieve their objectives in the ensuing negotiations—it remains largely the case that they can only hope to get what they want if access is granted. Importantly, resources still determine firms' political prowess, and the relational approach requires more political resources than the transactional approach. Further, competition is fierce in the political arena, which is dynamic and unpredictable (Giddens, 1984). Firms that adopt the relational approach must also, therefore, be able to devote additional resources to managing these realities. Hence, we can suggest that:

H2a: A relational approach to NMS will be negatively associated with firms' performance outcomes,

H2b: A transactional approach to NMS will be positively associated with firms' performance outcomes,

Hillman and Hitt (1999) argue that once firms have decided on their approach, they must then consider if this should be implemented individually or collectively. Participation level is viewed as the behaviour that firms utilise for political purposes. As such, the manner in which firms conduct political meetings is also likely to impact their performance.

5.2.1.1 *Participation Level and performance*

NMS is conducted within a crowded political opportunity structure that is permeated by a variety of actors such as politicians and managers, who meet and interact with each other (Hauser, 2011). Olson (1965) and Hillman (2003) explain that actors can adopt a collaboratively and/or unilaterally approach to advancing policy concerns.

Coalition theory explains that weak and strong groups feature in the political landscape, and that the strong groups are keen to act alone as free riders; that is, they want the public purse to fund policy that will benefit them (Hojnacki, 1997; Obach, 2002). Coalition building is a resource-intensive activity; hence it is one that groups do not lightly embark upon. Thus, the desirability of collective action is circumscribed by *inter alia* power relative to the political capabilities and influence of relevant groups (Smith et al., 2015). Network theory explores this further by adding that firms might coalesce into networks to promote interests and goals that cannot be achieved individually because of the uneven distribution of power amongst them. Networking is viewed by Bouwen (2002: 368) as an "exchange relationship between interdependent firms". Both coalition and network theories suggest that NMS is a contingent activity, in that it occurs in a political system demarcated by precise behaviours reflecting the resources and interdependencies that exist between different actors. Dieleman and Boddewyn (2012) also insist that networks need to be taken seriously because of their embedded resources and governance structures, which allow them to shape the policymaking process. Networks or coalition building activities are sometimes examined by looking at firms' efforts to join a trade association (Mazey and Richard, 1993; Bennett, 1997; Barron, 2010). In the UK, business associations such as the Confederation of British Industry and the Federation of Small Businesses, are politically competent and very active (Boleat, 2000).

Some policy issues are harder to prosecute alone because they have resource and legitimacy implications, and this encourages firms to take a collective stance for political activity. This is evidenced by Smith et al.'s (2015) seminal work demonstrating the coalition-building efforts put in place by British and American Tobacco at Brussels to promote the EU's adoption of impact assessments regulation. Hillman (2003) argues that corporatism is conducive to collective participation, whereas pluralism facilitates standalone participation. While policymaking processes set the rules of the game, political systems define how the game is played. Individualistic behaviours represent the norms in pluralist nations whereby groups and/or individuals actors channel their precise interests into the political arena (Coleman, 1988). For example, the US system of an authorised list of lobbyists encourages firms to pay a fee to join, so this increases the likelihood of well-resourced firms acting individually (Drutman, 2015). However, Germany is inclined to a more corporatist approach in which policy making is more collaborative, allowing both 'weak' and 'strong' corporate actors to participate in decision-making processes (Wilson, 1993).

In the context of the EU, Coen (1999) argues that adopting a collaborative participation mode as a strategy to advance policy proposals represents the EU's embedded norms because it confers legitimacy on groups' demands. This promotes a rather consultative and consensual approach, albeit one that is not entirely inclusive, participation being dominated by a number of specific influential corporate actors with offices located close to Brussel's corridors of power (Hauser, 2011; Barron et al., 2017). The UK's pluralist environment operates a reasonably inclusive, business-friendly culture, which facilitates firms' ability to interact with government unilaterally and/or collaboratively (Hawkins and Holden, 2014). This is also confirmed by our OGD dataset, from which we can see that encounters with UK government feature different modes of participation.

Policymaking bargaining power has also been identified at the industry level. An industry's degree of concentration determines the existing competition and may also shape firms' decisions to act alone (Salamon and Siegfried, 1977; Shaffer and Ostas, 2001; Rugman and Collinson, 2004). Also, some information that is core to market activities can be highly sensitive (proprietary information); in such cases, firms may be reluctant to engage in collective NMS and prefer instead to free ride (De Figueiredo and Tiller, 2001). In fact, various factors—including top managers' level of commitment and political expertise—appear to influence these decisions (Rehbein and Shuler, 1999), as is well documented by the literature. However, the literature fails to link level of participation to performance (Hillman, 2003; Barron et al., 2017), and data utilised in the field do not provide a clear account of a firm's collaborative

and/or unilateral encounters with government (De Figueiredo and Tiller, 2001; Jia, 2014; Hawkins and Holden, 2014). Resource endowment remains central to firms' participation-mode decisions and understanding the patterning of unilateral and/or collaborative political encounters may help shine light on the costs and benefits associated with different levels of participation. The collaborative approach certainly requires fewer resources compared with the unilateral or hybridised approaches. Whilst bargaining as a group may limit firms' chances of advancing a particular interest, unilateral or hybridised approaches may require a disproportionate level of resource commitment. Overall, we argue that whatever choice they make regarding participation level, firms will still struggle to benefit from their political activity.

H3: A firm's chosen participation mode (unilateral, collaborative, or hybridised) will be negatively associated with performance measure TFP.

However, participation mode only becomes relevant once the firm has made its choice of political approach. The primary decision concerns whether to adopt a relational or transactional approach, and firms' collaborative and/or unilateral political encounters are conducted pursuant to that approach (Hillman and Hitt, 1999; De Figueiredo and Tiller, 2001). This is important because, as mentioned earlier, institutional structure guides these decisions. Pluralist and corporatist structures have been viewed as prevailing in western countries, and these two types of structure dictate specific political approaches.

5.2.1.2 *The Effect of Both Political Approach and Participation Level on Performance*

The transactional approach is more pronounced in pluralist states which, Coleman (1988) argues, are market-led, individualistic, and competitive, leading to the pursuance of fragmented, unilateral interests. Corporatist states provide fertile ground for the relational approach by emphasising collaboration and consensus (North, 1990; Murta and Lenway, 1994).

This study focuses on the UK setting. The UK's political and economic landscape could not really be termed classical pluralism, which is where many competing firms have reasonably similar access to policymaking. Instead, a neo-pluralism system is at play, in which power asymmetries inevitably open up, allowing some firms to accrue greater influence than others (Grant, 2000; Mahoney, 2004). This informs our choice to investigate big corporations' patterns of access to government in order to understand firm performance. The UK's liberal policy-making arena features diverse actors united in an avowed general belief that a deregulated *laissez faire* approach to economic and industrial management enables firms to operate in the manner most likely to deliver social benefits and economic growth (Berry,

1999; Bernhagen, 2007). Of course, the reality is that government intervention is common (Chang et al., 2013; BEIS, 2018; Miller and Dinan, 2008; Miller, 2009). Indeed, the case studies of Eden (1996a) and Nunan (1999) demonstrate that UK firms cannot easily reach a consensus when they are charged with designing policies; to do this successfully, they must frequently interact collaboratively and/or unilaterally with the state. Hawkins and Holden (2014) argue that while UK pluralism encourages firms to try to retain control over their preferred political approach, they quickly discover that the policymaking landscape is less inclusive than they thought, and that it is the firms that possess (or can draw on) the most resources who are best able to navigate it.

Tactically, the transactional approach may involve providing politicians with information and analysis, and even financial support at times (Drutman, 2015). But this approach is also associated with conflict because it is typically aimed at preventing an unwanted government policy (Chen et al., 2015). Political meetings are resource-intensive attempts to exercise power or influence within the policymaking landscape, so firms that are engaged in transactional lobbying are not averse to constituency building in order to secure policy advantage (Getz, 2002; Dahan, 2005a, 2005b; Lawton et al., 2013; Liedong et al., 2020). This is also linked to the fact that collective bargaining provides limited scope for advancing particular interests because only the most powerful firms who can shout loudest will be heard. But firms that are less well-resourced are nevertheless likely to choose this mode of participation because it enables them to access government and feel politically active. Hence, whilst the transactional approach can be viewed as a fruitful approach to achieve better performance, firms that enact it through a collective mode of participation might struggle to realise its potential benefits because the collective bargaining nature of these limited encounters only allow the most powerful firms to channel their interests.

In contrast, firms embarking on a relational approach are those that have more resources to devote to their activities, and they might participate in political meetings via either the unilateral or the hybridised mode. Hillman (2003) argues that a hybridised mode is quite common with firms that adopt a relational approach, partly because colluding with the competition is permitted within the non-market arena (Baron, 1995). Our dataset confirms this because when we operationalised the political approach dummy variable, we did not identify the collaboratively or unilaterally participation modes with firms that took a relational approach. Big firms are therefore keen to reduce their level of visibility by making sure they seek not only unilateral interactions but also collaborative encounters (Hillman et al., 2004). However, the resource implications for such endeavours are not light and might impinge on the value

added expected from policy capture. This study is one of the first to examine both the political approach and its participation level in relation to performance. Based on the review of the literature we posit that:

H4a: The relational approach and hybridised participation mode will be negatively associated with firms' performance.

H4b: The transactional approach will be positively associated with firms' performance only if it is conducted unilaterally or by taking a hybridised mode.

5.3 Methodology

This section provides an explanation and justification of how this study was conducted. At this point it is important to note that because elements of the research design, the sources of data, the data collation, and the dataset development have all been covered in detail in the methodology section of chapter four. This chapter will therefore focus on discussing the dependent and independent variables introduced in this study, through which we hope to further understand the implications of firms' NMS (i.e., political meetings) on their performance outcomes.

5.3.1 Dependent Variable

Firms' performance outcomes can be very dynamic and multidimensional in nature (Peng and Luo, 2000). In the context of NMS, scholars have used a number of measurements of firm performance. Some approaches are based on accounting tools (e.g., ROA, ROE, ROS) while others are market based (e.g., Tobin's q, market value, market capitalisation). While Lux et al. (2011) provide a review of the various measures, questions remain about how effectively such measures can capture the impact of political activity on performance (Hillman, 2005; Hadani et al., 2017). Firms' output is generally recognised to be a function of capital and labour (resources), but firms have other elements of output that are related to neither capital nor labour. Here, we acknowledge the argument that firms' resources must be considered political resources because market and political activities are undertaken using the same resources (Lawton et al., 2013). Total Factor Productivity (TFP) is considered by economists to be a more objective and realistic measure of firms' performance outcomes (Nelson and Phelps, 1966; Brooks, 2008) because it extends the productivity function to encompass non-capital and non-labour related elements of output. TFP is also called the Solow residual because it constitutes a clear measure of efficiency around the utilisation of inputs (resources) for better outcomes (Solow, 1956; Comin, 2006).

In sum, TFP is good at capturing not merely the impact of political meetings, but also the efficiency and effectiveness of these meetings on performance outcomes.

In our attempt to advance knowledge about the implication of political activity on firms' performance, this study takes an innovative approach by utilising TFP as a performance variable. TFP has been operationalised using Levinsohn and Petrin's (2003) estimation model, which ensures that alternative (proxy) instruments such as energy or materials (intermediate inputs) at the firm level are also considered; this can compensate for missing investment-level information, thereby achieving a better representation of unobservable productivity.

The below equation was used to calculate TFP variable:

$$Y_{it} = \beta_0 + \beta_l l_t + \beta_m m_t + \beta_k k_t + w_t + \eta_t$$

where Y_{it} = log of TFP (firm's output measured as value-added), l_t = logarithm cost of employees (freely variable input), m_t = logarithm of material costs (intermediate variable input), and k_t = logarithm of capital (state variable); w_t (transmitted productivity component) and η_t (error term uncorrelated with l_t ; m_t and k_t) are both components of the error term ϵ_{it} (Petrin et al., 2004). This error term captures unpredictable factors within a firm's external environment and the efficiency of decisions and strategic choices made by top management (Olley and Pakes, 1996; van Beveren, 2007; Petrin et al., 2004).

5.3.2 Independent Variable

The count variable of firms' number of meetings over an eight-year period (as discussed in detail in the methodology section of chapter four), is the main independent variable used in this section of the study. However, it is also relevant to understand how firms have participated in these meetings. According to Hillman and Hitt (1999), the decision to act unilaterally and/or collectively is one that is vital to how firms formulate their NMS. Hence, having a detailed account of firms' participation level is important for how we scrutinise the implication of these meetings for firms' performance outcomes.

Details of firms' collaborative and/or unilateral participation in meetings is provided by the OGD³² transparency data. Thus, the dataset provides a clear account of firms' participation behaviour, which we have examined here alongside the number of meetings to achieve a comprehensive³³ conceptualization of firms' political strategy.³⁴ As mentioned above, the UK political landscape allows firms control over whether they will act unilaterally or cooperatively when engaging with government. De Figueiredo and Tiller (2001) argue that in their attempt to secure further legitimacy for their attempts to influence policy proposals, firms tend to arrange both individual and collective meetings. These modes are not mutually exclusive because firms can decide just to choose one mode of participation or to adopt a hybridised approach. Hence, this informs our decision to categorise the political meetings variable as three distinct sets of variables: unilateral, collaborative, and hybrid. These three approaches to engagement are branded the participation level strategy (Hillman, 2003), and together they form the count variable of firms' political meetings on a yearly basis. Hence, there are three Approach to Political Meetings variables: Unilateral (UAPM), Collaborative (CAPM), or Hybridised (HAPM), while the total count of political meetings is represented by the variable FPM. This variable is further operationalized into a dummy variable, Firm's Political Approach (FPA), in which relational = 1 and transactional = 0. This coding aligns with Hillman and Hitt's (1999) conceptual framework regarding firms' political decision-making processes. We are, therefore, able to assess both the political approach (relational versus transactional) and the participation level to deepen our understanding of the relationship between political meetings and firms' performance. This manner of capturing and analysing the nature of firm's political meetings can help illuminate the efficiency and effectiveness of a particular mode of engagement on TFP when a transactional or relational approach is chosen.

³² See the chapter four methodology for a discussion of the Open Government's Data (OGD) Initiative.

³³ The understanding of firms' pattern of access in relation to their types of engagement (alone and or within a group).

³⁴ Clearly, a firm can develop a relational approach unilaterally (i.e., they prefer to lobby alone but, in a manner, intended to be long-term/strategic/constructive). Similarly, groups of actors may team up to lobby on an ad hoc basis as they are presented with specific threats or opportunities. It might also be that the firms that prefer to act unilaterally are also more inclined to seek out occasional, transactional meetings; they are 'loners' by nature and prefer to keep themselves to themselves. On the other hand, firms that routinely partner up with other firms are more likely to seek to develop an ongoing relationship with government because they are collaborative by nature and value partnership working. Some firms of course might consider a blended approach (acting both alone and within a group) to further increase their political leverage on a particular issue or to secure continuous encounters with government.

5.3.3 Control Variables

The study includes several control variables which previous research suggests can affect NMS: extent of regulation at industry level (1 = heavily regulated; 0 = lightly regulated), firm size (logged market capitalisation), years of experience (age), product diversification, total diversification, working capital, ratio of intangible assets over total assets (IATA), and slack resources such as free cashflow and taxation. These control variables are also the same utilised in our first empirical chapter (see chapter four for full discussion). However, in this chapter we introduce an additional control variable: industry concentration. This accounts for competition at industry level which might drive levels of participation. We measure it by utilising the four largest sales per industry divided by total sales.

5.4 Modelling

As per the methodology set out in chapter four, we estimated random effect regression models to study the implications of firms' relational versus transactional approach, and firms' participation level, for performance measure TFP:

$$Y_{it} = \beta_0 + \beta_1 FPM + \beta_2 TD + \delta_1 REGU + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \epsilon_{it}$$
$$Y_{it} = \beta_0 + \delta_1 FPA + \beta_1 TD + \delta_2 REGU + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \epsilon_{it}$$

Y_{it} represents firm performance variables TFP for firm i in year t . FPM is the count variable of the number of meetings of firm i at time t ; political approach FPA is a dummy variable in which relational = 1 and transactional = 0. Regressions are also conducted with each individual participation variable (UAPM, CAPM, and HAPM) interchangeably using the above estimation model. X represents the vector of firm-specific control variables. TD represents total diversification of firm i at time t , and REGU is a dummy variable taking value 1 if regulated, and 0 otherwise; this measures the level of regulation at industry level. Given that this is a longitudinal study, it is important to control for year and industry fixed effects (η_t ; ν_t), which helps mitigate endogeneity and account for unobserved fixed effects (Baltagi and Chang, 1994; Singer, 1998; Pathan, 2009; Arifin et al., 2020). ϵ_{it} is the error term at individual level with an expected value of 0. Apart from the dummy variables, the control variables were lagged by one year.

The above estimation models follow the same principle and have the same degree of rigour as was outlined in the methodology section of chapter four. In this chapter, the additional step is the

introduction and analysis of the independent variable Participation Level. Hence a total of 16 estimation models are run separately to account for the different political meetings variables created. We use generalized least squares random effect regressions (GLS RE) to run all the models and secure robustness by controlling for firms' headquarters to account for heteroskedasticity in 8 of the models (Arifin et al., 2020).

5.5 Results

Table 7 sets out the list of variables included in the study with their descriptive statistics and correlations. We report the means, standard deviations, and correlation matrix of the variables for the explanatory variable FPM; results show that multicollinearity is not an issue in our models because all variables are under the designated threshold of 10 (Hair et al., 1998). However, given that the explanatory count variables (UAPM, CAPM, and HAPM) are subsets of FPM we re-ran the descriptive statistics and correlations matrix separately for these variables. As such, Table 7 includes the explanatory variable FPM, whereas Tables 20, 21, and 22 (in the Appendix section) encompass UAPM, CAPM, and HAPM respectively. Separation these variables out was important because of the significance in correlation that the variables might exhibit, and also (and more importantly) because according to Hillman and Hitt (1999), firms make political decisions in a sequential manner by first deciding how often they would like to engage with politicians, and then deciding if they will do so individually and/or as part of a group of firms. Hence, instead of just looking at the number of political meetings achieved by firms over the eight-year period, we also run separate regressions on three subsets of political meetings to reflect the three distinct modes of participation level used by firms in our sample.

To account for unobserved individual effects at firm level we use the GLS RE regressions to facilitate efficient estimation of time-invariant variables within our models (Wooldridge, 2002). Whilst year dummies were controlled for across all models, we also controlled for industry and region dummies when we ran additional models to further control for unobserved effects and check robustness.

Table 7: Descriptive statistics and Correlations – Total Political Meetings

Variables	N	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) FPM	3840	3.041	6.826	1											
(2) FPA	3840	0.231	0.422	0.673	1										
(3) TFP	2115	0.003	0.903	0.127	0.121	1									
(4) AGE	4635	3.343	0.942	0.203	0.224	0.014	1								
(5) Leverage	4625	24.62	19.8	-0.02	-0.01	0.083	-0.028	1							
(6) TD	4800	0.682	0.722	0.135	0.172	0.273	0.266	0.005	1						
(7) Market Cap	4461	15.80	2.008	0.350	0.378	0.573	0.307	0.165	0.475	1					
(8) Work. Cap	2886	20.08	2.285	0.311	0.342	0.344	0.353	0.096	0.471	0.756	1				
(9) Cashflow	4325	13.27	2.253	0.39	0.426	0.512	0.331	0.159	0.492	0.906	0.758	1			
(10) IATA3	2908	0.266	0.22	0.08	-0.15	-0.108	-0.064	0.082	-0.06	-0.09	-0.14	-0.17	1		
(11) Taxation	3536	18.20	2.375	0.339	0.363	0.498	0.344	0.119	0.486	0.855	0.778	0.878	-0.141	1	
(12) REGU	4800	0.702	0.457	0.09	0.087	0.19	-0.049	-0.03	0.122	0.23	0.168	0.235	-0.155	0.166	1
(13) Indus. Con	4800	0.497	0.182	-0.070	-0.080	-0.067	0.008	0.026	-0.090	-0.200	-0.150	-0.130	-0.196	-0.12	-0.48

Due to missing data N vary across variables. Tests are two tailed displaying pairwise correlations coefficients of the variables for the full sample of firms. Statistical significance at or below 5%.

Our first model captures the effect of firms' political meetings on performance. However, due to the heterogeneous³⁵ nature of firms' approaches to political meetings, we needed to break down the FPM variable into its three main components so that we could identify how participation level affected firms' performance. We therefore ran separate models for each category. The regression results of the analyses conducted are displayed in Tables 8 and 9. In total, eight models per table present the effect of firms' political encounters and participation approach to political meetings on performance measure TFP. To run the GLS RE regressions, we first utilised the count variable of firms' political meetings (FPM) before we used the respective subsets of participation approach to political meetings to estimate the other models. In Table 9 we followed the same process, but this time using FPA instead of FPM as the explanatory variable to analyse the relational approach versus the transactional approach. Again, our first explanatory variable was FPA, and then we used each subset of participation approach as the explanatory variable under the strict condition of the dummy variable FPA. This was to pinpoint how performance is impacted when participation mode is conducted in either the relational or transactional approach.

In both Tables 8 and 9, Model 1 is the baseline model; Table 8 uses the count variable FPM, and Table 9 uses the explanatory variable FPA. For both tables, Model 2 examines the unilateral level approach to Political Meetings (UAPM), Model 3 examines the collaborative level approach (CAPM), and Model 4 examines the hybridised mode approach (HAPM). In Table 9, we control for the relational or transactional approaches using dummy variable FPA in Models 2, 3, and 4. In both tables. Models 5 to 8 are reruns of Models 1 to 4 to adjust for heteroscedasticity by controlling for industry dummies and clustering standard errors at the region level. Overall, 16 models are run across Tables 8 and 9 to fully assess the effect of firms' political decisions on their performance. We discuss the two tables separately, but Table 8 is used as a baseline model to further strengthen and validate the main findings in Table 9.

The coefficient of FPM in Model 1 is negative and statistically significant at the 1% level ($b = -0.011$, $p = 0.007$), implying a negative relationship with likelihood on increase in performance. The standard deviation is 0.004, suggesting that on average, when FPM increases by one standard deviation, the

³⁵ Three categories of political meetings are observed from the total count of firms' political meetings during the 8-year period. Hence, each model uses the total count of political meetings variable as a baseline, and we then successively run the models with the participation approach subgroups.

probability of securing high TFP decreases by 0.00004 percentage points (i.e., 0.011×0.004). This result provides support for our first hypothesis that firms' political meetings have a negative association with performance. However, when we look at the breakdown of the participatory approach to meetings, only Models 3 (i.e., $b = -0.039$, $p = 0.018$) and 4 (i.e., $b = -0.012$, $p = 0.001$) are consistent with our findings for Model 1, in that they both exhibit negative coefficients at the statistically significant levels of 5% and 1% respectively. In contrast, the Model 2 coefficient is positive but not significant (i.e., $b = 0.14$, $p = 0.609$), so it cannot provide sufficient evidence that taking an individual approach to meetings can increase firms' performance. Hence, when we split FPM into subsets, the negative influence that we observed for the independent variable FPM in Model 1 still exists. Broadly speaking, regardless of the type of participation level utilised by firms to conduct political encounters, performance remains negatively affected. Although Models 2, 3, and 4 offer informative insights about the heterogeneity of the three meeting types, the clear negative effect that these exert on performance is still apparent. This is further confirmed with Models 5 to 8, which are re-runs of Models 1 to 4 in order to check for validity and robustness. Our findings are consistent across all models in Table 8, and all the robustness checks demonstrate that clustering at region level mitigates concerns regarding heteroscedasticity and validates the negative relationship between meetings and performance at statistically significant levels in Models 5, 7, and 8; they also support the positive relationship in Model 6 but that result is not significant. These results confirm hypotheses H1 and H3 by demonstrating that neither political meetings nor a chosen participation mode generates a positive gain in TFP.

Table 8 sets the scene for the main analyses in Table 9. These address the relational versus transactional approach to political meetings and how they relate to the three main modes of encounter: UAPM, CAPM, and HAPM. Table 9 repeats the same process as was used in Table 8 (i.e., estimating GLS RE regression) but it uses the explanatory dummy variable FPA (relational versus transactional) instead of the count variable FPM as a baseline model. Hence in Model 1 we investigate the relationship between FPA and the performance measure TFP, but in Models 2 to 4 we utilise the three count variable subsets UAMP, CAPM, and HAPM, using the relational versus transactional approach to interrogate the relationship. Table 9 not only assesses the implication of the relational or transactional approaches for performance in Model 1, it also precisely examines whether or not a difference in performance is achieved when a chosen mode of encounter is used to practise the approach (see models 2 to 4). In Model 1, the result displays a negative coefficient for the explanatory variable FPA with 1% level of statistical significance. Here, the difference in performance between the relational and transactional approaches is -0.341%. This stipulates that firms practising a relational approach will experience on

average a -0.341% decrease in TFP compared with those practising a transactional approach. The dummy variable FPA has therefore helped created two alternate intercepts to clearly identify how TFP is affected by the two approaches taken to political meetings. Transforming the count variable FPM into a dummy variable (FPA) is useful to statistically improve the goodness of fit (Judge et al., 1988) because putting firms' meetings into 2 different categories improves and stabilises Model 1 by delineating the point at which firms' political meetings start to generate negative performance outcomes. Hence, H2a and H2b are confirmed: the relational approach is negatively associated with firm performance whilst the transactional approach has a positive relationship with firm performance.

The story unfolds rather differently when we look at Models 2 to 4, which report the results of the three subset levels of participation. At this point it is important to note that, based on our operationalisation of the dummy variable FPA, firms taking a relational approach to political meetings were only identified in HAMP. The transactional approach, however, features all three subsets of participation in political meetings. We therefore need to account for this when we run the analyses. In Model 2, when controlling for transactional = 0, the result shows that the estimated coefficient of the explanatory variable UAPM is positive and statistically significant at 10% level ($b = 0.066$, $p = 0.70$). The standard deviation of 0.037 suggests that, on average, when UAPM increases by one standard deviation from the mean, the probability of securing higher TFP increases by 0.002 percentage points (i.e., 0.066×0.037). In Model 3, we also control for transactional = 0 and find that our variable CAPM shows a negative and statistically significant coefficient at the 5% level. In Model 4 we control for the full specification of FPA dummy variable, and the result also displays a negative coefficient for the explanatory variable HAPM with a statistical significance at the 1% level. Participation levels are clearly capable of generating different performance outcomes. Using a dummy variable as a control to run Models 2 to 4 helps provide valuable information on the existence of alternative performance gains between subgroups (Golden, 1996). This is especially the case for Table 9, Model 2 because we are now in a better position than we were with Table 8, Model 2 to associate individual approaches to political meetings with positive increases in performance.

Moreover, when we rerun the models for robustness checks using STATA command VCE in Models 5 to 8, the results are consistent with those for Models 1 to 4. We thus mitigate concerns around heteroscedasticity and validate that firms' fortunes are negatively impacted at the 1%, 5%, and 1% level in Models 5, 7, and 8 respectively, and they are positively and significantly impacted at the 10% level in Model 6. This endorses H4a (the relational approach to a hybridised participation mode is negatively

associated with firm performance). H4b is also supported because whilst we find that the adoption of a unilateral and transactional approach shows a positive association with firm performance, firms that adopt the transactional approach whilst acting collaboratively experience negative performance outcomes. Hence, we can confirm that the transactional approach, when enacted unilaterally or with a hybridised mode, generates high performance.

Overall, in Table 9, the probabilities for the observations in each model have increased because the introduction of the dummy variable FPA facilitates grouping the interval values of firms' political meetings into digits 1 or 0. This increases the value significance and contribution of the models (Kauffman, 1993). As such, Models 3 and 4 still exhibit a strong, negative correlation between political meetings and performance because whilst collaborative participating in meetings renders it difficult for a firm to advance its specific interests, taking a hybridised approach to meetings can be especially resource intensive and might only be beneficial if done using a transactional approach. Intuitively, the firms involved in such meetings are narrowly focused on a shared problem which they are trying to solve via a one-off (or relatively few) meeting(s), while also trying to develop a long-term values-based shared agenda with one another.

As shown in Model 1, the relational approach to political meetings is proven to be detrimental to firms' fortunes and this is still confirmed in Model 4. As found from the dataset, firms acting collaboratively or unilaterally tend to adopt the transactional approach, but unilateral action tends to bear more fruit. Hillman (2003) argues that firms taking a relational approach also tend to prefer to act collaboratively. This is confirmed in our work as firms that adopt the relational approach are more likely to act co-operatively. This makes sense; such firms are probably instinctively drawn to developing long-term relationships, both with other firms and with politicians. Firms may also pursue a hybridised mode of participation under a transactional approach, but the firms in our dataset who use a transactional approach only implement it by acting either unilaterally or collaboratively; they do not mix the two.

Table 8: The effect of Firms' Political meetings (FPM) on Performance

VARIABLES	TFP							
	1	2	3	4	5	6	7	8
	RE	RE	RE	RE	RE-Robust	RE- Robust	RE- Robust	RE-Robust
FPM	-0.011*** (0.004)				-0.011*** (0.003)			
UAPM		0.014 (0.027)				0.016 (0.023)		
CAPM			-0.038** (0.017)				-0.036** (0.015)	
HAPM				-0.012*** (0.004)				-0.012*** (0.004)
AGE	-0.052 (0.052)	-0.032 (0.053)	-0.076 (0.053)	-0.04 (0.051)	-0.062 (0.054)	-0.03 (0.043)	-0.085** (0.041)	-0.045 (0.052)
Leverage	0.002 (0.002)	0.002 (0.002)	0.003 (0.002)	0.001 (0.002)	0.002 (0.001)	0.002** (0.001)	0.003*** (0.001)	0.001 (0.001)
TD	0.145* (0.082)	0.167 (0.104)	0.044 (0.092)	0.224*** (0.086)	0.143 (0.182)	0.170 (0.163)	0.036 (0.153)	0.221** (0.093)
Market Cap	0.239*** (0.034)	0.226*** (0.031)	0.218*** (0.038)	0.230*** (0.031)	0.240*** (0.058)	0.228*** (0.033)	0.217*** (0.038)	0.232*** (0.034)
Working Cap	-0.021 (0.020)	-0.048** (0.021)	-0.008 (0.023)	-0.044** (0.021)	-0.028 (0.044)	-0.052*** (0.020)	-0.013 (0.062)	-0.049* (0.030)
Cashflow	0.026 (0.024)	0.034* (0.020)	0.025 (0.025)	0.030 (0.022)	0.028 (0.018)	0.035*** (0.009)	0.026** (0.011)	0.032* (0.017)
IATA	-0.290* (0.153)	-0.204 (0.141)	-0.212 (0.164)	-0.190 (0.145)	-0.317 (0.214)	-0.224** (0.101)	-0.24 (0.177)	-0.184 (0.158)
Taxation	0.028 (0.018)	0.060*** (0.018)	0.041* (0.022)	0.042** (0.017)	0.028 (0.031)	0.060*** (0.014)	0.042*** (0.013)	0.042* (0.025)
REGU	-0.031 (0.115)	0.082 (0.133)	0.045 (0.122)	-0.047 (0.118)	-0.162 (0.270)	0.026 (0.333)	-0.130 (0.321)	-0.009 (0.257)
Concentration	-0.249 (0.237)	-0.014 (0.255)	-0.276 (0.260)	-0.214 (0.236)	-0.306 (0.595)	0.248 (0.589)	0.078 (0.611)	-0.409 (0.461)
Constant	-3.684*** (0.432)	-3.880*** (0.457)	-3.772*** (0.470)	-3.462*** (0.422)	-3.550*** (0.456)	-3.950*** (0.489)	-3.806*** (0.443)	-3.380*** (0.598)
Observations	1,026	666	744	894	1,026	666	744	894

Number of ID	227	175	188	221	227	175	188	221
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Adjusted R2	0.382	0.419	0.324	0.432	0.396	0.427	0.325	0.447

GLS - RE: General Least Square – Random Effect models. Robust standards error Statistically significant at *10% level; **5% level; ***1% level. Model 5 to 8 are robustness checked controlling for region clusters.

Table 9: The effect of Firms Political Approach and Participation level on Performance

VARIABLES	TFP							
	1	2	3	4	5	6	7	8
	RE	RE	RE	RE	RE-Robust	RE-Robust	RE-Robust	RE-Robust
FPA	-0.343*** (0.118)				-0.365*** (0.079)			
UAPM		0.066* (0.037)				0.066* (0.037)		
CAPM			-0.045** (0.017)				-0.045** (0.019)	
HAPM				-0.011** (0.005)				-0.011** (0.005)
AGE	-0.068 (0.049)	-0.031 (0.054)	-0.022 (0.055)	-0.034 (0.116)	-0.066 (0.058)	-0.031 (0.040)	-0.022 (0.057)	-0.034 (0.137)
LEVERAGE	0.003 (0.002)	0.002 (0.002)	0.002 (0.002)	-0.002 (0.005)	0.003** (0.001)	0.002** (0.001)	0.002* (0.001)	-0.002 (0.004)
TD	0.167** (0.078)	0.121 (0.107)	0.009 (0.101)	0.355*** (0.114)	0.182 (0.185)	0.130 (0.150)	0.009 (0.105)	0.355*** (0.136)
Market Cap	0.270*** (0.034)	0.228*** (0.031)	0.263*** (0.036)	0.412*** (0.088)	0.269*** (0.053)	0.228*** (0.033)	0.263*** (0.035)	0.412*** (0.077)
Working Cap	-0.027 (0.020)	-0.046** (0.022)	-0.058** (0.024)	-0.036 (0.050)	-0.031 (0.021)	-0.050** (0.020)	-0.058*** (0.022)	-0.036 (0.066)
Cashflow	0.002 (0.024)	0.036* (0.020)	0.043* (0.024)	-0.052 (0.067)	0.003 (0.015)	0.036*** (0.010)	0.043** (0.017)	-0.052 (0.057)
IATA	-0.095 (0.147)	-0.205 (0.144)	-0.16 (0.161)	-0.562 (0.372)	-0.094 (0.277)	-0.230** (0.108)	-0.160 (0.168)	-0.562 (0.354)
Taxation	0.022 (0.019)	0.061*** (0.018)	0.048** (0.021)	0.018 (0.040)	0.021 (0.024)	0.061*** (0.013)	0.048** (0.020)	0.018 (0.054)
REGU	0.012 (0.111)	0.142 (0.137)	0.147 (0.132)	-0.598*** (0.200)	-0.101 (0.252)	0.025 (0.362)	0.147 (0.126)	-0.598*** (0.194)
Concentration	-0.222 (0.227)	-0.008 (0.259)	-0.052 (0.262)	-0.479 (0.451)	-0.365 (0.441)	0.275 (0.599)	-0.052 (0.277)	-0.479 (0.555)
Constant	-3.519*** (0.422)	-3.974*** (0.467)	-4.083*** (0.494)	-4.593*** (0.954)	-3.400*** (0.412)	-4.004*** (0.509)	-4.083*** (0.515)	-4.593*** (1.056)
Observations	1,159	649	787	208	1,159	649	787	208
Number of ID	232	162	171	53	232	162	171	53
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES

Adjusted R2	0.381	0.43	0.398	0.602	0.387	0.437	0.398	0.602
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GLS - RE: General Least Square – Random Effect models. Robust standards errors. Statistically significant at *10% level; **5% level; ***1% level. Models 5 to 8 are robustness. checked controlling for region clusters.

5.6 Robustness Check

It is crucial that we conduct further checks for robustness to explore the results and validate our findings from Tables 8 and 9, especially given the complex nature of the subject under examination. NMS is driven by many internal and external factors, of which performance is but one (Perchard and MacKenzie, 2021). Hence, there may be bidirectional relationships. For example, it might be that firms are driven to engage in NMS because of their already poor performances (Hambrick, 2010). So, while it could be that engaging in NMS causes deterioration in performance, it could also be that firms with lower performance try to improve it by engaging in NMS. Endogeneity³⁶ is thus a potential issue, so we need to mitigate for reverse causality by checking that there is no correlation between the error term³⁷ and the explanatory variable (political meetings) (Duflo et., 2008; Lynch and Brown, 2011). As such, we use a dynamic panel generalized method of moments (GMM) model, which allows us to include a good number of instruments and the lagged value of the performance measure TFP as an explanatory variable to correct for temporal dependence. Lagged values of both the dependent and explanatory variables are also treated as instruments to alleviate concerns around biases from simultaneity and reverse causality, and all control variables are defined as endogenous variables (Anderson and Hsiao, 1982; Breusch et al., 1989; Culyer, 2014; Lim, 2022).

The GMM model requires sufficient data because to perform the simulation, we need a proportion for each component, its mean, and its covariance; hence small number of observations may limit the effectiveness of the model (Roodman, 2009). As such, in Table 10, the performance variable TFP is not statistically significant in Model 8 because controlling for the relational versus transactional approach with the dummy variable FPA has significantly reduced the number of observations. That being said, the result in Table 10 displays a similar pattern to the results in Tables 8 and 9. In Models 1 to 7, the TFP variable produces statistically significant results at the 1% level and some of the control variables are also statistically significant. However, the most important findings are the statistically significant

³⁶ Causal relationships between the dependent and independent variables imply a bidirectional relationship. For example, countries that spend a lot on welfare have lower GDP, so it can be argued that high welfare spending causes poor economic growth. But the direction of causality may be wrong; it may be that countries with lower GDP spend a lot on welfare to protect/compensate their citizens.

³⁷ The error term refers to the difference in value observed at the predictor X_i level, this issue is linked to the nonidentification of the true value of the regressor X_i (Bound et al., 2001).

negative coefficients for the variables FPM, CAPM, and HAPM in Models 1, 3, and 4 respectively. This same pattern is also observed in Models 5, 7, and 8, in which FPA is introduced as a dummy variable instead of FPM (which is the variable in Model 5). FPA is then controlled for in Models 7 and 8 using CAPM and HAPM respectively as explanatory variables. A change in the behaviour of the political variable is observed in Models 2 and 6. Whilst Model 2 reports a non-significant positive coefficient for the explanatory variable UAPM, Model 6—which controls for FPA—reports a significant positive coefficient at 5% level with IAPM.

Table 10 results confer further robustness to the findings in Tables 8 and 9. The GMM methodology helps to control for unobserved heterogeneity, simultaneity, and dynamic endogeneity (Schultz et al. 2010), therefore validating the findings. As such we can have confidence in the results shown in Tables 8 and 9. More political meetings can negatively impact firms' performance, as can deciding to conduct the meetings collectively or through a hybridised approach. More importantly, a relational approach to NMS can negatively influence performance, especially if it is enacted collaboratively and unilaterally. Firms might, however, be able positively to influence performance via a transactional approach, especially if they pursue this unilaterally.

The robustness and validity of our system GMM model is optimised by using Xtabond2 command in STATA to make sure overidentification and serial autocorrelation of the error term is directly reported (Labra and Torrecillas, 2018). Sargan and Hansen tests are important to check for correct specification of the model and exogeneity of the instruments. More importantly, a two-step system GMM is used to drive efficiency and check for heteroskedasticity (Roodman, 2009; Wintoki et al., 2012). Hence, only the Hansen test—which does not reject the null hypothesis—is reported in Table 10 for all models. The Hansen p-value is statistically insignificant, showing that endogeneity is not a concern for our model. The Arellano-Bond test for no serial correlation is met because in all models of Table 10, AR (1) rejects the null hypothesis and AR (2) accepts the null hypothesis, thus evidencing that the lagged dependent and independent variables are not correlated in our equation (Arellano and Bond, 1991).

Table 10: GMM estimation for the effects of NMS political meetings on firms' performance

Variables	System GMM							
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
TFP	0.400*** (0.106)	0.338*** (0.121)	0.272*** (0.102)	0.382*** (0.139)	0.354*** (0.128)	0.399*** (0.086)	0.370*** (0.115)	0.069 (0.164)
FPM	-0.014*** (0.005)							
FPA					-0.301*** (0.11)			
UAPM		0.003 (0.025)				0.182** (0.072)		
CAMP			-0.058*** (0.020)				-0.197*** (0.075)	
HAPM				-0.017*** (0.006)				-0.017*** (0.006)
AGE	-0.045 (0.047)	-0.032 (0.054)	-0.112 (0.070)	-0.050 (0.050)	-0.018 (0.051)	-0.119* (0.063)	-0.078 (0.062)	0.104 (0.133)
LEVERAGE	0 (0.003)	0.002 (0.003)	0.002 (0.003)	-0.001 (0.003)	0 (0.003)	0.002 (0.003)	0.001 (0.003)	-0.009 (0.007)
TD	0.141** (0.069)	0.146* (0.080)	0.129 (0.092)	0.156** (0.068)	0.126* (0.071)	0.109 (0.075)	0.102 (0.074)	0.346*** (0.099)
Market Cap	0.042 (0.101)	0.014 (0.119)	0.114 (0.097)	0.036 (0.093)	-0.11 (0.104)	0.132* (0.077)	0.133** (0.063)	-0.128 (0.192)
Working Cap	-0.107* (0.061)	-0.127** (0.057)	-0.134** (0.060)	-0.143** (0.058)	-0.152** (0.067)	-0.120*** (0.043)	-0.098** (0.047)	-0.276** (0.126)
Cash Flow	0.225 (0.144)	0.258* (0.156)	0.181 (0.112)	0.264* (0.157)	0.430*** (0.159)	0.135 (0.103)	0.127* (0.071)	0.578** (0.269)
REGU	0.037 (0.148)	-0.004 (0.177)	0.106 (0.172)	0.015 (0.173)	-0.065 (0.153)	0.266 (0.186)	0.061 (0.180)	-0.286 (0.185)
IATA	-0.113 (0.220)	-0.057 (0.241)	-0.209 (0.267)	-0.163 (0.207)	0.010 (0.223)	-0.161 (0.218)	-0.097 (0.225)	-0.011 (0.382)
Concentration	-0.047 (0.312)	0.001 (0.345)	-0.151 (0.337)	0.093 (0.272)	0.101 (0.355)	-0.191 (0.233)	-0.168 (0.262)	0.413 (0.665)
Sector	0.011 (0.055)	-0.012 (0.069)	0.026 (0.044)	-0.009 (0.067)	-0.034 (0.068)	0.062 (0.044)	0.022 (0.048)	-0.03 (0.021)

Constant	-1.422 (0.912)	-0.92 (0.872)	-1.194 (0.788)	-0.906 (0.736)	-0.537 (0.781)	-1.469** (0.587)	-1.534** (0.747)	-0.183 -1.35
Observations	959	959	727	863	1114	623	640	207
Number of ID	189	189	166	192	198	146	144	43
AR (1)	0.0115	0.0109	0.00347	0.038	0.0028	0.006	0.00287	0.0852
AR (2)	0.217	0.284	0.451	0.296	0.819	0.552	0.224	0.739
Hansen	0.167	0.206	0.156	0.465	0.372	0.239	0.296	0.863
Instruments	32	40	40	40	41	40	40	28

GMM: General Method of Moments. Robust standards error Statistically significant at *10% level; **5% level; ***1% level.

5.7 Discussion

The type of political approach (relational versus transactional) and meeting participation level (individual and/or collective) are, respectively, the first two strategic choices made by firms enacting an NMS agenda (Hillman and Hitt, 1999). The implications of these two strategic decisions on performance is the primary concern of this study. Utilising the number of encounters firms have with the UK Government over an eight-year period, the research uses a dummy variable to represent 'relational' versus 'transactional' and identifies the access behaviour of firms to generate additional variables that denote 'unilateral', 'collaborative' and 'hybridised' modes of meeting participation. These political strategy variables are used as explanatory (independent) variables with the dependent variable TFP in different models to assess the impact of NMS. We achieve consistent results, which were further supported by a fine-grained GMM approach to confer robustness and validity to our results.

First, the count variable of political meetings was used to run the analysis, followed by the relational versus transactional dummy variable for the next analysis. Both results show that NMS has a significant negative association with performance. Each participation level variable was then tested by running the analysis with the dummy political approach variable to test both strategic choices. We are therefore able first to identify the effects of unilateral, collaborative, and hybridised approaches on performance, as well as their effects under relational or transactional conditions. The results reveal that the collaborative and hybridised approaches are detrimental to performance and remain so even when firms adopt a relational approach. Unilateral participation, however, shows different results. Whilst unilateral participation generates a positive, nonsignificant relationship with performance, the relationship becomes significant when firms adopt the transactional approach for their individual encounters. We can therefore confirm that firms' NMS only generates positive performance outcomes if it is transactional in nature and enacted unilaterally. The robustness of the results is further considered by controlling for year, industry effects, and region clusters to account for contextual factors at industry and country levels. Appropriate checks for robustness were also completed.

From the count variable of firms' political meetings, we can confirm that the two types of strategic choices identified by the literature are relevant in the UK context. This aligns with the literature arguing that pluralist systems are likely to feature large numbers of firms competing for political influence, acting either unilaterally or co-operatively (Boddeyn, 2003; Boddeyn and Doh, 2011). It is a system in which the main actors are united in a general belief that their multiplicity of interactions can, in aggregate,

operate in a manner most likely to deliver social benefits and economic growth (Berry, 1999; Bernhagen, 2007).

More importantly we respond to Hillman et al. (2004), Lawton et al (2013), and Rajwani and Liedong (2015) regarding the need to consider the mechanism that links NMS and performance. Hillman and Hitt's (1999) theoretical framework has been tested by research that explores the two strategic choices made by firms to secure political influence. Interestingly, the results of the various studies show both positive and negative implications for performance. We address the divergence in findings on the effects of NMS on firms' performance study by using more objective data; our findings align with both clusters of the literature in that we show that how firms' NMS might or might not generate positive outcomes on performance. Both sides of the argument reporting positive or negative effects of NMS on performance emphasise that firms' resources capabilities and the political inclinations of the top management team are at the forefront of strategic choices made to achieve performance outcomes (Blumentritt, 2003). This may be especially true under pluralism, where NMS is a normalised behaviour and where top managers are afforded considerable operational autonomy. For instance, scholars finding negative correlations between NMS and performance argue that boards of directors may have utilised the political capital acquired through their position in the firm to pursue personal rather than organisational goals (Hadani and Schuler, 2013; Sun et al., 2016). But boards of directors also rely on that same political capital to mitigate and contain the threat(s) posed by the external environment, by striving to create policy advantages that might increase their access to natural resources or improve the infrastructure so as to facilitate smooth market activities for better performance outcomes (e.g., Hillman, 2005; Peng and Luo, 2000; Faccio, 2006; Bonardi et al., 2006; Lux et al., 2011; Zheng et al., 2015).

Further, given the longitudinal nature of this study and the results themselves (which overall report a negative relationship between political engagement and performance) one could easily conclude that NMS is driven by its principal actors' personal motives, orientations, and ambitions (Den Hond et al., 2014) rather than by the desire to improve firm performance. That being the case, and given that the managerial prerogative prevails in UK corporate culture and is thus likely to continue to determine the choice of strategy for engaging in NMS, this research indicates that in order for the firm's interests to remain central, the transactional approach should be prioritised. Moreover, for this to work best, it should be embarked upon unilaterally.

However, the heterogeneity of the firm's resource capabilities also influences top managers' abilities to pursue NMS. Resource capabilities such as money, information, and political connections are essential;

in terms of political connections in particular, resources may move in and out of demand because of shifts in political discourse, crises, etc. (Frynas et al., 2006; Lawton and Rajwani, 2011). The dynamic nature of the political environment requires firms to develop and nurture distinct capabilities which can enable them to adequately respond to unexpected social and political change. Just like in the markets, the political non-market environment is one in which firms compete with each other by utilising valuable, rare, inimitable and non-substitutable resources, which help them secure encounters with government and achieve policy capture for value creation (Wernerfelt, 1984; Holburn and Zelner, 2010). Consequently, it can be argued that instead of trying to nurture long-lasting relationships with politicians, firms should place greater emphasis on developing more distinctive resources, which can be 'traded' as part of a transactional and unilateral strategy.

An important limitation of this study is the lack of data around the types of political resources utilised by firms to interact with government. The OGD data, although initiated by government to improve transparency in policy making, provides no information about what happened during these encounters. Key questions that remain unanswered include: What was the meeting about? Which resources were 'traded'? What were the outcomes. According to Hillman and Hitt (1999), firms that wish to fully exploit their political opportunities must decide which political resources they would like to utilise to advance their interests. The current research is, alas, unable to address this. Hadani and Schuler (2013) are certainly correct to call for the use of qualitative and/or survey-based methodologies when researching politically active firms to identify the types of resources they bring to the table.

Second, this study aligns with past studies that highlight the crucial role played by boards of directors in NMS practices. As such it is vital that future performance-related studies utilising Hillman and Hitt's (1999) conceptual framework encompass the moderating effects of boards of directors' political leverage—including their ties with government and directorships on umbrella bodies—to provide a more advanced assessment of the underlying factors driving performance outcomes. As was found in this work, political encounters can certainly be beneficial if they are short-lived; it may be that they only work with particular administrations³⁸. But some directors who have dual board directorships (i.e., at

³⁸ Governments attach different importance to different industries and may be more inclined to talk to some industries than others (Falkner, 2016).

trade association and firm level) can influence decisions to take a collective stance to access government. The political functional track of some directors confers them (and therefore their firm's board) with knowledge and expertise around the policy-crafting activities of government (Hadani and Shuler, 2013; Arifin et al., 2020; Fue and Sue, 2023). Hence, their political capital is, therefore, relevant to assess non-market strategy formulation in relation to performance.

Finally, contextual factors such as the nature and behaviour of the political system limits the generalisability of our study. Although the UK context provides top managers with operational discretion, other institutional arrangements—such as those of the EU and the US—may encourage different behaviours. In the US, firms adopt a more individualistic approach to NMS, whilst inside the EU (and in several of its member states) a more collaborative (albeit less inclusive) approach exists, privileging larger corporations and the status quo (Coen, 1999; Smith et al., 2015). Furthermore, although the dataset used in this research includes multinational and transnational corporations, their precise NMS behaviours are context-specific and vary from one jurisdiction to another based on the national culture and regulatory regime (Schneider, 1989; Harris and Ghauri, 2000). Adopting a comparative approach might therefore yield further significant insights regarding the origins and operationalisation of different manifestations of management-led NMS (North, 1990).

In this study, three core interconnected factors have been addressed: the contingencies in which NMS unfolds, the resource capabilities of firms, and the agency of the principal actors. As such we endorse Lawton's et al (2013) call for more theories (e.g., RBV; RDT; institutional and agency theory) to be more fully incorporated in future studies of NMS and performance.

Since NMS is aimed at achieving preferential policies for better performance outcomes, the next chapter of this thesis examines the relationship between firms' political approach and their tax aggressiveness. This allows us to scrutinise how the relational versus transactional approach relates to intermediary outcomes, such as tax aggressiveness. Firms political approach is susceptible to encourage certain behaviour such as tax aggressiveness which enables corporate tax minimization, performed by directors to increase shareholders value creation (Sikka, 2010).

6 Firms' Political Approach as a Determinant of Tax Aggressiveness

6.1 Introduction

Tax aggressive behaviour is the term for the use of regulatory loopholes to minimise tax liabilities across jurisdictions (Hanlon and Heitzman, 2010; Christians, 2014). It has been defined as an extreme form of tax avoidance³⁹. Since the turn of the century, there has been a significant increase in firms' tax aggressive behaviour (Eden, 2009; Piketty, 2013; Jones and Temouri, 2016). It is arguable that Foreign Direct Investment (FDI) has paved the way for such behaviour by increasing the flow of capital across jurisdictions; firms are keen to take advantage of cross-border taxation regimes. Governments design their tax policies to attract foreign investment. They are keen to collaborate with firms in the implementation of tax frameworks that best support the firms' activities and thus incentivise investment. This enabling environment facilitated by government encourages firms to not just look for tax policy favours but to take advantage of their insider status to acquire valuable information through which they can practise aggressive tax avoidance (Hoopes et al., 2012). The relationship between governments and firms has attracted much interest from scholars, who generate mixed results on the potential benefits firms gain from such a relationship (Drope and Hansen, 2008; Richter et al., 2009; Meade and Li, 2012; Brown et al., 2014). Still, firms' political strategies for shaping tax policy represents a fruitful area of investigation, if only because the tax benefits secured by politically active firms can be directly measured (Watts and Zimmerman, 1986; McIntyre, Gardner and Phillips, 2014).

Countries have witnessed considerable a decline in corporate tax rates thanks to firms' active political engagement (Braunstein, 2004). The cosy relationships that firms enjoy with governments—especially when taxation policy is involved—routinely attracts media⁴⁰ coverage (Christians, 2012; BBC News,

³⁹ Broadly speaking it encompasses 'all arrangements undertaken by firms to reduce, eliminate or defer a tax liability' (Freedman, 2004: 335–6).

⁴⁰ For example, the request by Sir James Dyson (owner of Dyson Limited) during the COVID-19 pandemic for a preferential tax deal, which he was able to present to Boris Johnson (the then UK Prime Minister) through personal contact (BBC news, 2021).

2021). From this we can see that (i) tax policy is important to firms, (ii) governments determine tax policy, and so (iii) government is a very clear target for firms' NMS.

Non-market strategy (NMS), which is defined as the active participation of firms in policymaking processes with stakeholders such as governments, is formulated at the firm level. According to Hillman and Hitt (1999), firms will take a relational⁴¹ or transactional⁴² approach to secure policy influence. The volatility and uncertainty of the markets incentivises firms to strive to control the tax planning strategies of their jurisdictions so they can mitigate the negative effects of taxation policy on their performance outcomes. Thus, it can be argued that firms are inclined to seek out insider status to ensure they can strategically articulate their tax policy preferences. It is important to discover whether or not this is in fact the case because the literature has called for more work to be done on identifying the determinants of firms' tax aggressiveness (Shackelford and Shevlin, 2001; Shevlin, 2007; Hanlon and Heitzman, 2010; Jones and Temouri, 2016). To respond to this call, this study proposes to advance knowledge by addressing the following research question:

RQ: Are tax aggressive firms likely to access government corridors and/or practise NMS by taking a relational approach to political meetings?

Access to government policymakers is viewed as the main way in which firms shape policy. This proxy measurement of influence theoretically provides objective, measurable data which can help identify the degree of access that firms enjoy and whether or not they can be classed as government insiders (i.e., a relational approach to NMS) or outsiders (i.e., a transactional approach to NMS) (Hillman and Hitt, 1999; Bouwen, 2004; Coen, 2007; Eising, 2007). However, to our knowledge most studies have failed to secure sufficiently objective data and instead fall back on measures such as PAC contributions, lobbying expenditure, and boards of directors' political connections, from which they attempt to tell firms' political activity stories (see Barrick and Brown, 2019 for a review). Further, very few studies look at firms' political engagement in relation to tax aggressiveness; rather, they appear convinced that political connections are the main means through which firms secure long-term influence with governments

⁴¹ Continuous proactive encounters with government which generate insider status (i.e., firms become the "go to" actor for marketplace-related information.

⁴² Ad hoc encounters which are only initiated to react to a particular issue affecting firms and/or for the purpose of being alerted to potential changes in government policy.

(Faccio, 2016; Kim and Zhang, 2016). Existing research, then, does not clearly tell us how often firms meet government but instead assumes this is what they are doing in order to pursue their tax-related interests. Tax aggressive firms are believed to secure benefits such as (i) greater government protection over potential bailouts in the event of risky investments, (ii) insider knowledge about the tax policy cycle (making, implementation, monitoring, and amendment); and (iii) their tax-sheltering practices are subjected to low political costs and limited oversight from tax regulatory bodies.

Whilst we know why it is that government relationships matter to tax aggressive firms, we still need to objectively understand the mechanism through which firms navigate their political landscapes (Mellahi et al., 2016; Barrick and Brown, 2019; Dahan and Hadani, 2023). Our study makes a robust contribution to this by utilising the UK's Open Government Data (OGD) to examine how firms' degree of access to UK government relates to their tax aggressiveness. Whilst our tax aggressiveness measure is a dummy variable that takes the value of 1 if firms have at least one subsidiary in a tax haven jurisdiction and 0 otherwise, the OGD displays how often our sample firms have had meetings with government over an eight-year period (2012 to 2019). More importantly, we utilise the mean (3.04) of the number of meetings over the eight-year period to establish whether a relational or transactional approach has been the firm's mode of engagement with government. Firms' political approach (FPA) is given a value of 1 if a relational approach is identified, and 0 if not. Since the dependent variable is a dummy variable, a random Probit model is used in Stata 17 to run the analysis. We thus use objective data to directly interrogate the use of tax havens by our sample firms, from which we reveal a direct strong positive association between the relational approach and tax aggressiveness. We find that firm age positively moderates the effect because older firms' NMS experience accords them more political leverage. However, we discover that firms with a high degree of intangible assets will adopt a more transactional approach with government. Robustness checks were conducted by utilising an alternative dummy for tax aggressiveness and we still achieved consistency with our findings.

Our results provide strong evidence that the relational approach is the political mechanism of choice of tax aggressive firms and, hence, is a determinant of tax aggressiveness. Tax policy matters to tax aggressive firms, who want to be kept in the loop about potential amendments or changes in tax policy. Our study responds to Jones and Temouri's (2016) call for the relationship between government and firms to be investigated. Although Kim and Zhang (2016) investigated the long-term relationship between government and firms to assess tax aggressiveness, they were focused on firms' political connections in relation to tax aggressiveness, and so the political approach was not considered. Indeed

in that study, a positive association was only revealed when the three indirect measures of access (PAC contributions, lobbying expenditure, and ex-politicians on the board of directors) were combined to run the model. This demonstrates the need to secure objective data for political studies given that the political process is shrouded in opacity (Bebchuk et al., 2012; Hadani et al., 2021).

Moreover, we make a second unique contribution to the literature by highlighting the importance of firm age (as a proxy of experience) to the ability of firms to use the relational approach to effectively advance their tax aggressive stance. Tax studies have identified age as an antecedent for tax aggressiveness (Graham and Tucker, 2006; Jones and Temouri, 2016), but NMS also views firms' age as an antecedent of firms' propensity to be politically active (see Brown et al., 2022 review). This overlapping feature evidences the strong connection between politically active firms and tax aggressive practices. We extend this line of thinking by interrogating intangible assets as another overlapping feature between the two fields (Dischinger and Riedel, 2011; Taylor et al., 2015; Hillman et al., 2004; Lux et al., 2011) and show that firms with a high level of intangible assets will want to remain informed about tax policy but they are more likely to adopt a transactional approach with government. We note that firms with more intangible assets are able to reduce the level of transparency in their financial books; such firms can thus achieve a level of sophistication that allows them to increase the opaqueness around their financial activities. This therefore limits these firms' need for government protection and/or reduces the likelihood of disputes with tax authorities (Oats and Tuck, 2019).

Whilst relational or transactional approaches constitute the mechanisms through which firms interact with government, institutional theory reinforces the desirability of such partnerships. NMS and tax aggressiveness are behavioural stances that emanate from the prevailing norms and behaviours that are embedded at institutional levels. Managing the institutional setting requires conformity to embedded norms and rules. Firms acquire legitimacy for their strategic behaviours by conforming to the existing competitive stances commonly used and accepted by stakeholders (DiMaggio and Powell, 1983; Scott, 2008). Our study provides strong evidence that the UK setting is conducive to NMS. More importantly, the UK is one of the top jurisdictions for private wealth, and three UK overseas territories⁴³ are classed as tax havens (Cobham et al., 2017). This makes the UK an attractive offshore destination for

⁴³ British Virgin Islands, Bermuda, and the Cayman Islands.

wealthy individuals and firms who, as demonstrated by our study, actively permeate the political landscape with the objective of securing favourable conditions for tax aggressive practices.

Taxation is a sensitive subject through which firms' contributions to society at large can be assessed. According to Christensen and Murphy (2004), tax-sheltering practices undermine the social contract of firms and are viewed as immoral. Corporate Social Responsibility (CSR) has therefore been rebranded as Corporate Social Irresponsibility (CSI) in tax-related studies to emphasise the negative externalities⁴⁴ caused by extreme tax avoidances practices (Preuss, 2012; Baudot et al., 2019; Temouri et al., 2022). This study aligns with the few tax-related studies that look at CSI, in its suggestion CSI is embedded in UK institutional processes, with firms eager to navigate the political arena to prosecute their tax-sheltering strategies.

In the next section we review the literature that discusses the relationship between tax aggressiveness and NMS. The third section describes our data, measures, and methods; our results are presented in the fourth section. We then discuss the results, considering the theoretical implications of political approach, isomorphism, and CSI. We conclude by outlining some limitations of this research and suggestions for future research.

6.2 Conceptual Framework and Hypotheses

The proliferation of the use of tax havens by firms has fuelled the need to identify the factors influencing such behaviour (Shackelford and Shevlin, 2001). Jones and Temouri (2016: 246) argue that the increase could potentially be linked to changes in government policy at home or in host countries. In our attempt to respond to Jones and Temouri's call for this to be investigated, this study argues that the type of political approach chosen by firms to negotiate taxation policy preferences with governments is likely to influence tax avoidance behaviour. Existing studies have identified factors at firm, industry, and country level that fuel firms' desire to be tax aggressive (Shevlin, 2007; Hanlon and Heitzman, 2010). But these studies have also called for more to be done to understand the mechanism through which firms exercise tax aggressive behaviours. Politics takes centre stage in tax planning, and firms understand that

⁴⁴ Such as income inequalities, corruption, poverty, environmental degradation. (Cobham and Gibson, 2016; Galaz et al., 2018).

achieving tax bargaining power requires them to be politically active. It has been noted that non-market strategy (NMS) should be viewed as a proactive tax avoidance behaviour because in their attempt to shape policy, firms are not seeking to simply maintain the status quo; they are actively looking to achieve new tax policy incentives that are designed to reduce their tax liabilities (Zimmerman, 1983; Birnbaum and Murray, 1988).

Hillman and Hitt (1999) argue that to influence policy, firms will take a relational or transactional approach. The essence of establishing whether a firm strategy for conducting political activity can be classified as relational or transactional is based on how often encounters take place with government. However past studies have suffered the drawback of not being able to secure data on this. Hence, they resort to proxy measures of access, which include Political Action Contribution (PAC) donations, the political connections of boards of directors, and firms' ownership structures (for review, see Lux et al., 2011; Hadani et al., 2017). This study builds on the literature by utilising direct measures of firms' encounters with government to investigate the relationship between firms' tax aggressiveness and their chosen political strategy. The ultimate goal is to establish whether the relational approach is associated with firms' tax aggressiveness. This study thus uses objective data to shed light on a determinant of tax aggressiveness. This is important because political leverage can help firms pre-empt upcoming changes in taxation regulation or implementation, diminish the level of government oversight over firms' financial activities (especially with regard to tax avoidance practices), and encourage risky behaviour at management level (Hoopes et al., 2012; Christensen et al., 2015; Francis et al., 2016).

6.2.1 Government and Firms' Tax Bargaining Power Relationship

Policymaking processes play a pivotal role in a country's economic growth strategy, which requires governments to deliver on their Industrial Policy (IP) agenda to support economic sectors with relevant public goods, regulations, and policy incentives to promote and enhance national development (Bown and McCulloch, 2004; Farnsworth, 2012). However, economic challenges such as high levels of unemployment, low productivity, and increasing levels of poverty trigger nation states to impose greater regulation (Khan, 2000; Fink, 2006). National governments are therefore competing with one another to provide policy incentives that are designed to attract FDI. Further, the aftermath of the 2008 financial crisis revealed vulnerabilities in nation states' economic growth and prompted further efforts to attract investment from multinational companies (Froud et al., 2011; Berry and Hay, 2016). FDI features considerable capital flow between jurisdictions, which is particularly relevant to many firms' internationalization strategies.

Capital flow between countries is subject to different taxation regimes, the attractiveness of which can incentivise investment. As nation states compete with each other to provide the best environment in which firms can operate, firms see the opportunity to enter the policymaking arena in order to shape tax regimes in a manner that benefits their bottom line (Overesch and Rincke, 2011). The government policymaking sphere therefore gets turned into a competitive arena where firms pursue their own competitive advantage. Firms' behaviour in the regulatory landscape is called NMS; NMS represents firms' abilities to secure active participation in policymaking processes. Governments' desire to deliver smart, competitive policies incentivises them to grant firms access to policymaking. Taxation policymaking is a high-stake activity, offering potential rewards such as tax breaks, rebates, and light touch tax enforcement⁴⁵, which may be secured by firms at the national level (Oats et al., 2017; Freedman, 2018).

6.2.2 Tax Havens and NMS

Firms do not only bargain for better taxation; they also covet light touch tax regime jurisdictions, through which they can optimize their tax affairs. These jurisdictions are characterised by features such as small populations and low levels of Gross Domestic Product (GDP). They are termed 'tax havens', and represent ideal locations for firms to flexibly manage their profits (Eden, 2009). The tendency to shift profit to tax haven destinations is common and has been identified as an act of tax avoidance behaviour (Sikka, 2003). Firms with subsidiaries based in one or multiple tax havens are seen as tax aggressive because the ultimate purpose of maintaining these subsidiaries is to manipulate transfer pricing⁴⁶. Firms are keen to have a transfer pricing strategy aimed at reducing corporate tax liabilities and kicking potential tax payments from overseas activities into the long grass. Tax havens are very useful in this regard, providing firms with alternative destinations to report some of their financial activities to minimise tax liabilities across jurisdictions and/or prevent taxation of profits earned at their foreign subsidiaries by deferring their repatriation (Bird and De Jantscher, 1992). Tax haven jurisdictions are characterised by light touch regulation, with almost zero contribution to taxation and significant levels

⁴⁵ Any attempt by government to toughen taxation policing might lead to more resource requirements but it will also trigger firms' decision to increase prices of goods and services on the market (Freedman, 2018).

⁴⁶ A firm's transfer pricing activities (internal and within firm's trade) are under the firm's control. Such activities offer a firm a opportunity to improve its financial performance by declaring profits in low tax jurisdictions.

of secrecy. Establishing subsidiaries in tax haven jurisdictions therefore allows firms to reduce the cost of investments by making sure that the bulk of their profits are declared there.

Clearly, this form of tax relief is beyond the means of small firms, but governments nevertheless experience its effect in the form of reduced tax revenue. Tax avoidance is hard to tackle because the practice is not illegal; firms are simply exploiting regulatory loopholes (Payne and Ralborn, 2018). Nation states therefore seek to design tax regimes that provide sufficient revenue, but which do not 'scare' firms away; taxation is a balancing act that is often referred to as a nation's 'taxation capacity'. The question for government is how much can it tax before the taxpayers (e.g., firms) start to behave in a manner that undermines the objectives of the policy (e.g., by engaging in tax avoidance and tax evasion)? Different countries have different taxation capacities.

In theory, the design and implementation of tax policies will generate mutual benefits. But there are reasons to believe that only firms are benefitting from national taxation policies. Firms enjoy a cosy relationship with government, which leads Gravelle (2014) to conclude that government is complicit in firms' tax avoidance practices. For instance, despite steady reductions in UK corporation tax (which in 2023 is less than half of what it was in 1980), firms have never ceased to lobby for further reductions (Kevin and Fooks, 2015). The collusion of government in firms' tax avoidance stems in part from the fact that nation states have a constant need to remain competitive; they must therefore lower their guard and build a degree of flexibility into their tax policies if they are to attract firms (Klassen and Laplante, 2012). This enabling context facilitates a collaboration between government and firms, through which they agree on tax deals and/or negotiate convenient tax settlements in the event of a dispute about tax liabilities. Ongoing discussions and monitoring between both parties is therefore part of the tax policy decision-making process, which is why Mulligan and Oats (2016) argue that we should expect to see a direct link between firms' access to government and tax avoidance measures. Thus, firms use non-market strategies to pursue policy advantages and a business-friendly environment. Firms become politically active to mitigate the cost and likelihood of being successfully challenged by tax authorities in the event that their tax avoidance is detected (Wilson, 2009). Several studies have revealed the close relationship between firms and the tax authorities. Hunter and Nelson (1995) and Young et al. (2001) find that politically active firms are subject to less auditing requirements with regard to their tax affairs. Politicians exercise considerable control over tax policies, ensuring that regulatory bodies implement

policies that best suit the needs of their sponsors (Richter et al., 2009). For example, Brown et al. (2015) find in the U.S. context that firms' contributions to tax-related PAC⁴⁷ tend to be very significant.

Exchange theory offers a way of examining this relationship. It argues that the rationale behind NMS is based on the expectation that the benefits from such endeavours should be greater than the costs involved. NMS is viewed as unsuccessful when this logic is not met. The exchange relationship identifies firms as demanders and government as suppliers of policy. The rules of the game encourage firms to compete with other firms by providing valuable resources through which they can secure access to government and shape policy to achieve better performance. Success can come in the form of conducive market structures or from securing public resources (e.g., subsidies, loans and government procurement contracts) (Stigler, 1971; Peltzman, 1976; Hillman et al., 2004; Bonardi et al., 2005). The modern political environment requires campaigning politicians to raise considerable amounts of money, and firms that provide important financial support expect (not unreasonably) to be rewarded at some point, perhaps through the enactment of favourable tax optimisation policies (Drutman, 2015; Kim et al., 2016). We can therefore expect tax aggressive firms to be politically active and posit that:

H1: There is a strong positive association between firms' political meetings and tax aggressiveness.

A review of the literature suggests that PAC contributions and lobbying are the most utilised measures for assessing firms' NMS and their tax aggressiveness. Although an indirect measure, PAC contribution is a fair reliable proxy for access; however, lobbying⁴⁸ expenditure is an unreliable measure that does not really capture NMS effects on firms' value (Alexander et al., 2009; Hill et al., 2013; Meade and Li., 2015). Studies acknowledge the need to utilise direct measures in the study of NMS. This study responds to this call by answering H1 through an analysis of the direct effect of firms' political encounters on their tax optimisation behaviours. Political encounters are likely to be part of a distinct NMS strategy adopted by a firm for its interactions with government. Hillman and Hitt's (1999) argument that the strategy will draw on either a relational or transactional approach seems sensible, and it that which we discuss next.

⁴⁷ Political Action Committee – financial contributions made by firms to political candidates and/or parties.

⁴⁸ Which refers to the channelling of information to policymakers by individuals from the firm or by third-party lobbyists representing the firm (Hillman and Hitt 1999).

6.2.3 Firms' Political Strategy and Tax Aggressiveness

Understanding how and how often firms engage with government is important because it allows us to gauge the return firms expect to gain from their behaviour; in our case, it is a gauge of the expected level of tax aggressiveness displayed by firms. Research argues that NMS can be a long-lasting investment that may or may not benefit firms' bottom line. Hence, firms might only decide to embark on NMS because they are presented with the need to do so (Wirl 1994; Kerr, Lincoln and Mishra 2014; Kroszner and Stratmann, 2005). This is a reactive mode of political operation, which may be viewed as a transactional approach to political strategy (Hillman, 2003). NMS can therefore be examined in more processual terms. Down's (1972) 'attention cycle' is arguably the most well-known model for explaining how public problems move in and out of view (particularly in the media), prompting ebbs and flows in policymaking activities (Bernhagen and Trani, 2012). Whilst some policymaking opportunities are predictable (e.g., the run-up to the UK's Autumn Statement), others, such as political crises, are not. Hence, firms make informed decisions about whether they should nurture a continuous relationship with government, or if they can simply interact on an 'as and when' basis when a policy 'window' opens and they have a problem (and a solution) at hand (Kingdon, 1984; Baumgartner and Leech, 2001). The decision to take a relational or transactional approach is therefore contextual, being contingent on the nature of the issue and/or the context in which it is being handled.

Domain specificities are also important to the NMS approach. In complex and dynamic policy domains, encounters become more common. Some sectors and/or policy domains require continuous collaboration with government as opposed to the ad hoc transactional encounters that may suffice for other sectors or domains. For example, in low-profile domains, governments are happy to give the key players whatever they want and then leave them alone because if things go wrong, nobody will notice. In high-profile domains, governments want to meet with the key players and be fully informed at all times about what is going on because if things go wrong, government will share the blame. Stakeholders in highly technical domains are also allowed to operate without interference because governments tend to defer to their expertise. Taxation is clearly a high-profile activity and it is also one in which government will consider itself either to be an expert or as needing to acquire more expertise; it is therefore the sort of issue that will generate dialogue.

Taxation policy is a very sensitive and complex policy domain which is characterised by shifting information asymmetries, which can act as a double-edged sword⁴⁹. Governments may have limited powers or resources to scrutinise firms' information, thus providing firms with an 'in' with which to advance their preferences (Oats and Tuck, 2019). Whilst some issues may be specific to certain industries, taxation policy affects all industries and society at large. Taxation policy is sufficiently important for firms to want to discuss it regularly with government, which requires the relational approach's continuous interactions with government. Brown et al. (2015) and Chen et al. (2015) offer good accounts of how firms have used their political donations to influence taxation policy. According to Hutchens et al. (2016), in their efforts to secure policy success, firms' tax-related lobbying expenditures tend to be high. For instance, Enron's longstanding record of campaign contributions is believed to have paved the way for the lack of government control (amounting to special treatment) over its breach of environmental standards and various financial malpractices (Dean, 2002). Numerous examples of the protectionist behaviour of government toward firms are provided in the literature, which also highlights the constant need of firms to access government's tax-planning corridors (Agrawal and Knoeber, 2001; Christensen et al., 2015; Farnsworth and Fooks, 2015).

Research on how the political approaches adopted by firms relate to their tax aggressiveness has attracted little interest, and the few studies that do exist suffer from data limitation issues; thus, they tend to focus on broader tax-related corporate activities (Brown et al., 2015⁵⁰; Hutchens et al., 2016⁵¹). Kim and Zhang (2016) found that politically connected firms are likely to be tax aggressive, but their study does not use direct data on firms' access to policymakers and does not explicitly address the manner in which firms prosecute their NMS. We propose to fill that knowledge gap by address the hypothesis that:

⁴⁹ Governments wield power in the enactment of policy and some legislation may catch firms unawares; firms on the other hand may conduct business in ways that that are beyond government control or which concern relevant issues that governments can neither see nor anticipate at the time the tax policy decisions are being made.

⁵⁰ Longitudinal study using two measures over 6 years: (i) PAC contributions to tax-writing committee members; (ii) the monthly spread of PAC support for an individual tax-writing committee member.

⁵¹ Longitudinal design using frequency of lobbying expenditure; firms at or above the 75th percentile of lobbying expenditure were termed relational; those below the 75th percentile were transactional.

H2: The relational approach to political meetings is positively associated with firms' tax aggressiveness.

The literature identifies several antecedents that can influence firms' ability to be politically engaged. This is important because firms not only vary in terms of what they have to offer but also in terms of their capacity to maintain political interactions. Firm age has been identified as one of the important factors defining the firm's unique experience in the political market. Age is linked to experience and 'know how', and in the FDI literature, it is used as a proxy for the firm's credibility and commitment to the host country (Luo, 2001). Age also associates with firms' visibility and reputation (Keim and Baysinger, 1988; Boddewyn and Brewer, 1994; Baron, 1995a; Hansen and Mitchell, 2000). Difference in age can therefore help put firms' political behaviour in perspective, especially given that their political strategies tend to evolve with experience (Suarez, 1998). Hence, firms can start with one approach and then switch to another.

For example, young firms are believed to be less inclined to political activity (at least from the start) because of the extra cash generated through their Initial Public Offering (IPO). Their political approach will therefore tend toward the transactional. This could also be linked to the fact that young firms are less 'embedded' and are therefore less likely to be granted access. It takes time for the firm to develop the reputation and connections needed for acquiring insider status, and firms that are trying to do so may view donations to political campaigns as something of a short-cut. Hart (2001) evidence that young firms, in their efforts to gain access to government corridors, are more likely to make substantial levels of PAC contributions compared with old firms. This might also explain why a firm might start off using a transactional approach but switch to a relational approach when they get older and have acquired the desired level of insider status. Once an experienced firm has acquired sufficient gravitas from its relational approach, it can 'relax' and become more transactional – like a well-respected, trusted elder statesman who doesn't need to be everywhere all the time to retain influence but can pop-up every now and again and immediately command an audience.

Nevertheless, contextual factors such as policy domain might impact political approach choice regardless of firm age. Firms' degree of internationalisation—which also increases their propensity to be tax aggressive—is also linked to age. This is presumably because most firms start small, and it takes a long time before they become international. International firms are well known for their lobbying prowess and importance to the national economies they inhabit (Boddewyn and Brewer, 1994; Boddewyn, 2003). Since this study scrutinises firms' tax aggressiveness-related political approaches, it

is appropriate that all the firms in our sample are MNEs and thus likely to have a tax haven location; they are also unlikely to be very young. The research therefore investigates the behaviour of old and older firms. In line with the above discussion, we posit that:

H3: the older the firm, the more likely the positive moderating effect between relational approach and tax aggressiveness.

The research also investigates firm size, which may be measured in various ways. We therefore draw on several variables: number of employees, turnover, assets, and cash flow. Studies in the NMS field have highlighted the importance of size of assets to a firm's ability to be politically active and practise tax avoidance (Stigler, 1971; Salamon and Siegfried, 1977; Dyreng et al., 2008; Chen et al., 2010; Sikka and Willmott, 2010; Seabrooke and Wigan, 2014). The mechanism through which firms exercise their tax optimisation strategy is rooted in the intangible resources available to them. For example, firms' economic activities can be spread across jurisdictions. The brands and/or intellectual property tied up in production can belong to one country for one product or service, with the sales of other goods and services belonging to a different country. Firms' economic activities are often organised in a highly complex, opaque manner. According to Sikka and Willmott (2010) it is common for firms to routinely keep its books so that profits and costs cross tax borders. Research and development (R&D) intensification has also been associated with firms' inclination toward tax avoidance (Desai et al., 2006a). Intangible assets provide a foundation for exploiting loopholes in tax regulations. The arm's-length pricing approach⁵² has brought yet more complexity to the system by encouraging parent firms to increase the number of their tax haven subsidiaries across jurisdictions to ensure they comply with the threshold of no more than 50% ownership of stocks per subsidiary in low tax jurisdictions. They do this in order to not fall foul of anti-accumulation provisions⁵³ (Bird and De Jantscher, 1992; Seabrooke and Wigan, 2014).

⁵² An arm's-length transaction is one in which market forces determine the prices agreed between two independent and unrelated firms. An arm's-length bargaining relationship does exist when goods and services are exchanged between a parent company and its tax haven subsidiaries.

⁵³ This rules out domestic firms' ability to defer tax liabilities on profits earned from their foreign subsidiaries by requiring taxation of the income of these foreign holding companies on an accrual basis. This policy thus negates a prior tax deferral strategy.

Firms are increasingly creative with their tax affairs and governments have limited resources to adequately oversee and understand the various tax avoidance practices that may be employed. The reliance of government on firms to bring about smart taxation policy facilitates tax-sheltering behaviour. Accountancy firms are also brought in to assist government in the design of tax policies, with expert staff acting as special advisors and at arm's length. This delicate relationship has important implications, given Sikka's (2012) argument that big accountancy firms can acquire insider knowledge of government policies, which they can then use to advise firms on how they can effectively exploit tax regulations loophole. This assertion is supported by Jones et al. (2018), who argue that the increasing creativity in the interpretation of tax rules, which is facilitated by the Big Four auditing firms⁵⁴, allows firms to support their networks of low tax foreign subsidiaries. The top accounting firms are known for offering considerable resources and expertise to their clients. Firms with a high level of intangible assets will therefore be inclined to work closely with accountancy firms as opposed to government, even as the firms continue maintain a relationship with government so as to secure information on upcoming tax policies changes.

Achieving regular encounters with government is an expensive endeavour as firms need to ensure that they can provide so-called "access goods" in exchange for access and policy influence (Bouwen, 2002). It will therefore be sensible for firms with significant intangible assets to limit the resources they divert to the political arena by maintaining light-touch encounters with government; they can thus free up the necessary resources for working closely with private accountancy firms to enhance their tax-sheltering capabilities. We therefore generate our last hypothesis by arguing that:

H4: Intangible assets exert a negative moderating effect on the relationship between relational approach and tax aggressiveness.

This conceptual discussion paves the way for our next sections, where we discuss the methods employed to deliver this empirical study and the interpretation of the results.

⁵⁴ Deloitte, EY, KPMG, and PwC.

6.3 Methodology

This section provides insights about the methods used in the study. A full discussion about data collation, data sources, and sampling has been provided in methodology section of chapters three and four. We therefore offer here a briefly summary of the origins of the data before we focus on discussing the tax haven dependent variable. This is the new variable introduced in this chapter to advance our knowledge on the propensity of politically active firms to be tax aggressive. We also introduce new control variables, but retain the independent variable of chapters four and five: firms' number of political meetings.

Data was collected from various sources including DataStream, Orbis, and Bloomberg. Interrogating different sources of data has been useful to ensure that we get a comprehensive picture of firms' information. Bloomberg was useful for having a full list of firms listed on the FTSE250⁵⁵ from 2012 to 2019; Orbis and DataStream helped to generate firms' full financial information and sector of activity with level of diversification. See chapter four for a full discussion of data collection and sampling. However, it is also important to mention that to prevent bias in the selection of firms sampled, we consulted FTSE350 to make sure that the sample only included firms that met the criteria of operating in the UK. This decision was informed by the literature, which argues that politically active firms tend to practise NMS in countries where they have subsidiaries and/or headquarters (Blumentrit, 2003).

6.3.1 Dependent Variable

The literature around taxation identifies several countries that can be classified as tax havens. Common characteristics of these include: (i) low tax rates, (ii) light-touch regulation, (iii) developed communication capabilities, and (iv) marketing themselves as an attractive financial centre. Population size and GDP can also be used to identify them (Beauchamp, 1983; Hines and Rice, 1994; Desai, Foley and Hines, 2016; Jones and Temouri, 2016).

⁵⁵ FTSE250 encompasses large and medium market capitalisation firms trading on UK's stock market.

This study chooses the tax haven list developed by Hines and Rice (1994) because it contains the conventional and well-known list of 'dot tax havens'⁵⁶ jurisdictions. Using this list increased our chances of capturing more politically active firms that have at least one subsidiary in a tax haven jurisdiction; it resulted in the identification of 26 countries⁵⁷. A dummy variable was created in which a firm that operated in at least one tax haven was coded as 1, and 0 otherwise. We term this dummy variable 'tax aggressiveness', and it is the dependent variable we use to conduct the analyses. However, to ensure consistency and robustness we created another tax haven dummy variable using Jones and Temouri's (2016)⁵⁸ list of dot tax havens jurisdictions, resulting in a sample of 28 settings. By utilising two different lists we can better assess changes in the p value. P value can be confounded because of its dependence on sample size, so our findings can be validated as robust if consistency is achieved between models (Kline, 2013).

6.3.2 Independent variables

Just as for the other two empirical chapters, the number of political encounters over an eight-year period is used as the main independent variable in the initial set of analyses. In the remaining analysis, it is transformed into the dummy variable 'political approach', in which a relational approach takes value 1 (firms with political meetings that are above the mean value of 3.04), and value 0 for the transactional approach (firms with a mean value below 3.04). A full discussion of how we created these two independent variables is provided in the Methodology section of chapter four.

6.3.3 Control Variables

Firm age, turnover, level of debts, product diversification, and foreign sales are commonly used in both the NMS and taxation fields to represent firms' size and years of experience. Intangible assets, and

⁵⁶ These are referred to as very small island economies with a level of population lower than 2 million (Hines and Rice, 1949; Jones and Temouri, 2016)

⁵⁷ Andorra; Antigua; Cayman Islands; Barbados; Bahamas; Bahrain; Barbuda; Belize; Bermuda; Cote d'Ivoire; Cyprus; Dominica; Gibraltar; Grenada; Jordan; Kiribati; Liechtenstein; Luxembourg; Macao; Malta; Mauritania; Nauru; Netherland Antilles; Saint Kitts and Nevis; Saint Lucia; Saint Vincent; and Vanuatu.

⁵⁸ Andorra, Anguilla, Antigua, Barbados, Bahrain, Bermuda, Bahamas, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Cyprus, Isle of Man, Jersey, Gibraltar, Grenada, Guernsey, Liechtenstein, Luxembourg, Macao, Malta, Monaco, Netherlands Antilles, Saint Kitts and Nevis, Saint Lucia, Saint Vincent, Seychelles; and the Turks and Caicos Islands.

Return on Asset (ROA) are relevant to gauging firms' performance (Lux, 2011; Lawton et al., 2013; Jones and Temouri, 2016). Industry-level variables such as the degree of concentration are also known to associate with firms' political behaviour. The economic structure of industries is influenced by its size and the availability of resources, making some industries more powerful than others. The financial sector is understood to be one of the front runners in tax avoidance measures, thanks to its high levels of resources and sophistication. Firms in this sector tend to have a high number of intangible assets, allowing them to optimise their tax affairs and those of their clients for tax avoidance purposes (Palan, 2006; Phillips et al., 2021). A financial dummy control variable is therefore included in the model, denoted as 1 for firms operating within the financial sector, and 0 otherwise. London has been identified as a strategic financial centre, facilitating a high flow in capital and attracting very knowledgeable bank experts (Palan, 2010). This provides an incentive for firms to have a UK presence. The NMS literature shows that firms like to have at least one office close to the seat of power (i.e., Washington D.C., Brussels) (Hillman et al., 2004; Hadani et al., 2017). Since our sample consists of firms with at least one office in the UK, a London dummy variable has been created to reflect firms operating near Westminster (the UK's centre of political power). The London dummy variable is equal to 1 for firms with a London postcode, and 0 if not. Finally, unobservable effects are controlled for by including year, other economic sectors, and region dummies.

6.4 Modelling

We estimate our specifications based on a Probit model to study the relationship between firms' tax aggressiveness and political meetings. The main equations are used to test hypotheses 1 and 2 respectively to understand the likelihood of tax aggressive firms having meetings with the UK Government and their propensity to take a relational approach to support tax aggressive behaviour.

$$(1) \text{ Tax Agressiveness}_{it} = \beta_0 + \beta_1 FPM + \beta_2 TD + \delta_1 \text{Financial} + \delta_2 \text{London} + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \lambda_t + \epsilon_{it}$$

$$(2) \text{ Tax Agressiveness}_{it} = \beta_0 + \beta_1 FPA + \beta_2 TD + \delta_1 \text{Financial} + \delta_2 \text{London} + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \lambda_t + \epsilon_{it}$$

Tax aggressiveness is a dummy variable coded as 1 if firm i in year t has at least one subsidiary in a tax haven location, and 0 otherwise. The number of political meetings of firm i at time t represented by the count variable FPM, through which we capture the number of meetings achieved each year by firms over an eight-year period. Our base model also includes under vector X a number of control variables: age, turnover, level of debts, foreign sales, and intangible assets. TD is total diversification: level of product diversification by firm i at time t . Financial represents the dummy variable equal to 1 if firm i at time t is from the financial sector, and 0 otherwise. London variable is a dummy taking 1 if firm i at time t has a post code in London, and 0 otherwise. Because political meetings have been shown in our dataset to vary by industry and over time, η_t and ν_t represent year and industry fixed effects respectively (12 industries identified by the two digit SIC code) (Dyreng et al., 2008). To mitigate for collinearity, these 12 industries do not include the financial industry since this has already been included in the model as a control variable. We also control for region effect (λ_t) to capture unobserved regulatory effect on location of firms' headquarters (Dixit Pindyck, 1993; Henisz, 2000).

Instead of using individual firms' location, firms were grouped based on their geographical proximity. But an individual country is listed if it is home to more than 10 firms whereas countries that appear just once in the sample have been grouped together under the label 'other countries'. Hence a total of seven geographical locations⁵⁹ are listed (Helpman and Krugman, 1985). These control variables are important to partially mitigate for endogeneity and account for unobserved fixed effects (Baltagi and Chang, 1994; Pathan, 2009). ϵ_{it} represents the error term at the individual level with an expected value of 0. The control variables were lagged by one year.

The specification of Model 2 is similar to that of Model 1 but it utilises a different independent variable: Firm Political Approach (FPA) instead of FPM. FPA represents a dummy variable coded as 1 (relational) if firm i has a number of political meetings above the mean 3.04 over at least 4 of the 8 sample years, and 0 otherwise (transactional).

Two other specifications models are also introduced to examine the moderating effect of firms' age and intangible assets. These variables are interchangeably interacted with the FPA dummy variable to answer hypotheses H3 and H4. The specifications are as follows:

⁵⁹ European Union, France, Germany, Ireland, Japan, other countries, and the UK.

$$(1) \text{ Tax Agressiveness}_{it} = \beta_0 + \beta_1 FPA * AGE + \beta_2 TD + \delta_1 Financial + \delta_2 London + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \lambda_t + \epsilon_{it}$$

$$(2) \text{ Tax Agressiveness}_{it} = \beta_0 + \beta_1 FPA * Intangible Assets + \beta_2 TD + \delta_1 Financial + \delta_2 London + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \lambda_t + \epsilon_{it}$$

Since this study analyses firms' inclination towards a relational approach to political encounters, the dummy variable FPA is considered in the last two specifications to answer Hypotheses 3 and 4. These 2 interaction terms are then introduced together in a last specification model to check for consistency and offer further validation of our findings in specifications 3 and 4.

$$(3) \text{ Tax Agressiveness}_{it} = \beta_0 + \beta_1 FPA * AGE + \beta_2 FPA + \beta_3 TD + \delta_1 Financial + \delta_2 London + \sum_{j=1}^j \beta_j X_{it-1} + \eta_t + \nu_t + \lambda_t + \epsilon_{it}$$

6.5 Results

A general descriptive statistic for all the variables included in the analyses is presented in Table 11. The means, standard deviations, and minimum and maximum values of the variables are displayed. Also, the first, second, and third quartiles of the balance panel data for the variables are presented. We note variation among the number of political meetings achieved by firms, and this suggests that we have heterogeneity within our sample (Dyregang et al., 2008)

Table 12 displays the correlation coefficients of the variables of this study. The variance inflation factors (VIFs) for all the variables are below 10, signalling that multicollinearity is not an issue (Hair et al., 1998). Our study is longitudinal with a binary outcome variable. So, to mitigate the likelihood of obtaining results with potentially correlated binary responses, our regressions are performed using a random effect Probit model and we report the marginal effect. Individual firms' specific effects can therefore be captured as well as the maximum likelihood estimates for time-varying and time-invariant covariates (Gibbons and Hedeker, 1997).

Table 13 displays the results of the five specification models. The first model has count of political meetings (FPM) as its independent variable; the other four models were run using the political approach (FPA) dummy variable. We use the same dependent variable (Tax Agressiveness) across the five

specifications. Model 1 is our base model and also the benchmark; we draw on it to test our first hypothesis but to also assess the validity and robustness of Model 2, in which we first introduce the dummy variable FPA derived from FPM. According to Schuler (2002) and Jones and Temouri (2016), loss of information can potentially occur when a variable is turned into a dummy variable. Our results show that both FPM and FPA are statistically significant in their respective models. This strengthens the validity of our FPA variable and suggests that loss of information is not an issue in Model 2. The same control variables are used across all five models, but the FPA dummy variable is interacted with firm age in Model 3 and with intangible assets in Model 4. Model 5 incorporates both these interaction terms in the specification. Full analysis of the models is now discussed in relation to our individual hypotheses.

In Model 1, FPM has a positive and statistically significant effect ($b = 0.004$, $p = 0.015$) on the likelihood of firms presenting tax aggressive behaviour. This suggests that, on average, when firms' political meetings increase by one standard deviation, the probability of firms conducting tax avoidance practices also increases by 0.4 %. This supports H1, suggesting a strong positive association between firms' political meetings and tax aggressiveness. This finding is consistent with other studies that document a positive correlation between NMS and firms tax-related orientations (Dean, 2002; Drope et al., 2008; Richter et al., 2009).

This result is further confirmed when we look at Model 2. Here, we see that the relationship between FPA and tax aggressiveness is also positive with a statistically significant effect ($b = 0.124$, $P = 0.005$). This implies that that, on average, firms taking a relational approach to political encounters are more likely to be tax aggressive than their counterparts who take a transactional approach. There is a 12% difference in the likelihood of occurrence of tax aggressiveness between these two groups. A relational approach to political meetings will therefore witness a 12% increase in tax aggressive behaviour. This is in line with H2, which posits that the relational approach is positively associated with tax aggressiveness.

Models 3 and 4 interrogate further this positive association between the relational approach and tax aggressiveness by analysing the moderating effects of some control variables. The interaction of the political approach variable with firm (FPA*Age) performed in Model 5 displays a positive and statistically significant effect ($b = 0.146$, $p = 0.000$) on the likelihood of age having a moderating effect on the relationship between the relational approach and tax aggressiveness. We can therefore argue that old(er) firms are more likely to adopt the relational approach and be tax aggressive compared with young(er) firms. This is consistent with the literature that views age as a strong determinant of firms'

reputation, tax optimisation practices, and ability to nurture strong relationships with government (Hillman, 2003; Lux et al., 2011; Jones and Temouri, 2018).

In addition, we investigate the margins of this relationship. Figure 1 shows the marginal effects of firm age on the relationship between firms adopting a relational approach and tax aggressiveness. The margin plots provide a clear visualisation of the behaviour of the variables, in that there are fewer overlapping patterns and a pronounced interacting effect identified at around 40 years. Thus, firms' relational political behaviour starts to pick up at around age 40 onwards. Older firms are more likely to practise relational political encounters and tax haven activities. So, we achieve support for H3, arguing that the older the firm, the more likely it is that there will be a positive moderation between the relational approach and tax aggressiveness.

Model 4 displays the interaction result of FPA and intangible Assets. The FPA*Intangible Assets variable is negative with a statistically significant effect ($b=-0.0348$, $p=0.016$) on the relationship between FPA and tax aggressiveness. The moderating effect of intangible assets is pronounced on firms' propensity to be politically active with their tax haven activities. But as the results stand, the relational approach is not the preferred route for political encounters. Firms with high levels of intangible assets are very sophisticated in tax manipulation (Eden, 1998; Seabrooke and Wigan, 2014; Jones and Temouri, 2016) and probably do it well without requiring ongoing political activism.

This result is further investigated through the margins of the relationship. Figure 2 illustrates the marginal effects of intangible assets on the relationship between FPA and tax aggressiveness. From the plots it becomes obvious that the lower a firm's intangible assets, the more likely it is to practise relational political activity with increased tax haven behaviour. Moreover, as firms' intangible assets increase, the gap between the relational and transactional approaches narrows; however, the tax aggressive behaviour remains. We can therefore argue that firms with a significant level of intangible assets prefer a transactional approach to political activity but they will still be aggressive on tax. This result is in line with H4, which argues that the more intangible assets firms possess, the more there will be a negative moderation effect between the relational approach and tax aggressiveness. Hence, firms are not inclined to constantly engage with government once they have sufficient intangible assets to optimise tax aggressive behaviour.

Both interaction terms are used in Model 5 to see if the findings in Models 3 and 4 hold. We observe that the variable FPA*Age is positive and statistically significant ($b= 0.127$, $p=0.007$) and FPA*Intangible

Assets is negative and statistically significant ($b=0.041$, $p=0.004$). These results are consistent with Models 3 and 4 respectively, suggesting that whilst older firms are likely to take a relational approach to political activity and have an established presence in tax havens, firms with a high degree of intangible assets will increase their presence in tax haven jurisdictions but feel less need to adopt a relational approach to political activity. In other words, the preferential choice of relational approach for tax aggressiveness is reinforced by age, and the transactional approach choice for tax aggressiveness is strengthened by high level of intangible assets.

The political meeting variables are statistically significant across the models. FPA is consistently significant with the direct effect observed in Model 2 even when interaction terms were introduced in Models 2 and 3. This shows that tax aggressive firms are politically engaged, and the relational approach closely associates with greater presence in tax havens. However, the negative coefficient in Model 3 for FPA implies that old(er), tax aggressive firms are more likely to practise the relational approach.

Table 11: Descriptive Statistics of the main variables of the empirical analysis

VARIABLES	N	Mean	S.D.	Min	Max	Lower quartile	Median	Upper quartile
(1) Tax Haven	3,074	0.59	0.492	0	1	0	1	1
(2) FPM	3,840	3.041	6.826	0	65	0	0	3
(3) FPA	3,840	0.231	0.422	0	1	0	0	0
(4) AGE	4,635	3.343	1	0	5	3	3	4.025
(5) Intangible Assets	3,082	20.23	2.88	8.301	26.21	18.35	20.35	22.39
(6) LEVERAGE	4,625	24.62	19.8	0	269.8	10.63	22.84	34.17
(7) Turnover	3,210	22.14	2.195	8.205	26.89	20.52	22.18	23.87
(8) Foreign Sales	4,453	47.39	35.72	-114.5	200.8	8.36	50.39	80.91
(9) ROA	3,201	6.547	8.252	-80.38	59.32	2.65	5.62	9.91
(10) Industry Concentration	4,800	0.497	0.182	0.225	0.949	0.371	0.478	0.614
(11) TD	4,800	0.682	0.722	0	2.303	0	0.693	1.099
(12) Financial_dummy	4,800	0.212	0.409	0	1	0	0	0
(13) London_Dum	4,800	0.172	0.377	0	1	0	0	0
(14) Sector_Name	4,800	5.36	3.779	1	13	2	4.5	8
(15) Region	4,800	5.985	2.936	1	8	3	8	8
(16) Year	4,800	2,016	2.873	2,011	2,020	2,013	2,016	2,018

Table 11 reports descriptive statistics of the main variables used in this study. the N value differs across variables because of missing data. Summary statistics are reported on the sample achieved through the regression models.

Table 112: Correlation Matrix of the main variables of the empirical analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) Tax Haven	1											
(2) FPM	0.196	1										
(3) FPA	0.168	0.673	1									
(4) Turnover	0.321	0.375	0.415	1								
(5) TD	0.235	0.135	0.172	0.487	1							
(6) Intangible Assets	0.328	0.308	0.279	0.704	0.42	1						
(7) AGE	0.118	0.203	0.224	0.276	0.266	0.19	1					
(8) LEVERAGE	0.077	-0.019	-0.007	0.107	0.004	0.16	-0.036	1				
(9) FOREIGN SALES	0.06	0.055	0.041	0.073	-0.001	0.145	0.156	-0.019	1			
(10) ROA	-0.062	-0.071	-0.094	-0.059	-0.112	-0.124	-0.016	-0.088	-0.029	1		
(11) Indus_Concentration	-0.063	-0.069	-0.075	-0.068	-0.092	-0.198	0.008	0.019	-0.144	-0.026	1	
(12) Financial dummy	0.149	0.029	-0.043	-0.179	0.001	-0.285	-0.121	-0.09	-0.303	-0.046	-0.124	1
(13) London dummy	-0.008	0.184	0.11	-0.194	-0.171	-0.181	0.015	-0.09	0.112	-0.021	0.046	0.069

Table 12 reports the correlations of main variables used in this study. The tests are two-tailed and pairwise correlation indicates values with statistical significance at the 10% level 2.

Table 123: Probit models of the relationship between relational approach and tax aggressiveness

Tax Aggressiveness dummy from Hines and Rice (1994) list					
VARIABLES	(1) RE-Probit	(2) RE-Probit	(3) RE-Probit	(4) RE-Probit	(5) RE-Probit
FPM	0.00412**				
(S.E)	(0.00170)				
(P-value)	0.0152				
FPA		0.124***	-0.452***	0.821***	0.498
(S.E)		(0.0448)	(0.163)	(0.319)	(0.353)
(P-value)		0.00564	0.00558	0.00998	0.159
FPA*Age			0.146***		0.127***
(S.E)			(0.0437)		(0.0474)
(P-value)			0.000813		0.00737
FPA*Intangible Assets				-0.0348**	-0.0410***
(S.E)				(0.0144)	(0.0144)
(P-value)				0.0161	0.00449
Age	0.00855	0.00485	0.0828***	0.0812***	0.0587***
(S.E)	(0.0185)	(0.0185)	(0.0202)	(0.0192)	(0.0207)
(P-value)	0.643	0.793	4.03e-05	2.44e-05	0.00468
Intangible Assets	0.0113	0.0115	0.0107	0.0179**	0.0197***
(S.E)	(0.00826)	(0.00816)	(0.00673)	(0.00886)	(0.00744)
(P-value)	0.170	0.159	0.112	0.0432	0.00804
Financial_dummy	0.275***	0.271***	0.283***	0.295***	0.322***
(S.E)	(0.0958)	(0.0944)	(0.0642)	(0.0639)	(0.0630)
(P-value)	0.00403	0.00407	1.04e-05	3.93e-06	3.16e-07
London_dummy	0.0940*	0.0890*	0.0874*	0.106**	0.0800
(S.E)	(0.0499)	(0.0496)	(0.0521)	(0.0501)	(0.0499)
(P-value)	0.0599	0.0727	0.0933	0.0347	0.109
Turnover	0.0261**	0.0214*	0.00140	0.00213	0.00814
(S.E)	(0.0109)	(0.0112)	(0.00960)	(0.0122)	(0.00923)

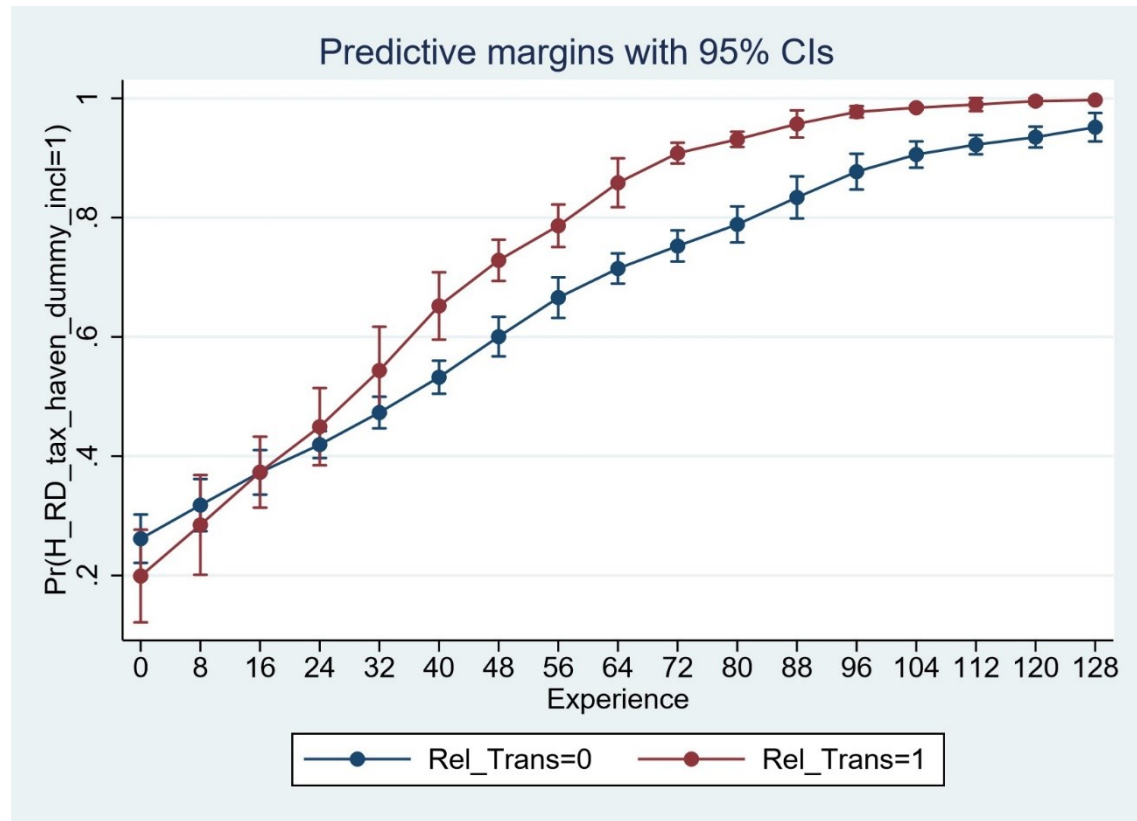
(P-value)	0.0172	0.0555	0.884	0.862	0.378
TD	0.0758**	0.0749**	0.0549*	0.0706**	0.0553*
(S.E)	(0.0321)	(0.0317)	(0.0307)	(0.0320)	(0.0319)
(P-value)	0.0183	0.0183	0.0743	0.0272	0.0828
Leverage	0.000954*	0.000983*	0.00230***	0.00254***	0.00240***
(S.E)	(0.000563)	(0.000550)	(0.000480)	(0.000577)	(0.000568)
(P-value)	0.0905	0.0739	1.68e-06	1.07e-05	2.28e-05
Foreign Sales	0.00108**	0.00110**	0.000797**	0.00117**	0.00118**
(S.E)	(0.000466)	(0.000458)	(0.000372)	(0.000460)	(0.000460)
(P-value)	0.0204	0.0158	0.0319	0.0110	0.0102
ROA	0.00105	0.00118	0.000330	0.00128	0.000999
(S.E)	(0.000998)	(0.000986)	(0.000689)	(0.00102)	(0.00102)
(P-value)	0.293	0.230	0.632	0.210	0.328
Industry Concentration	-0.160	-0.183	-0.400***	-0.307***	-0.248***
(S.E)	(0.204)	(0.198)	(0.0744)	(0.0929)	(0.0922)
(P-value)	0.432	0.356	8.01e-08	0.000970	0.00719
Observations	2,083	2,083	2,324	2,067	2,085
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Region	YES	YES	YES	YES	YES

Individual columns report distinct Random Effect Probit regressions. Year, industry and region dummies are controlled but for the sake of brevity are not reported. Most control variables are log transformed and lagged one year. Standard errors are provided in parentheses. The statistical significance of the estimates is denoted with asterisks: ***, **, and * corresponding to 1%, 5%, and 10% levels of significance, respectively.

In Model 5 FPA is positive but not significant; the lack of significance is only because FPA has been introduced a few times in the model by interacting it with the age and intangible assets variables. So, while the predictor FPA is strongly correlated with itself and exhibits multicollinearity, this does not influence the other variables in the model (Vogt and Johnson, 2011). Since the direct effect of FPA on tax aggressiveness is already captured in Model 2, Model 5 is run to ensure robustness and consistency.

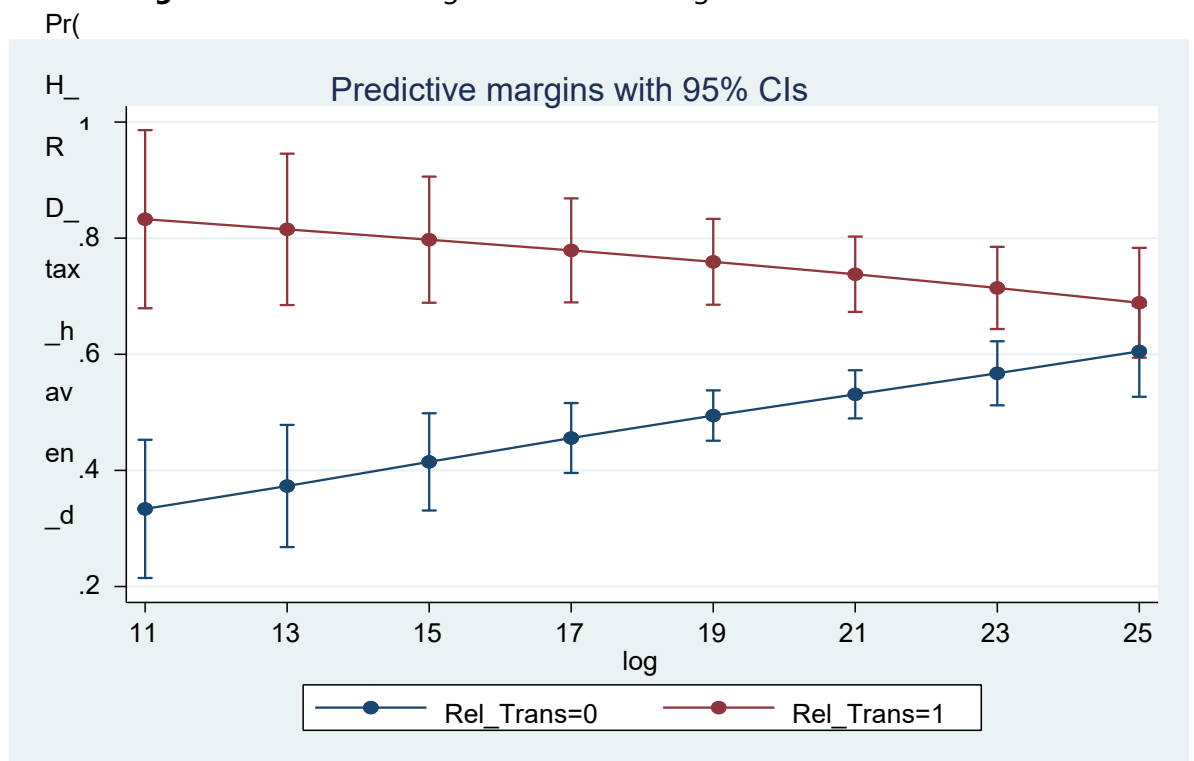
Another strikingly interesting result derives from the control variable, financial dummy. As shown in Table 13, this variable is consistently positive and statistically significant at 1% level across all the models. Financial firms are well known for their political connections and for their knowledge of capital flow and profit manipulation behaviour (Eden, 1998; Hadani and Schuler, 2013; Piketty, 2013; White et al., 2018). Hence, the tax haven and the political variables align well with the financial control variable, hence its strong effect. The London dummy variable is also an interesting one because it represents a strategic location for firms. This variable displays positive and statistically significance coefficients across the models. This is in line with the literature arguing that firms with a physical presence close to a centre of power exhibit more political interest and activism (Ozer and Alakent, 2012; Rudy and Johnson, 2019); our finding extends that argument by showing that being close to the corridors of power also optimises tax aggressive behaviour.

Figure 4: Predictive margins by Firms' Age



Margins Plots of the interactive term between FPA and firm age on the dependent variable, tax haven.

Figure 5: Predictive margins for firms' intangible assets



Margins Plots of the interactive term between FPA and intangible assets on the dependent variable, tax haven.

6.6 Robustness checks

Initial precautions were taken to reduce the risk for possible simultaneity bias by lagging our control variables. Also, we control for unobserved different regulatory environments, industry, and year fixed effects to partially mitigate for endogeneity (Singer, 1998; Arifin et al., 2020). Nevertheless, we decided to further strengthen our findings by rerunning the analyses but using a tax haven dependent variable that is slightly different⁶⁰ to the one used in the initial model. We conduct this robustness check using Jones and Temouri's (2016) tax havens list. This step is important as it helps gauge the level of embeddedness of tax aggressive behaviour in firms' activities, how widespread it is across selected jurisdictions, and the extent to which tax aggressive firms are present on the political landscape.

⁶⁰ Jones and Temouri's (2016) list of tax havens contains only the dot tax havens. It thus differs from the Hines and Rice (1994) list in omitting the Big-7 tax haven jurisdictions.

The results are shown in Table 14. We observe that we retain consistency between Tables 13 and 14 despite using different tax haven lists. In both tables, the political meetings count variable FPM is positive and statistically significant at 5%. The political approach variable FPA for Models 2, 3, 4, and 5 in Tables 13 and 14 displays a similar pattern of results. Whilst the coefficients signs remain identical across these models, the statistical significance is slightly different in Models 2 and 3. Table 14 presents a statistically significant level at 5% in Models 2 and 4 instead of 1% as was seen in Table 13. This slight difference in the significance level is also observed with the two interaction variables, FPA*Age and FPA*Intangible Assets, in the tables for models 3, 4, and 5. It is clear that our results in Table 14 largely replicate the findings in Table 13. We can therefore argue that we have achieved a fairly stringent degree of robustness. According to Bradley (1978; 1980b) robustness checks can be classified as fairly stringent if, between models, the change in the level of p remains between 1% and 5%. Hence Table 14 confers legitimacy on our results in Table 13 by demonstrating that our findings are consistent and robust. We can comfortably validate H1, H2, H3, and H4.

Table 14: Robustness checks Probit models of the relationship between relational approach and tax aggressiveness

VARIABLES	Tax Aggressiveness from Jones and Temouri (2016) list				
	(1) RE-Probit	(2) RE-Probit	(3) RE-Probit	(4) RE-Probit	(5) RE-Probit
FPM	0.00424** (0.00178) 0.0171				
FPA		0.0937** (0.0451) 0.0378	-0.460*** (0.166) 0.00567	0.677** (0.327) 0.0384	0.340 (0.367) 0.354
FPA*Age			0.136*** (0.0453) 0.00259		0.100** (0.0483) 0.0382
FPA*Intangible				-0.0306** (0.0151) 0.0427	-0.0312** (0.0151) 0.0391
Age	0.0305* (0.0172) 0.0754	0.0173 (0.0178) 0.330	0.0778*** (0.0193) 5.44e-05	0.0792*** (0.0189) 2.88e-05	0.0622*** (0.0206) 0.00255
Intangible Assets	0.00780 (0.00831) 0.348	0.00412 (0.00791) 0.603	0.0159** (0.00777) 0.0410	0.0218*** (0.00803) 0.00673	0.0225*** (0.00798) 0.00491
Financial dummy	0.273*** (0.0928) 0.00333	0.252*** (0.0946) 0.00778	0.293*** (0.0627) 2.87e-06	0.324*** (0.0640) 4.33e-07	0.334*** (0.0634) 1.36e-07
London dummy	0.0186 (0.0470) 0.692	0.0241 (0.0496) 0.627	0.0304 (0.0498) 0.541	0.0378 (0.0487) 0.438	0.0262 (0.0491) 0.593
Turnover	0.0276** (0.0119) 0.0203	0.0257** (0.0117) 0.0281	0.0112 (0.0116) 0.331	0.0219** (0.0102) 0.0316	0.0208** (0.0102) 0.0406

TD	0.0705** (0.0314)	0.0840*** (0.0315)	0.0491 (0.0310)	0.0514 (0.0321)	0.0455 (0.0322)
LEVERAGE	0.0247 0.000991* (0.000576)	0.00764 0.00108** (0.000530)	0.114 0.00240*** (0.000548)	0.109 0.00230*** (0.000603)	0.158 0.00222*** (0.000601)
Foreign Sales	0.0851 0.000823* (0.000473)	0.0411 0.000847* (0.000439)	1.25e-05 0.000727* (0.000429)	0.000141 0.000797* (0.000484)	0.000227 0.000891* (0.000483)
ROA	0.0821 -0.000668 (0.00103)	0.0537 -0.000545 (0.000949)	0.0899 -0.00107 (0.000923)	0.0994 -0.000794 (0.00113)	0.0653 -0.000756 (0.00112)
Industry Concentration	0.518 -0.0333 (0.206)	0.565 -0.0745 (0.174)	0.245 -0.271*** (0.0898)	0.482 -0.147 (0.0977)	0.501 -0.0869 (0.0977)
Observations	0.872 2,081	0.668 2,343	0.00257 2,324	0.131 2,085	0.374 2,085
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Region	YES	YES	YES	YES	YES

Individual column reports distinct Random Effect Probit regression. Year, industry, and region dummies are controlled for but for the sake of brevity are unreported. Most control variable are log transformed and lagged one year. Standard errors are provided in parentheses. The statistical significance of the estimates is denoted with asterisks: ***, **, and * corresponding to 1%, 5%, and 10% levels of significance, respectively.

6.7 Discussion

This paper focuses on the direct association between firms' political approach and their tax aggressive behaviour. We examine how firms' propensity to tax aggressiveness is fuelled by their political mode of engagement (i.e., the relational approach). We also investigate certain drivers of their behavioural stance, looking at firm age and possession of intangible assets to identify their moderating effects on the link between the chosen political approach and tax aggressiveness. Drawing from FTSE 250 and S&P 500 lists, we select firms with an active presence in the UK. Our sample of firm-level data is drawn from mainly ORBIS and DataStream. We then construct a unique dataset which is used to interrogate the UK OGD⁶¹. Firms' political meetings are therefore collated from 2012 to 2019 to add to our dataset. The dependent variable is a tax aggressiveness dummy, built using the Hines and Rice (1994) list of conventional dot tax havens. Hence firms with at least one subsidiary in a country from the list will take the value of one, and zero otherwise.

Using random Probit models, we initially ran a model using the count variable of firms' political meetings and find a strong and positive association between firms' political meetings and tax aggressiveness. Politically active firms are therefore more likely to exhibit tax aggressiveness than those that do not act politically. This model is also used as a baseline model to confer robustness on our second model, in which we transform the political count variable into a dummy variable of political approach, which takes one for a relational approach (i.e., firms with a mean value of meetings above 3.04), and zero for the transactional approach. Again, the second model finds a strong, positive association between the relational approach and tax aggressiveness. More precisely, the more meetings firms have, the more likely they are to exhibit tax aggressiveness. We then run Model 3 to assess the moderating effect of firm age and find that this has a positive and significant effect on firms tendency to take a relational approach and to be tax aggressive. Firms that utilise a relational approach to be tax aggressive are likely to be older than those who do not. However, when we assess the moderating effect of intangible assets in Model 4, we find that this has a negative and statistically significant effect on tax aggressive firms taking a relational approach. So, the more intangible assets tax aggressive firms have, the less likely they are to practise the relational approach.

⁶¹ Government initiative to bring about transparency by releasing data on their meetings with various institutions, such as firms.

Our study is one of the few to contribute to research on the relationship between tax aggressiveness and firms' political approaches. It explicitly proposes and provides evidence of the effects of firms' political strategy on tax aggressiveness. To our knowledge, the only other study that investigates tax aggressiveness in relation to firms' political activities overlooks the influence of their political *modus operandi*. Although Kim and Zhang (2016) recognise that tax aggressiveness is associated with levels of political investment, Hillman and Hitt's (1999) conceptual framework does not properly distil the mechanism through which political activity relates to tax aggressiveness. We identify the relational approach as a strong determinant of tax aggressiveness. The literature argues that firms can benefit from political activity through continuous encounters considered to facilitate mutual trust and provide greater opportunities for policy capture (Hillman, 2003). Tax policy provides support for this theory as there is a significant incentive for firms to proactively seek insider status so as to gain access to information and steer tax-related policies in directions that benefit tax-sheltering strategies. Contextual factors influence the choice of political approach pursued. The corporate taxation policy domain is one where the direct effects of political strategies on firms' tax behavioural stances are measurable.

Although aggressive tax planning is associated with a lack of transparency in firms' financial books, basic inferences can be made between firms' strategies of acquiring subsidiaries in tax haven locations and tax aggressiveness (Hines and Rice, 1994; Jones and Temouri, 2016). More importantly, these firms' political stances are detectable, especially when objective data is secured to identify whether access to government corridors is continuous or episodic. Access is a proxy for influence because policy negotiation can only proceed from and within such interactions (Bouwen, 2004; Eising, 2007). Tax-related political studies have utilised political efforts made by firms to secure access (e.g., lobbying expenditures) as a measurement of degree of access (see Barrick and Brown, 2019 for a review). This, of course, represents an indirect measurement which can lead to fuzzy interpretation. Our study is unique because it uses accurate and exhaustive data relating to firms' access to the government. We can therefore confidently add to the literature of taxation by arguing that the political approach taken by firms influences their tax-related stance. Furthermore, we show the relational approach to NMS is a strong determinant of tax aggressiveness.⁶²

⁶² One can argue that a desire to be tax aggressive invokes in firms a need to adopt a relational stance. That is, firms must develop close relationships with government in order to prosecute their tax aggressive interests

Interestingly this relationship is stronger for older firms because, with experience, they have realised the importance of continuous forays into politics. They have also acquired the expertise, links, and networks necessary for negotiating access, etc. This is in line with the findings of Suárez (1998) that, over time, firms realise the implications of tax policies on their activities and they are more likely to change their political tactics to ensure continuous interaction with government. Further, the international business literature sees firm age as a strong antecedent for capacity building and reputational achievement. Firms increase their visibility over the years through internationalisation strategies and by establishing strong ties with home and host governments to capitalise on FDI policy incentives. This is common practice, especially in relation to taxation (Reynolds and Coates, 1996; Boddewyn and Brewer, 1994; Rodrik, 2007; Rugman, 2010; Lawton et al., 2013a; Gravelle, 2014; Elsahn and Benson-Rea, 2018).

By also assessing the moderating effect of intangible assets on the relationship between the relational political approach and tax aggressiveness we uncover that this variable plays a key role in disincentivizing routine contact with government. In fact, firms must have very high levels of intangible assets if they are to enact tax-sheltering strategies effectively and efficiently. R&D activities, strong and established brands, and/or other forms of valuable intellectual property offer considerable flexibility in where and how firms' profits and costs can be reported across tax borders (Sikka and Willmott, 2010). Having foreign subsidiaries located in tax havens provides the means to take advantage of these flexibilities by only booking profits in these jurisdictions. As such, firms can organise their financial operations in such a way that they are very difficult to understand by the taxation authorities. This complexity is magnified by the level of expertise and/or creativity utilised to deliver such an agenda.

The literature argues that the level of sophistication in the tax aggressiveness practices of firms has increased significantly, limiting their chances of being caught or embroiled in tax-related disputes (Ting and Gray, 2019; Temouri et al., 2022). This is in line with our findings demonstrating that firms with considerable intangible assets will eschew the relational approach as a means of prosecuting their tax aggressiveness. In other words, seeking protection from governments becomes less important as firms exercise stronger control over their distinct tax-sheltering strategies. In this manner it can be argued that tax aggressiveness is something that firms may prefer not to raise during their continuous political

effectively. However, regardless of the direction of causality, the relational approach remains the approach that is linked to tax aggressive practices.

interactions. It is a tricky and controversial matter which firms may prefer to prosecute by themselves, away from scrutiny and 'off the record'. Arguably, it is sometimes the subject itself that, because it is controversial or difficult, determines the approach. As such firms will be inclined to alter their political strategy from relational to transactional once they increase their level of intangible assets.

In-house and/or third-party expertise is required for tax planning strategies; hence, the argument of Jones et al. (2018) that powerful accountancy firms collaborate with firms to provide tax-related services to ensure better financial manipulation across tax haven subsidiaries. Interestingly, these firms work at arm's length from governments when they are assisting in the design and implementation of tax policies. Hence, they possess important levels of expertise when it comes to exploiting tax regulations loopholes (Sikka and Hampton, 2005; Sikka, 2013). The collaboration between governments and the financial sector in the crafting to tax regulations is well known, and this has also been confirmed by our study because the financial sector dummy variable created for the purpose of this study remains consistently positive and significant across all analyses. The sector is populated by well-resourced and influential firms specialising in tax avoidance⁶³; it is at least arguable that such firms can run rings around government (Sikka, 2003). Firms that are advised by these experts are therefore keen to be more aggressive in their tax-avoidance practices, fuelled by the knowledge that their activities will often go unnoticed across tax borders.

Tax-aggressive behaviour is deeply rooted in institutional processes that governments and international institutions find difficult to manage (Cousin et al., 2004; Murphy, 2012). Indeed, in the event of tax disputes many governments are more likely to seek negotiated settlements with firms rather than to impose sanctions. This has been observed in the UK where the former head of HMRC entered into private negotiations with Goldman Sachs over their tax avoidance practices⁶⁴ (House of Commons Committee of Public Accounts 2012, p.16). Private negotiations between firms and governments are common, especially over firms' attempts to secure special tax rates below the existing statutory corporation tax. Bespoke evidence has been gathered from firms such as Apple and Starbucks over their abilities to strike confidential special tax deals in European countries (see Permanent Subcommittee on

⁶³ The Big Four firms constantly hire accountancy experts (reportedly 9,000 in the UK alone in 2009) and made around 25 billion dollars globally just from tax work.

⁶⁴ Goldman Sachs negotiated a £10 million reduction on the £40 million in total interest that was payable on tax liabilities arising from their illegal tax avoidance measures implemented in the 1990s.

Investigations 2013). As such, Huizinga and Laeven (2008) argue that the value of corporate tax has reduced significantly across EU countries. Hence, despite the high degree of sophistication that firms might display in their tax-sheltering strategies, ad hoc interactions with government are still relevant to preserve the status quo and/or lobby for reduced tax rates. This aligns with our findings that firms with a high degree of intangible assets will use the transactional approach to support their tax aggressiveness. Transactional theory argues that firms will interact with governments on an issue-by-issue basis and/or when a specific need for policy capture occurs.

The relational versus transactional dichotomy can also be viewed through the institutional lens. Institutional theory examines the context in which NMS takes place by arguing that firms adapt to prevailing norms within their environment: their NMS behaviour is aligned with key institutional structures and prevailing beliefs and cultures (Boddeyn, 1993; Jackson and Deeg, 2008; Boddeyn and Doh, 2011; Sun et al., 2012). The UK's pluralist system encourages wealthy firms to engage with the policymaking process. As such, competitive advantage strategies are crafted to reflect the existing and embedded norms of mode of engagement. Our study confirms that Hillman and Hitt's (1999) political approach concept accurately captures the way in which UK firms engage with the government.

This study also taps into the emerging discourse on Corporate Social Irresponsibility (CSI) which is seen by some as more relevant than the concept of Corporate Social Responsibility (CSR) (Brammer et al., 2021). Firms' social actions are targeted to achieve reputational gains in a manner that can enhance organizational advantage. Corporate social responsibility therefore comes with potential strings attached to firms' behaviour, given that it may be carried out to ensure that underlying objectives such as stakeholder trust can be secured and maintained for profit maximization purposes. Firms have strong awareness of the benefits of social actions. Ansolabehere et al. (2003) and Bonardi et al. (2005) argue that government power over policymaking can be controlled by the public because certain policy issues are salient; this can limit the types of policy capture achieved by firms or even the desirability for such policy issues to be considered (McDonnell and Werner, 2016). Firms therefore make efforts to align their business models and practices with accepted social norms and cultures relevant to advancing their political visibility and social reputation (Dahan, 2005; Liedong et al., 2017). By doing so, firms can promote new norms to facilitate new policy discourses in their attempt to alter policy and/or encourage new policy initiatives. Whilst firms' moral hazard can be difficult to challenge via CSR, CSI casts doubts around firms' behaviour (Christensen and Murphy, 2004; Sikka, 2010). Tax aggressiveness has been associated with negative social returns, since firms are certainly not paying enough in income taxes

(Cobham and Janský, 2018). The UK is one jurisdiction where such behaviour remains common (Preuss, 2012; Col and Patel, 2019; Baudot et al., 2019).

Based on the above discussion one can argue that a limitation of this study is directly linked to the need to understand the level of CSR of our sample firms. Having this information would add to knowledge around why firms are tax aggressive. CSR is well known to support firms' NMS agenda and studies have called for the investigations of both practices on firms' performance (den Hond et al., 2014; see Mellahi et al., 2016 for a review). Looking at taxation, Davis et al. (2016) established a direct link between CSR and firms' active political participation. Moreover, according to Garcia (2016), CSR adds value to firms' ability to achieve policy capture for better performance outcomes; firms with mature CSR policies are also likely to be politically active. However, we still do not know the mechanism through which this takes place since both CSR and NMS are cost-driven activities (Mellahi et al., 2016). Tax aggressiveness practices are supposed to help firms' performance by significantly reducing the amount of taxes they pay. Hence investigating CSR and NMS in relation to tax aggressiveness seems relevant.

Our study does shed some light on the concept of CSI since firms' tax aggressiveness is arguably fuelled by the desire to compensate for the costs of both CSR and NMS. The tax-sheltering strategies of firms conflict with their strategies for corporate citizenship. The desire of a firm's top management team to achieve immediate positive performance via tax aggressiveness is incompatible with their CSR claims and practices. Curbing this example of top management team short-termism is important because firms' competitive edge can be maintained through long-term goals. As such, Dahan and Hadani (2023) argue that the firm's primary goal of adding value in the best interests of shareholders should be approached in a manner that is sustainable in the long run. We also note that top managers' personality traits are understood to be a strong driver of strategic decision making within the firm. Greiner and Lee (2023) argue that narcissism is a potential agent in CEOs' level of political engagement, while Francis et al. (2016) find that CEOs' political ideology (e.g., Republican versus Democratic) influences the level of their firm's tax-sheltering activities. The social irresponsibility of firms in relation to tax aggressiveness might therefore proceed from CEOs' personality traits. Hence future studies should consider advancing knowledge in this regard by looking at CEOs' attributes in relation to firms' levels of tax avoidance, CSR, and political activity.

It is possible that this study will lack generalisability since it is concerned with the UK government's interactions with firms in relation to their tax aggressive behaviour. Thus, theorization is focused on the UK institutional context. Extending this study to other settings such as Germany or the EU jurisdictions

might potentially be useful. A corporatist country such as Germany could offer a comparative perspective that would generate interesting discussions. The institutional arrangement of Germany is susceptible to corporatism which encourages an inclusive approach to policymaking with the active participation of small, medium, and large firms (Hillman, 2003). As such legitimacy to policy proposals can only be achieved if firms work jointly and participate collaboratively with government. This has also been confirmed by Coen (1999) and Hauser (2011) in relation to EU policymaking. The challenge here will be to understand if and how firms are able to negotiate the type of confidential and special tax deals that have been identified as common in pluralist settings such as the UK, and whether the corporatist setting enhances or limits tax aggressiveness.

The last limitation resides in the fact that we have only investigated firms' strategic approach to NMS. Hillman and Hitt (1999) argue that after firms have decided on their political approach, they will then follow two distinct strategies to enact it: to act solo or unilaterally. They must also decide what types of resources they will use to advance policy arguments. However, the OGD gives little insight into the resources used by firms. Future studies should consider taking a qualitative stance to gather insightful firm-level granular information about such encounters. This is long overdue and achieving this will substantially add to knowledge in the NMS field (Jia, 2014; see Brown et al., 2022 for a review). Hillman and Hitt's (1999) conceptual framework has not been comprehensively interrogated with objective data and future studies should aim to utilise data on direct encounters between firms and government, as well as information related to the types of tactics used to support or advance their policy choices.

7 Overall conclusion

7.1 Introduction

Following firms' increasing forays into politics and the growing body of NMS studies, this thesis has explored the NMS–performance relationship by investigating firms' interactions with UK Government. The main contribution of this project has been to objectively utilise firms' patterns of access (relational and transactional; unilateral, collaborative and hybridised) to study their direct impact on performance outcomes. We have been able to provide a clear and objective measure of the impact of these various approaches. Although we are not the first researchers to associate negative performance outcomes with political activism, our approach is unique and can be considered as a new standard for application to performance-related studies. We add value by highlighting that Hillman and Hitt's (1999) theoretical framework, published over twenty years ago, accurately represents the mechanism through which the NMS–performance relationship can be investigated. We provide evidence that positive outcomes may be achieved from NMS if certain strategic courses of action—which adhere to key conceptual frameworks—are utilised.

In this concluding chapter, we summarise the main findings from each empirical chapter, linking them with the main research questions and their implications for the NMS–performance relationship. The chapter ends with suggestions for further research.

In this thesis, we argue that we are in a *suis generis* moment, in that the relationship between government and firms in the UK is topical and constitutes a “new norm”. The political landscape is permeated by various interest groups but the presence of MNEs is pronounced. NMS in its current form is largely confined to a limited number of actors; after all, not every firm can knock on the Prime Minister's door and expect to be let in. They need to have what Bowen (2004) calls “access goods” or political resources, which are commonly understood to be a necessary evil in contemporary policymaking. The association of access goods with venality and patronage is often unfair, but it would be naïve to refuse to acknowledge that the current NMS approach to policymaking is one in which firms are seeking (undue) influence via formal and/or informal meetings, and governments are seeking policy creation input and ideas, and implementation advantages. However, the increasing presence of firms in the government corridors raises question about who is truly benefitting from such activities. One way to scrutinise this is to look at how firms' NMS approaches impact on the firms themselves.

7.2 Answers to the Research Questions

7.2.1 Is NMS associated with improved firm performance?

The thesis shows that, broadly, NMS does not improve firms' performance. The more meetings firms secure, the less likely it is that they will achieve better performance outcomes. This challenges the orthodox view that firms generate systematic returns by being close to government (Drutman, 2015; Grossman and Helpman, 2001). Firms engage in NMS to achieve domain advantage and reduce uncertainty, but the manner in which encounters are organised and enacted also determines outcomes. Hence, the secret to studying this relationship lies in understanding the actual mechanism under which positive or negative performance is shaped by NMS. We therefore follow Hillman and Hitt's (1999) conceptual framework to answer our second research question.

7.2.2 What is the impact of particular NMS approaches on firm performance?

Hillman and Hitt (1999) argue that firms make an initial strategic choice by deciding on the approach by which they propose to access government. This thesis demonstrates that the relational approach is negatively associated with performance outcomes. This finding confirms—as per the answer to the first research question—that having more meetings negatively impacts firms' bottom line. Maintaining durable, ongoing relationships with government, wherein NMS is normalised by the firm and seen as business as usual, has serious negative implications for its profitability. The Resource Based View implies that to operate within the non-market landscape, firms must utilise their market resources, which have been branded "political resources" by Lawton et al., (2013). Bonardi et al. (2005) argues that they represent the costs endured by firms to secure desirable outcomes. The costs–benefit assessment is pivotal to performance assessment, and NMS can only be profitable if the benefits accrued outweigh the costs of its activities. So, NMS is not just about securing favourable policies but also the sacrifices (level of costs) that are made in order to do so. Somewhat counterintuitively, the decision to take a relational approach and seek a close relationship with government cannot be unproblematically constructed as a desirable or ideal type of engagement. It must be carefully thought out. However, agency theory argues that the personal predilections of top managers can disproportionately influence firms' strategic choices (Coates, 2012; Hadani and Schuler, 2013). We develop a new narrative, arguing that the transactional approach should be considered by firms to secure positive outcomes and mitigate for the potential bias emanating from top managers. Ad hoc encounters that are focused on particular issues that affect the firm's bottom line are more likely to achieve positive outcomes because this

approach allows for a good understanding of the level of resources that are being diverted to political activities, and enables an ongoing assessment of whether this expenditure is generating an appropriate return.

7.2.3 What is the effect of NMS on performance variable measure Total Factor Production (TFP)?

When we investigate the direct relationship between political meetings and TFP, negative performance is once again observed. Resource efficiency is key to NMS success, and TFP focuses heavily on resource utilisation (i.e., looking at inputs versus outputs) (Petrin et al., 2004). More frequent meetings put a strain on resources (inputs) which can potentially outweigh any performance benefits (outputs).

7.2.4 How is the firm's performance influenced by its chosen political approach and its chosen participation level?

Chapter 5 provides an opportunity to use TFP to understand the first two strategic choices that are made by firms, and how they impact firm performance. As demonstrated in chapter 4, the transactional approach generates positive outcomes. But when we look more closely at these encounters, we find that only individual meetings generate positive outcomes. Resource efficiency is still front and centre to firms' abilities to generate positive returns with NMS. Hybrid participation levels increase the level of resources deployed, while also risking subsuming the specific policy objectives of the firm into those of the additional actors. Olson (1965) argues that actors might use a collaborative or unilateral approach to access. Whilst network and coalition theory argue that the most resourceful actors' interests will prevail in such an approach, the desirability of having individual meetings persists because of the issue of proprietary information (De Figueiredo and Tiller, 2001). Firms possess unique information that they can exchange with government but which they may not want to share with others. Very powerful firms will also use collective meetings to legitimise the claims they have made during their individual encounters. From chapter 5, therefore, we better understand how resources are leveraged for political activities. However, we can examine performance further by looking at which political approach causes firms to be more or less likely to adopt a unilateral, collective, or hybrid *modus operandi*.

7.2.5 How does the combination of (i) chosen political approach and (ii) participation level affect firm's performance?

Hillman and Hitt (1999) argue that firms will first decide on a relational or transactional approach and then choose if this should be pursued individually and/or collectively. The chapter 5 study shows that

under the transactional approach firms should consider acting unilaterally to prevent constraints on resources to secure positive outcomes. However, participation level can be constrained by institutional contexts. Institutional theory argues that prevailing norms and cultures guide the precepts under which firms enact certain behaviours. The UK's laissez faire environment allows firms to have full control over which strategic approach (Hillman and Hitt, 1999) they will choose to adopt. Moreover, the UK's neo-pluralist political system provides a structure under which the government and firm interactions occur. Neo-pluralism is not quite as inclusive as classical pluralism, and it provides powerful firms with more latitude to exercise their choices. In the literature review (chapter 2), we develop these points by focusing on the complex endogenous and exogenous factors that facilitate or constrain NMS as a value creation process. These factors include firms' political resources, the agency of top managers, and institutional contexts (Hillman, 2003; 2005; Hadani and Schuler, 2013; Lawton et al., 2013). The RBV and agency and institutional theories are endorsed by our findings as capable of explaining the NMS–performance relationship.

Chapters 4 and 5 engage in detail with the mechanism under which NMS influences firms' performance. These studies therefore contribute to the development of a new narrative, which is that political approach and participation level are the first two mechanisms under which the NMS–performance relationship must be scrutinised because they provide a comprehensive account of when one can expect positive or negative performance outcomes. But to add depth to the operationalisation of our political approach variable and to provide more leverage for our findings, we test our claim by investigating the NMS–tax aggressiveness relationship.

7.2.6 Are tax aggressive firms likely to access government corridors and/or practise NMS by taking a relational approach to political meetings?

In chapter 6 we conducted a study which demonstrates that politically active firms have subsidiaries in tax haven locations. That is, we find that in the UK, tax aggressiveness prevails among politically active firms. More importantly, we show that the relational approach is the preferred strategy of these firms for interacting with government. We develop the narrative that the relational approach is a determinant of tax aggressiveness because firms need to make sure their tax-sheltering strategies are operationalised under favourable political conditions. Tax aggressiveness can be considered as an objective measure that provides a clear understanding of firms' abilities to secure a revenue stream to improve performance. According to Christensen and Murphy (2004), top managers' performance is also assessed by their ability to minimise tax liabilities to increase shareholders' wealth creation. Hence, the relational approach provides the favourable conditions under which firms can compensate for some of

their losses in the market by practising tax-aggressive strategies. Tax aggressiveness can therefore be considered as an outcome measure utilised to assess the benefits gained from the relational approach. This approach is so costly in terms of resources that the firms that practise it are more likely to also practise tax avoidance (in order to compensate for the costs incurred). Tax aggressive practices help firms increase profitability by paying less taxes. Institutional contexts facilitate this behaviour as firms understand the need to remain competitive by conforming to existing norms and culture (DiMaggio and Powell, 1983; Scott, 2008). Firms are keen to remain competitive and will adhere to existing behaviour practices on the markets. And whilst firm age positively influences their abilities to pursue a relational approach, intangible assets encourage them to take a transactional approach and be less dependent on government protection.

7.3 Theoretical and Practical Implications

The thesis proposes that Hillman and Hitt's (1999) theoretical framework can be used to investigate the mechanism under which NMS influences firms' performance. Firms' patterns of access can be categorised as either relational or transactional, and that approach can be executed through unilateral, collective, or hybrid meetings. Both strategies need to be viewed together in order to assess their direct effects on performance. Positive performance outcomes can be achieved if political resources are used efficiently. Hence firms choosing a (resource-intensive) hybrid mode of participation under a (resource-intensive) relational approach need to make sure they have a mechanism in place to monitor the resources being used. A degree of oversight is also required in order to ensure the strategy is not merely following the whims of senior managers, as well as to monitor the ongoing effects of any institutional factors on performance outcomes. For instance, top managers might prefer to take a relational approach because of their political leanings or personal histories, and firms might act collectively because of prevailing sector-specific corporatist traditions.

These strategic choices require a commitment of political resources. Even if the political approach reflects top managers' personal motives instead of firms' interests, firms will have to deploy their unique resources when they are coalition-building and acting collaboratively in order to be heard. RBV and the agency and institutional theories offer useful ways of viewing the context in which managerial decision-making unfolds. Basically, NMS is context-specific and needs to be tailored to reflect the firm's internal and external environment.

Outcome measures such as tax aggressiveness provide an additional, objective way of understanding firms' political approach. Firms' behaviour is circumscribed by the types of political relationship

established. Under the relational approach, firms tend to be more proactive; they attempt to ward off nascent issues that might potentially influence their performance. The relational approach is common amongst tax aggressive firms, providing them with the necessary cushion of protection for their tax affairs. This too is facilitated by institutional contexts because tax-aggressive behaviour can only proceed from and within existing norms and the culture of the political and business environment. Of course, resources remain pivotal to firms' abilities to be tax aggressive and conduct NMS, and top managers' agency still shapes the strategic choices of the firm. In fact, this raises the issue of CSI, as taxation can be seen as part of the social contract under which firms contribute to societal wellbeing (Christensen and Murphy, 2004). But what firms consider to be "a fair amount" of taxation is subjective, and there is a direct link between tax aggressiveness and profitability because firms that pay less tax on their profits will have more profits. Hence, tax aggressiveness is viewed as generating positive outcomes for firms because it is targeted at increasing firms' profits to maximise 'shareholders value creation' (Sikka, 2010). Tax aggressiveness is especially facilitated by the relational approach. This means that firms can improve profitability under the relational approach through tax aggressiveness, providing them with the scope to retain and/or accrue earnings.

Firm age also matters here: older, experienced firms lean towards the relational approach for tax aggressiveness purposes. This might in order to secure real-time information around tax policy or it may reflect the belief that being close to government is likely to generate more favourable treatment if their tax aggressiveness comes to the attention of the revenue. In contrast, resourceful firms with high levels of intangible assets and tax aggressiveness can see the advantage of adopting a transactional approach as a sophisticated financial mechanism that can limit potential tax liabilities disputes. Firms with high level of intangibles such as Research and Development (R&D), trademarks, and patents are inclined to extract as much value as possible from these resources through tax avoidance practices (Oxelheim et al., 2001; Jones et al., 2016). The decision to take a relational or transactional approach is thus underpinned by many factors, and a firm's reasons for choosing one approach over the other should always be considered before it embarks on NMS to achieve better performance outcomes. It is clearly also important for firms to understand and recognise their unique environment(s) before choosing which strategy to use.

7.4 Methodological implications and limitations

This thesis presents the first objective study of the relationship between firms' political access and firm performance. It attempts to illuminate the mechanism through which NMS influences firms'

performance outcomes and to assess how particular approaches might impact particular stances, such as the firm's degree of tax aggressiveness. To meet these objectives, a quantitative method was adopted utilising secondary data sources. We followed existing studies by using the mean as the statistical demarcation between the relational and transactional approach but our studies differ from prior work in that they utilise direct data on political meetings rather than alternative/proxy measurements (Hillman, 2003; Holburn and Vanden Burgh, 2014; Arifin et al., 2020; Rudy and Cavich, 2020).

Given the emerging importance of the relational and transactional approaches to our understanding of firms' performance outcomes, this thesis indicates that further investigation of firms' political activism is warranted. Clustering firms into subsets is common in the NMS literature due to their heterogeneity and the considerable variation that exists in terms of their insertion into the political landscape (Bonardi et al., 2006; McKay, 2012; Schuler and Rehbein, 2012; Liedong et al., 2020). We therefore encourage future studies to first, apply sector-specific or industry-specific analysis (or analysis that is focused on operationalising whatever characteristic is appropriate to the chosen context). Second, and from a methodological perspective, researchers should consider the advantages of using the median rather than the mean of political meetings. Statistically, the median is recommended to deal with skewed distribution of observations (Riaz et al., 2022) and this is relevant here because the mean does not help to put firms with a very similar number of meetings into subcategories. Hence, quartiles could be used to create 3 subcategories per political approach. High, medium, and low clusters could be created for the political approach variables, with categoric variables that take numbers 1, 2, and 3 for the transactional approach, and 4, 5, and 6 for the relational approach. Our restricted sample size prevented us from doing this. If future research could generate a larger sample, then this categorical variable operationalisation should permit an even more comprehensive scrutiny of the NMS-performance relationship.

This research was conducted under certain technical constraints. Data availability was a main constraint to this thesis as some firms' information was not readily accessible, and shifts in firms' fortunes (e.g., due to mergers and acquisitions) meant the OGD data needed to be cleaned. As a result, the sample was reduced by almost one half. Also, our study uses secondary data; a case study approach combined with qualitative interviews might have reinforced the dataset and findings by providing more information about the content and conduct of particular encounters.

Our methodological problems and limitations are addressed fully in chapter 3 and within the relevant empirical chapters.

7.5 Suggestions for Further Research

This thesis has attempted to develop a new narrative describing how NMS can influence firms' performance. But more work is required to investigate the relationship more comprehensively by examining the precise political resources utilised by firms to deliver on NMS. According to Hillman and Hitt (1999), in the attempt to deliver on NMS agenda, firms enact three distinct strategic decisions: (i) political approach (relational or transactional); (ii) participation level (unilateral, collaborative, or hybrid); and (iii) tactic (information, financial incentive, and constituency building). These last three distinct⁶⁵ types of political strategies or tactics used by firms to deploy their political resources have not been addressed in this thesis, and we suggest that addressing this omission in future research would contribute to the study of Hillman and Hitt's (1999) theoretical framework and thus to knowledge of the mechanism through which NMS influences performance. Furthermore, this thesis acknowledges the pivotal contribution of resources to the NMS–performance relationship. We suggest that the actual types of resources that are utilised by individual firms to conduct NMS should be scrutinised to properly assess the costs implications of firms' overall NMS approach.

Additional research investigating the moderating effects of top management characteristics on the NMS–performance relationship study is recommended. Although top management investigation will enhance our understanding of why some firms have more access than others, a fuller appraisal of managers' characteristics could establish why and how certain choices are made. Managers' personal backgrounds, characteristics, and networks (Hambrick, 2007) are important to the understanding of NMS. Sabatier (1988) views the network as a cluster or community with an embedded belief system (collective philosophy with fundamental values such as security, power, knowledge, and where the interest allocation is directed towards self, group, or society) influencing their mode of functioning. Hence, the interdependence between the internal organisational and external environment emanates from a social discourse that feeds into how managers operate and make decisions. Social and human

⁶⁵ An information strategy refers to: (a) the provision of information (i.e., lobbying with information or technical report) in a direct manner (e.g., formal and/or informal meetings) to political decision makers; (b) a financial incentive strategy that directly targets political decision makers or political parties with financial contributions (e.g., PAC); and (c) a constituency-building strategy that indirectly targets political decision makers through constituent support (e.g., grassroots mobilisation of stakeholders such as employees and suppliers to advance policy interests) (Hillman, 2003:458).

capital allow managers to capitalize on existing opportunities at industry level, regulator-level, and community-level to shape their non-market activities and maintain competitive advantage (Ring, Lenway and Govekar, 1990; Bonardi et al., 2006). Exploring managers' background characteristics can be useful not only to uncover how their political ties encourage them to practice NMS but to also recognise which personality traits are likely to shape NMS activities (e.g., political approach, participation mode) and the tactics (e.g., financial incentives, advocacy for salient issues) they are likely to choose.

The institutional context (rules, regulations, and policymaking arrangements) influence the NMS process. Doh et al.'s (2012) seminal work emphasis the influence of institutional forces on NMS. Institutional theory has many different elements. It investigates the political governance of developed/developing nations (Lawron et al., 2013; Marquis and Raynard, 2015), stable/unstable socio-economic and political conditions, and countries' constitutional structures (e.g., rules, voting system, norms, and regulation) (Hotho and Pedersen, 2012; Liedong et al., 2017). All these elements are relevant to investigating NMS in that they shape managers' ability to navigate their way through different contextual designs and tailor their strategy accordingly. Hence, the interplay of institutional conditions on managers' ability to undertake strategic decision need to be borne in mind. A comparative approach investigating NMS in different institutional contexts could therefore be considered because the institutional context constrains or facilitates firms' abilities to choose from Hillman and Hitt's (1999) three distinct types of political strategy. How, if at all, firms adapt their strategies to different environments and/or different economic and political jurisdictions would add value by enabling us to properly account for the relative influence of exogenous (environmental) and endogenous (institutional) factors on their behaviour.

In the empirical chapters 4, 5, and 6, we offer further specific discussions and suggestions for future research.

8 References

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9 Appendix section

9.1 Appendix A:

Table 15: Firms' industry classification per SIC code (s)-constructed by the author.

Industry Sector	Number of firms	Related Primary US SIC code and subcategory
Mining & Extraction	29	10 Metal Mining 12 Coal Mining 13 Oil & Gas Extraction 14 Nonmetallic Minerals, Except Fuels
Construction	15	15 General Building Contractors 16 Heavy Construction, Except Building
Wood, Furniture & Paper Manufacturing	12	24 Lumber & Wood Products 26 Paper & Allied Products
Printing & Publishing	10	27 Printing & Publishing
Chemicals, Petroleum, Rubber & Plastic	47	28 Chemical & Allied Products 29 Petroleum & Coal Products 30 Rubber & Miscellaneous Plastics Products
Stone, Clay & Glass products	11	32 Stone, Clay, & Glass Products 33 Primary Metal Industries 34 Fabricated Metal Products
Industrial, Electric & Electronic Machinery	75	35 Industrial Machinery & Equipment 36 Electronic & Other Electric Equipment 37 Transportation Equipment/Transport Manufacturing 38 Instruments & Related Products
Transport, Freight & Storage	21	41 Local & Interurban Passenger Transit 42 Trucking & Warehousing 43 U.S. Postal Service 44 Water Transportation 45 Transportation by Air 46 Pipelines, Except Natural Gas 47 Transportation Services
Telecommunications	48	48 Communications 73 hardware/software
Utilities	15	49 Electric, Gas, & Sanitary Services
Wholesale & retail	29	50 Durable Goods 51 Nondurable Goods 52 Building Materials & Gardening Supplies 53 General Merchandise Stores 54 Food Stores 57 Furniture & Home furnishings Stores

Banking, Insurance & Financial Services	102	60 Depository Institutions 61 Non depository Institutions 62 Security & Commodity Brokers 63 Insurance Carriers 64 Insurance Agents, Brokers, & Service 65 Real estate investment 67 Holding & Other Investment Offices
Travel, Personal & Leisure	23	58 Eating & Drinking Places 70 Hotels & Other Lodging Places 72 Personal Services 79 Amusement & Recreation Services
Business services	43	87 Engineering & Management Services

Source: constructed by the author.

Table 1 provides a detailed description of industries and their subcategories to which the firms in the sample belongs. It is worth mentioning that Orbis has been useful here, in that it allowed us to clearly categorise firms into their main area of activity.

9.2 Appendix B

Table 16: Complete list of variables used in the empirical chapters.

Construct	Source	Authors
Dependent variables for chapters 4, 5, and 6		
<p>Market to book ratio (Tobin's Q): Market capitalization divided by the replacement value of assets. Seen as the ratio between the market value and the replacement value of assets.</p> <p>Return On Asset (ROA): measuring business profitability to total assets – net income divided by end of period assets</p> <p>Total Factor Production (TFP): operationalised using Levinsohn and Petrin's (2003) estimation model: Equation: $Y_{it} = \beta_0 + \beta_l l_t + \beta_m m_t + \beta_k k_t + w_t + \eta_t$</p> <p>Tax Aggressiveness: a dummy variable taking 1 if firms have at least one subsidiary located in tax haven jurisdiction and 0 otherwise; constructed by looking at 'dot tax havens' lists</p>	DataStream Literature	Hines and Rice, 1994; Markides, 1995; Peng and Luo, 2000; Hillman, 2005; Lux, 2008; Lux et al., 2011; Jones and Temouri, 2016 ; Hadani et al., 2017.
Independent variables for chapters 4 and 5		
<p>Political Meeting: a count of firms' meetings with the UK government over 8 consecutive years (2012-2019)</p> <p>Political Approach: Dummy Variable - Relational = 1 if meetings > 3.04 or Transactional = 0 otherwise Participation level: Individual, collective and hybrid utilised by firms to access UK Government</p>	OGD - Open access transparency UK; data.gov.uk	Political approach: operationalised by the author and inspired by past studies (Hillman, 2003; Shirodkar and Mohr, 2015; Kranenburg and Voinea, 2017).
Control variables for chapters 4, 5, and 6		
<p>Industry concentration: four largest sales per industry divided by total sales</p> <p>Firms' year of experience (age): logarithm of 1 plus the number of years since the firm was incorporated.</p> <p>Firms' location: London: dummy variable - firms with headquarters in London = 1, 0 otherwise.</p> <p>Financial: dummy variable using firms' SIC codes - belonging to the financial sector =1, 0 otherwise.</p> <p>Industry Measure: Primary 2-digit US SIC codes to create dummies.</p> <p>Industry Regulation: based on the 2-digits SIC codes. Regulated = 1 if firm belongs to one of the regulated industries (e.g., utilities, telecom, transportation, banking), 0 otherwise</p> <p>Intangible Assets: IATA (measured as ration of Intangible Assets to Total Assets). Intangible Assets is retrieved from firm's balance sheet and includes leadership capita, R&D expenses, goodwill, and all other expenses with long-term effect.</p> <p>Leverage: measured as total liability to total assets.</p> <p>Market capitalization: the product of the price of a share for the number of shares issued and listed.</p> <p>Product diversification: entropy measure</p> $TD = \sum_{i=1}^N p_t \ln\left(\frac{1}{p_t}\right)$ <p>Slack resources: Free Cashflow – firms' disposable income after all expenses.</p> <p>Taxation: tax revenue paid by firms (retrieved from firm's balance sheet account)</p> <p>Working Capital: capital used on daily basis to operate (the difference between current assets and current liabilities).</p>	DataStream; ORBIS	Jacquemin and Berry, 1979; Geringer et al., 1989; Hansen and Mitchel, 2000; Luo, 2001; Hillman, 2005; Choi and Russell, 2005; Lux et al., 2011; Hadani and Schuler, 2013; Sun et al., 2016.

9.3 Appendix C

Table 17: Presentation of Variables

Construct	Source	Authors
Dependent: market and accounting-based measures		
Market to book ratio (Tobin's Q): Market capitalisation divided by the replacement value of assets. Seen as the ratio between the market value and the replacement value of assets.	DataStream	Markides, 1995 ; Peng and Luo, 2000; Hillman, 2005; Lux, 2008; Lux et al., 2011; Hadani et al. 2017.
Return On Asset (ROA): measuring business profitability to total assets – net income divided by end of period assets		
Independent variables		
Political Meeting: a count of firms' meetings with the UK government over 8 consecutive years (2012-2019)	Open access transparency	Political approach: operationalised by the author and inspired by past studies (Hillman, 2003)
Political Approach: Dummy Variable - Relational = 1 if meetings > 3.04 or Transactional = 0 otherwise	UK; data.gov.uk	
Control Variables		
Market capitalisation: the product of the price of a share for the number of shares issued and listed.	DataStream; ORBIS	Jacquemin and Berry, 1979; Geringer et al., 1989; Hansen and Mitchel, 2000; Luo, 2001; Hillman, 2005; Choi and Russell, 2005; Lux et al., 2011; Hadani and Schuler, 2013; Sun et al., 2016.
Firms' year of experience (age): logarithm of 1 plus the number of years the firm was incorporated.		
Industry Measure: Primary 2- digit US SIC codes.		
Industry Regulation: based on the 2 digits SIC codes, a firm was coded 1 if it belongs to one of the regulated industries (e.g., utilities, telecom, transportation, banking etc.) and 0 otherwise.		
Product diversification: entropy measure		
$TD = \sum_{i=1}^N p_t \ln\left(\frac{1}{p_t}\right)$		
Working Capital: Capital used on daily basis to operate (the difference between current assets and current liabilities)		
Leverage: Measured as total liability to total assets		
Taxation: tax revenue paid by firms (retrieved from firm's balance sheet account)		
Intangible Assets: IATA (measured as Intangible Assets ratio of Total Assets) – Intangible Assets is retrieved from firm's Balance Sheet and include leadership capita, R&D expenses, goodwill, and all other expenses with long-term effect.		
Slack resources: Free Cashflow – firms' disposable income after all expenses.		

Table 18: Additional analyses: FPA and performance outcomes at different threshold used to create dummy variable (Relational versus transactional).

Variables	ROA		Tobin's Q		ROA		Tobin'sQ	
	1 RE	2 RE-Robust	3 RE	4 RE-Robust	5 RE	6 RE-Robust	7 RE	8 RE-Robust
FPA (PMs>=6)	-1.027** (0.476)	-0.913*** (0.300)	-0.112* (0.063)	-0.109 (0.097)				
AGE	0.082 (0.322)	-0.144 (0.260)	-0.184*** (0.065)	-0.188*** (0.053)	0.052 (0.325)	-0.179 (0.273)	-0.186*** (0.065)	-0.190*** (0.051)
Leverage	-0.132*** (0.014)	-0.128*** (0.008)	-0.004* (0.002)	-0.004 (0.004)	-0.132*** (0.014)	-0.128*** (0.008)	-0.004* (0.002)	-0.003 (0.004)
TD	-1.853*** (0.486)	-2.239*** (0.750)	-0.680*** (0.109)	-0.725*** (0.064)	-1.836*** (0.490)	-2.229*** (0.739)	-0.682*** (0.110)	-0.727*** (0.064)
Market Cap	1.860*** (0.313)	1.615*** (0.360)	0.853*** (0.044)	0.828*** (0.165)	1.835*** (0.314)	1.592*** (0.364)	0.854*** (0.044)	0.829*** (0.164)
Working Cap	-1.281*** (0.172)	-1.263*** (0.426)	-0.194*** (0.025)	-0.187** (0.090)	-1.285*** (0.172)	-1.266*** (0.419)	-0.195*** (0.025)	-0.188** (0.089)
Cash Flow	-0.770*** (0.235)	-0.661*** (0.137)	-0.269*** (0.030)	-0.260*** (0.085)	-0.804*** (0.234)	-0.695*** (0.144)	-0.272*** (0.030)	-0.262*** (0.087)
Taxation	1.103*** (0.178)	1.118*** (0.207)	0.017 (0.023)	0.017 (0.013)	1.103*** (0.178)	1.116*** (0.216)	0.017 (0.023)	0.017 (0.014)
IATA	-4.336*** (1.155)	-5.608*** (1.628)	-0.959*** (0.184)	-1.102*** (0.378)	-4.278*** (1.160)	-5.542*** (1.620)	-0.952*** (0.184)	-1.094*** (0.375)
REGU	-1.273* (0.682)	-2.786*** (0.829)	-0.486*** (0.156)	-0.189 (0.236)	-1.232* (0.688)	-2.846*** (0.863)	-0.482*** (0.157)	-0.195 (0.233)
FPA (PMs>=16)					-0.400 (0.775)	-0.245 (0.552)	-0.136 (0.100)	-0.130 (0.091)
Constant	0.588 (2.914)	3.871 (3.066)	-2.463*** (0.535)	-2.414 (1.866)	1.354 (2.907)	4.7000 (2.976)	-2.439*** (0.535)	-2.375 (1.764)
Observations	1,641	1,641	1,643	1,643	1,641	1,641	1,643	1,643
Number of ID	297	297	299	299	297	297	299	299
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Adjusted R2	0.157	0.208	0.136	0.221	0.150	0.203	0.132	0.217

Note first 4 models relational =1 if firms' political meetings >=6; 0 otherwise (transactional). Second 4 models relational =1 if firms' political meetings >=16; 0 otherwise (transactional). The statistical significance of the estimates is denoted with asterisks: ***, **, and * correspond to 1%, 5%, and 10% levels of significance, respectively.

Table 19: Descriptive statistics and correlations – Unilateral Approach to Political Meetings (UAPM)

Variables	N	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) UAPM	2440	0.144	0.717	1											
(2) FPA	3840	0.231	0.422	0.506	1										
(3) TFP	2115	0.003	0.903	0.097	0.121	1									
(4) AGE	4635	3.343	0.942	0.093	0.224	0.014	1								
(5) Leverage	4625	24.62	19.8	-0.01	-0.01	0.083	-0.028	1							
(6) TD	4800	0.682	0.722	0.118	0.172	0.273	0.266	0.005	1						
(7) Market Cap	4461	15.8	2.008	0.187	0.378	0.573	0.307	0.165	0.475	1					
(8) Work. Cap	2886	20.08	2.285	0.174	0.342	0.344	0.353	0.096	0.471	0.756	1				
(9) Cashflow	4325	13.27	2.253	0.173	0.426	0.512	0.331	0.159	0.492	0.906	0.758	1			
(10) IATA3	2908	0.266	0.22	0.009	-0.15	-0.108	-0.064	0.082	-0.06	-0.09	-0.14	-0.17	1		
(11) Taxation	3536	18.2	2.375	0.176	0.363	0.498	0.344	0.119	0.486	0.855	0.778	0.878	-0.141	1	
(12) REGU	4800	0.702	0.457	0.051	0.087	0.19	-0.049	-0.03	0.122	0.23	0.168	0.235	-0.155	0.166	1
(13) Ind. des	4800	0.497	0.182	-0.09	-0.08	-0.07	0.008	0.026	-0.09	-0.20	-0.15	-0.13	-0.196	-0.12	-0.48

Due to missing data N vary across variables. Tests are two tailed displaying pairwise correlations coefficients of the variables for the full sample of firms.

Statistical significance at or below 5%.

Table 20: Descriptive statistics and correlations – Collaborative Approach to Political Meetings (CAPM)

Variables	N	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) CAPM	3840	0.337	1.293	1											
(2) FPA	3840	0.231	0.422	0.501	1										
(3) TFP	2115	0.003	0.903	0.042	0.121	1									
(4) AGE	4635	3.343	0.942	0.111	0.224	0.014	1								
(5) Leverage	4625	24.62	19.8	0.01	-0.01	0.083	-0.028	1							
(6) TD	4800	0.682	0.722	0.086	0.172	0.273	0.266	0.005	1						
(7) Market Cap	4461	15.8	2.008	0.172	0.378	0.573	0.307	0.165	0.475	1					
(8) Work. Cap	2886	20.08	2.285	0.137	0.342	0.344	0.353	0.096	0.471	0.756	1				
(9) Cashflow	4325	13.27	2.253	0.192	0.426	0.512	0.331	0.159	0.492	0.906	0.758	1			
(10) IATA3	2908	0.266	0.22	-0.06	-0.15	-0.108	-0.064	0.082	-0.06	-0.09	-0.14	-0.17	1		
(11) Taxation	3536	18.2	2.375	0.167	0.363	0.498	0.344	0.119	0.486	0.855	0.778	0.878	-0.141	1	
(12) Regulation	4800	0.702	0.457	0.029	0.087	0.19	-0.049	-0.03	0.122	0.23	0.168	0.235	-0.155	0.166	1
(13) Indus. Con	4800	0.497	0.182	-0.00	-0.08	-0.067	0.008	0.026	-0.09	-0.11	-0.15	-0.13	-0.12	-0.12	-0.48

Due to missing data N vary across variables. Tests are two tailed displaying pairwise correlations coefficients of the variables for the full sample of firms. Statistical significance at or below 5%.

Table 21: Descriptive statistics and correlations – Hybridised Approach to Political Meetings (HAPM)

Variables	N	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) HAPM	3290	3.156	7.29	1											
(2) FPA	3840	0.231	0.422	0.71	1										
(3) TFP	2115	0.003	0.903	0.142	0.121	1									
(4) AGE	4635	3.343	0.942	0.218	0.224	0.014	1								
(5) Leverage	4625	24.62	19.8	-0.02	-0.01	0.083	-0.028	1							
(6) TD	4800	0.682	0.722	0.149	0.172	0.273	0.266	0.005	1						
(7) Market Cap	4461	15.8	2.008	0.371	0.378	0.573	0.307	0.165	0.475	1					
(8) Work. Cap	2886	20.08	2.285	0.332	0.342	0.344	0.353	0.096	0.471	0.756	1				
(9) Cashflow	4325	13.27	2.253	0.412	0.426	0.512	0.331	0.159	0.492	0.906	0.758	1			
(10) IATA3	2908	0.266	0.22	-0.10	-0.15	-0.108	-0.064	0.082	-0.06	-0.09	-0.14	-0.17	1		
(11) Taxation	3536	18.2	2.375	0.362	0.363	0.498	0.344	0.119	0.486	0.855	0.778	0.878	-0.141	1	
(12) Regulation	4800	0.702	0.457	0.095	0.087	0.19	-0.049	-0.03	0.122	0.23	0.168	0.235	-0.155	0.166	1
(13) Indus. Con	4800	0.497	0.182	-0.07	-0.08	-0.067	0.008	0.026	-0.09	-0.20	-0.15	-0.13	-0.196	-0.12	-0.48

Due to missing data N vary across variables. Tests are two tailed displaying pairwise correlations coefficients of the variables for the full sample of firms. Statistical significance at or below 5%.

Table 22: Firms' political activity (access) and performance outcomes

Study	Design – Field study	Dependent (D)/ Independent (I) variables	Key Findings	Limitations
Shaffer et al. (2000)	Sample: 456 firms' months, Data set-industry newsletters, archival searches newspapers & trade journals. Design: Structured content analysis	D: Performance: net income after taxes divided by total operating revenue/monthly air carrier load factor measuring the percentage of seats filled/ the air carrier's monthly change in relative market position from the previous period. I: Nonmarket actions by month/ number of market actions/ share/ size/dummy variables to delineate between specifics period and time	This study takes an integrated approach of market and NMS to conclude that NMS positively influences the firm's performance.	The political approach utilized by firms has not been scrutinized in relation to performance.
Bonardi et al (2006)	Sample: 190 investors owned electric utilities with 1720 utility-year observations. Design: longitudinal, secondary data, quantitative.	D: Allowed rate of return (AROR) that had occurred since a utility's previous rate review. I: <i>groups consumer advocates</i> the degree residential utility consumers were organized. <i>Industrial consumers</i> , a time-varying variable, = to the industrial percentage share of electricity consumption in each state. <i>Sierra Club membership</i> the extent state population participated in environmental and other activist non-governmental organizations.	Firms practicing CPA in the utility industry are very likely to maximize profits.	Does not provide an account of the degree of access achieve by politically active firms.
Lux et al (2011)	Sample: 78 studies. Design: longitudinal literature search, meta-analysis	D: Political activity measured in the studies: mainly PAC contributions and lobbying expenditures; but miscellaneous measures of CPA are also included (e.g., expenditures on government relations employees or office space in Washington, D.C.). Firms' performance: ROA/ROI. I: Firm performance (ROA/ROI) - NMS: Institutional characteristics, Politician incumbency (whether politician was an incumbent in the previous election cycle). Ideology (politician is affiliated with the pro-business Republican Party or not - Political competition: total special interest political contributions/ Special interest group contributions & number of special interest group testimonies before legislators & regulators. Regulation/gov Sales /Dependent Politicians. Market/industry level variables: Indus Concentration International Competition. Economic opportunity/Firm level characteristics: Firm Size/ Corporate Strategy.	A summary of the positive implications of NM actions on firms' performance is provided by arguing that although contextual factors shape NMS, it still represents a key determinant of firms' performance. The study confirms that NMS antecedents pave the way to firms' access to the political landscape and are linked to superior performance outcomes.	No account of the type of political approaches taken by firms in relation to positive performance outcomes.
Hadani and Schuler (2013)	Sample: 943 large and mid-cap firms from Standard & Poor's (S&P)	D: Performance: -Market value (dollar of firm's equity at the end of the firm's calendar year)/ROS (net income before extraordinary items to total revenue) / CPI or CCPlit+1 = β 1Year (dummies) +	Political ties can benefit firms seeking to secure access to government but do not	Does not account for the level of access secure by firms to better scrutinize performance

	<p>1500 firms and publicly available data Design: Field study, longitudinal secondary data</p>	<p>2 cumulative performance)+ β_3Regulationit+ β_4 other firms' cumulative CPI+ β_5Firm cumulative size + β_6Firm cumulative diversification)+ ϵ_i I: <i>Corporate Political Investments (CPI)</i> as a cumulative :PAC contributions, soft money contributions and contributions to 527 groups./<i>Board political service:</i> dummy variables were created for the existence of directors with prior public service/ <i>Regulation:</i> dummy measure regulated & nonregulated industries) measure); <i>board size; board independence; year and industry dummies.</i></p>	<p>necessarily translate into increases in firms' market value – top management's personal interest prevails over firms interests in their NM activities.</p>	<p>outcomes; but highlights the need to further study the political approach taken by firms under particular industry conditions.</p>
<p>Sun et al (2016)</p>	<p>Sample: 1046 Chinese manufacturing firms listed on the Shanghai Stock Exchange. Design: Longitudinal, secondary data -quantitative covering 2,854 firm-year observations</p>	<p>D: blockholder appropriation of corporate Wealth: the value of a firm's other receivables over total assets (ORECTA). I: <i>Board political capital</i>-“1” if a director had current or former political experience and “0” otherwise/ <i>Controlling blockholder identity</i>-“1” if a company's controlling blockholder was private, or “0” if a government agency/ <i>Industry regulation</i> “1” for Petrochemical, Pharmaceutical, Metallurgical, and Machinery— and “0” otherwise/ <i>Subnational institutional environments</i> - NERI index of marketization in Chinese provinces</p>	<p>Although board members with political ties increase firms' fortunes, these members are likely to use political capital to divert firms' wealth toward their personal gain, resulting in firms achieving negative performance outcomes.</p>	<p>Does not advance our understanding around the type of ties (relational/ transactional) secured by board members when seeking to achieve preferential policy outcomes.</p>
<p>Hadani et al (2017)</p>	<p>Sample: 93 studies Design: Longitudinal literature search – meta-analysis covering 489,435 firm-year study observations</p>	<p>D: Preferred policy outcomes. voting outcomes in Congress and/or in the Senate or the decisions made by government agencies such as regulatory agencies or other government agencies (e.g. public utilities commission (PUCs), decisions made by the US international trade commission, voting outcomes, contracts allocated). Firm outcome: accounting-based measures (return on assets, profits, growth, return on sales, etc.) and financial-based measures (such as market value) as well as others (such as market share or contract awards). I: PAC contributions, (hired or in-house Lobbyist, reported Lobbying activity, the existence of political ties between the firm and policymakers (such as politically tied directors, or personnel or connected shareholders), and petitions to, testimony to, or interactions with regulatory agencies as well the political activity of trade or peak or umbrella associations and organizations.</p>	<p>This study provides a good overview of the literature looking at firms' political activity and performance outcomes. It argues that positive performance outcomes from political activities does not happen in a vacuum but are highly dependent on the context on which it is enacted, and firm-specific strategies</p>	<p>Limited insights into the relationship between political approach and the firm's performance.</p>

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Sample: 180 Initial Public Offerings IPO on the National Association of Securities Dealers Automated Quotations stock exchange.

Design: quantitative, cross sectional

D: underpricing as the percent change in stock price on the first day a stock traded on the NASDAQ and turnover as the percentage of shares offered on the NASDAQ that were traded on the day of the IPO.

I: CPA investment was calculated as the sum of the firm's lobbying investment and PAC contributions that occurred prior to its IPO.

Firms' commitment to political activity results in better Initial Public Offerings (IPO) performance.

The study does not explain the approaches taken by corporations to achieve positive outcomes.
