The Effect of Sociopolitical Legitimacy on Foreign Firm Political Strategy

ABSTRACT

This paper investigates how the perceived legitimacy of foreign firms in the eyes of host-country stakeholders determines their host-country political strategies. Building on international business research, we propose that home-country political systems influence host-country legitimacy assessments of foreign firms. In turn, a foreign firm's sociopolitical legitimacy, driven in part by home-country characteristics, will influence whether it lobbies through in-house lobbyists or outsources the activity to lobbying firms to maximize the effectiveness of its political activities. Using a novel instrumental variable approach for identification and a panel dataset of lobbying activities of foreign firms in the United States, the results support our arguments that a foreign MNE is less likely to use in-house lobbyists if its legitimacy is negatively impacted by home-country characteristics. Our study contributes to the international business and nonmarket strategy literatures.

Jin Hyung Kim
George Washington University

Shon R. Hiatt
University of Southern California

This draft: October 13, 2021

INTRODUCTION

Firms’ nonmarket environments have become major considerations in the formulation of the organization’s competitive strategy (Markus, 2008). Studies have shown that nonmarket strategies can affect regulatory decisions (Diestre, Barber, & Santaló, 2019), corporate divestitures (Blake & Moschieri, 2017), corporate impression management (Carlos & Lewis, 2018; Fabrizio & Kim, 2019), and business performance (Ridge, Ingram, & Hill, 2017; Corredoira & McDermott, 2014). Thus, it is no surprise that scholars have focused on factors that influence firms’ political and stakeholder management strategies. One feature that has received increasing attention is sociopolitical legitimacy (Hiatt, Grandy, & Lee, 2015; Werner, 2015; Odziemkowska & Henisz, 2021), defined as a generalized perception that an entity is appropriate for a particular social context (Suchman, 1995). Recent studies affirm that low legitimacy reduces the efficacy of nonmarket strategies because key stakeholders such as government officials eschew interacting with low and illegitimate businesses to avoid negative reputation and legitimacy spillovers (Hampel & Tracey, 2017; McDonnell, Odziemkowska, & Pontikes, 2021).

These findings highlight a theoretical puzzle in international business research. International business scholarship has long argued that foreign MNEs suffer from low legitimacy due to liability of foreignness (Hymer, 1960/1976; Zaheer, 1995). At the same time, it emphasizes the necessity of host-country stakeholder engagement and documents ample evidence of foreign firm relationships with political elites (Kim, 2019; Bucheli & Salvaj, 2018; Haber, Maurer, & Razo, 2002). Yet, if we follow the legitimacy argument, foreign MNEs would be denied access to government officials due to lower legitimacy and, consequently, would likely forgo spending resources on ineffective political strategies (McDonnell & Werner, 2016). We reconcile this dilemma by proposing that foreign firms will still seek to engage important host-country stakeholders but that heterogeneity in their sociopolitical legitimacy will influence *how* they will enact their political and stakeholder strategies to maximize their effectiveness.

Specifically, we examine foreign firm lobbying strategies. Given that political lobbying not only includes meeting and persuading politicians, their staff, and regulators, but also collecting intelligence and building political, regulatory, and policy constituency through the lobbyists' networks and institutional knowledge (Baumgartner, Berry, Hojnacki, Kimball, & Leech, 2009), it is reasonable to assume that the effectiveness of lobbying efforts by foreign MNEs hinges upon their perceived sociopolitical legitimacy; if a foreign firm believes its legitimacy in a host country is high, we argue that it will interact directly with key stakeholders such as government officials through its in-house lobbyists. In contrast, if the firm believes it is lacking legitimacy, it will employ third-party organizations to interact with host-country stakeholders on its behalf in order to achieve the intended outcomes of its lobbying efforts (Shipilov, Li, & Greve, 2011).

Studies in international business suggest that a foreign firm's home-country perception is an important determinant of how host-country stakeholders assess the company (Bell, Filatotchev, & Aguilera, 2014; Shi, Gao, & Aguilera, 2020; Vasudeva, Nachum, & Say, 2018). This mechanism states that the legitimacy of, say, a Brazilian manufacturer operating in Indonesia and of a Russian technology company operating in Ukraine will be influenced by the "historically shared perceptions" of Brazil and Russia in Indonesia and Ukraine, respectively (Kostova & Zaheer, 1999: 76). Building on this research, we propose that the political system of a foreign firm's home country is one country characteristic that can determine the sociopolitical legitimacy of a foreign MNE in politics because it is a fundamental source of societal ideology and norms that host-country political stakeholders and their constituents consider when these foreign firms engage in lobbying and related political activities (McClosky, 1964; Williams, 1961; Marquis & Qiao, 2020).

Please insert Figure 1 about here

Empirically, we examine the U.S. federal lobbying activities of 2,051 U.S. subsidiaries of foreign multinational enterprises (MNEs) from 84 countries during the period 1998–2012 and their establishment of in-house lobbyists. This context is a suitable setting for a few reasons. First, any organization—foreign or domestic—physically located and operating in the United States can lobby if it follows lobbying rules and regulations. This makes lobbying the most accessible political strategy available to foreign companies. As Figure 1 illustrates, subsidiaries of foreign MNEs across the globe lobby in the United States, allowing us to generalize the results of our analysis. Second, because capabilities related to lobbying are generally not considered transferable from the home country because the institutional setting is totally different between home and host countries and political access and capital must be newly created and consolidated in a foreign host country (Kim, 2019), the effect of home-country capabilities on MNEs' political strategies will likely be minimal; this allows us to better identify the legitimacy mechanism. Third, U.S. lobbying regulations allow us to identify companies' boundary decision in hiring lobbyists, which is hard to obtain in most other company activities. The results confirm that a firm from a home country whose political system is closer to the U.S. is more likely to recruit and employ in-house lobbyists. The results are robust even after accounting for two important alternative mechanisms: (1) various home-country characteristics related to institutional distance and (2) factors related to the organizational boundary decision, namely organizational capability and transactional hazard.

This study advances several streams of research. First, it contributes to the international business literature by examining the political strategy of foreign companies in host countries

(Bucheli & Kim, 2015; Vaaler, 2008). Although the effect of legitimacy and the importance of nonmarket strategy for foreign firms operating in a foreign host country have been one of the central tenets in international business studies, scholarly understanding of the political strategies of foreign firms in foreign host countries is limited (Beazer & Blake, 2018; James & Vaaler, 2018). We know very little about how foreign companies implement their nonmarket and political strategies in the host country nor the role of sociopolitical legitimacy in affecting such decisions (Bucheli, 2008; Rodriguez, Siegel, Hillman, & Eden, 2006).

Second, this study also speaks to the nonmarket strategy literature. Although scholarship has documented how legitimacy influences both the effectiveness and the type of nonmarket strategies that firms adopt (Bucheli & Salvaj, 2013; Carlos & Lewis, 2018; King, 2008), research has generally overlooked whether and how legitimacy influences the implementation of examined strategies, including the organizational boundary decision (Jia, 2018). Because one of the very first decisions a firm must make in formulating and executing strategy is to define its organizational boundary, it is difficult for scholars to fully assess and evaluate the types of nonmarket strategies and their effectiveness without understanding this first stage (Dorobantu, Kaul, & Zelner, 2017).

THEORY AND HYPOTHESES

Home-country Characteristics and Foreign MNE Sociopolitical Legitimacy

Although managing stakeholder relations is a particularly important aspect of nonmarket strategy (Vasi & King, 2012; Hiatt, Carlos, & Sine, 2018; Durand, Hawn, & Ioannou, 2019), recent studies have found that a firm's reputation and legitimacy can affect its nonmarket strategy (Odziemkowska & Henisz, 2021). For example, Hiatt and colleagues (2015) found that firms facing legitimacy threats from stakeholder activism were less likely to engage in regulatory preemption. King (2008) showed that firms with low reputations were more likely to engage with activists and to concede to their demands. Other studies have shown that certain political strategies such as campaign contributions and access to politicians are ineffective or even less feasible if a firm suffers from low legitimacy (McDonnell & Werner, 2016; Werner, 2015). The effect of sociopolitical legitimacy on firm nonmarket strategy is particularly concerning for foreign firms (Zhang & Luo, 2013). Not only do foreign MNEs suffer from lower legitimacy due to the liability of foreignness (Hymer, 1960/1976; Zaheer, 1995), but they are subject to greater stakeholder scrutiny in a host market (Henisz & Zelner, 2005; Soule, Swaminathan, & Tihanyi, 2014). Consequently, they are assumed to have higher incentive than domestic firms to manage relationships with host-country politicians and other stakeholders despite their lower legitimacy (Shi et al., 2020; Bucheli & Kim, 2015; De Villa, Rajwani, Lawton, & Mellahi, 2019).

Studies have shown that stakeholders in host countries evaluate the quality and legitimacy of foreign MNEs based on a handful of easily observable organizational characteristics, with home-country features being a prominent factor (Kostova & Zaheer, 1999; Ramachandran & Pant, 2010). One area where home country can affect quality perceptions is with consumers' beliefs about firm products and services (Maher, Clark, & Maher, 2010; Tse & Gorn, 1993). Market surveys reveal that global consumers generally believe companies from Germany or Japan produce more-durable and higher-quality products than companies from Latin America or Southeast Asia due to German and Japan's reputation of advanced technologies (Strauss, 2017).

Home-country perception also shapes the legitimacy of foreign MNEs (Lu, Ma, & Xie, 2021). In a study on initial public offering (IPO) valuation, Bell and colleagues (2014) showed that the value of a foreign-venture IPO was significantly driven by host-country investors' perceptions of its home-country investor protection laws because such institutional characteristics could influence corporate governance. To achieve their desired IPO value, they found that some firms from countries with weak institutions altered their strategies and adopted stronger corporate governance mechanisms such as internal and external monitoring and independent board directors. Other studies have also shown that foreign firms from emerging economies encounter difficulties in developed host countries because the firms' home-country institutions are perceived as having lower standards than the host-country institutions (Madhok & Keyhani, 2012), whereas firms from developed countries are considered more advanced and to conform to the developed countries' regulations (Vasudeva, 2013). In sum, studies find that the host-country perceptions of quality and legitimacy of foreign MNEs are stable but heterogenous, driven to a large extent by their home-country characteristics and are dependent upon host-country values and the specific firm activity (Peterson & Jolibert, 1995; Roth & Romeo, 1992). If the evaluated business activity is related to technology, host-country stakeholders will consider the home country's technological reputation; if the business activity in question relates to environmental standards, the foreign firm's home-country environmental regulations are to be considered. And, depending upon the perception in the host country, foreign MNEs' corresponding strategies will also adapt to overcome the disadvantages.

Given that a foreign MNE's legitimacy in the host country is assessed based on the business activity and its home country, when considering firm political strategy, we propose that the home country's political system will be a prominent factor that affects the foreign firm's legitimacy for a couple of reasons. First, a political system manifests fundamental societal norms and values that resonate highly not only with the general electorate, but also with the MNE's key stakeholders—the country's political leaders (Henisz, Dorobantu, & Nartey, 2014). Second, because the firm's political strategy is associated with the host country's government, host-country stakeholders will naturally consider the MNE's home government in evaluating the legitimacy of the firm. For instance, foreign companies operating in the U.S. are often targeted by protestors and demonstrators if their home country has a history of poor human rights (Soule, 2009). Foreign firms' operations are also scrutinized if their home countries differ radically in fundamental ideology or norms (Soule, Swaminathan, & Tihanyi, 2014). Such an incident occurred in 2006 in the United States, when the United Arab Emirates company, DP World, acquired the British company P&O, which operated several American seaports. Although most American ports were already operated by foreign firms (including P&O), politicians and the media raised serious national security concerns, leading DP World to sell its U.S. port assets to an American company (Sanger, 2006). In the context of foreign MNE political lobbying in the United States, we argue that if a foreign MNE's home country has a high functioning democratic political system, it will be evaluated positively and be seen as more legitimate, while countries with more autocratic political systems will be deemed less legitimate.

The democratic political system and its foundation in individual liberty and protection of human rights has been the most important and fundamental societal value and political axiom in the United States from its inception (de Tocqueville, 2000; McClosky, 1964; Snow, 1913). This is well supported by recent survey results showing that democratic values and ideals are considered among American's most important values (Pew Research Center, 2018; Erikson & Tedin, 2019). Studies have also found that Americans view democratic countries to be more reliable, committed, and credible than non-democratic countries (Cowhey, 1993; Gartzke & Gleditsch, 2004; Talbott, 1996). For instance, one reason Americans perceive China and Saudi Arabia negatively is due to the countries' autocratic nature, which Americans believe is inimical to democratic values such as suffrage, individual liberty, and human rights. In contrast, most

Americans view Germany and the U.K. more positively because of their shared democratic values and political systems (Pew Research Center, 2013, 2020, 2021).[1]

At the government official level, democratic values are a social foundation that provides an ethical rationale for diplomacy, as illustrated in U.S. foreign policy (Monten, 2005). The U.S. Department of State clearly manifests its vision that "on behalf of the American people we promote and demonstrate democratic values and advance a free, peaceful, and prosperous world."[2] Given the positive perceptions of countries with functioning democracies, it is reasonable to believe that, other factors being equal, the sociopolitical legitimacy of foreign firms in the United States from, say Germany and the United Kingdom, would be higher than foreign firms from, say China and Saudi Arabia.

In sum, under the assumption that (1) home-country characteristics are factors inextricably linked to foreign MNEs and that (2) stakeholders evaluate organizational legitimacy based on easily observable organizational characteristics that are associated with the firm and the specific activity (Kostova & Zaheer, 1999), we propose foreign MNEs will consider how their home-country perception affects their sociopolitical legitimacy when developing stakeholder engagement strategies. In practice, we argue that a foreign MNE will enact a lobbying strategy that will maximize its effectiveness in light of the firm's relative legitimacy, which is driven by host-country perceptions of their home-country political systems.

The Effect of Sociopolitical Legitimacy on Foreign MNEs' Lobbying Strategies

Lobbying is defined as "the transfer of information in private meetings and venues between interest groups and politicians, their staffs, and agents" (de Figueiredo & Richter, 2014:

[1] These perceptions are also supported in several international relations and related studies (e.g., Hoyt, 2000; Page, Rabinovich, & Tully, 2008; Cordesman, 2021a, 2021b; Passow, Fehlmann, & Grahlow, 2005).
[2] https://www.state.gov/about/about-the-u-s-department-of-state/ [accessed October 31, 2019]; our italics.

3). It includes information and intelligence gathering on various congressional and regulatory issues, constituency building across different organizations and individuals, advocating firms' positions in trade or industry associations, organizing campaign events for politicians, and the like (Nownes, 2006; Franklin, 2014). In this way, lobbying can benefit firms in general by giving them access to elected officials who make policy (Blanes I Vidal, Draca, & Fons-Rosen, 2012) and by providing them with knowledge and information about potential regulation coming down the policy pipeline (Salisbury, Johnson, Heinz, Laumann, & Nelson, 1989).

Firms can lobby in two ways. They can choose to hire lobbyists internally and lobby government officials directly or they can contract these services with professional lobbying firms. In principle, the organizational boundary decision answers the question of which organizational function a business will conduct internally or externally (Williamson, 2002). It is one of the first strategic decisions that a firm makes and precedes a series of subsequent strategic decisions such as strategic investments, the development of capabilities, and operations management (Argyres & Zenger, 2012; Leiblein, Reuer, & Dalsace, 2002; Slater & Olson, 2000). The organizational boundary decision also applies to situations in which firms engage in corporate political activities, lobbying in the current study context. Once a company decides which political strategy to engage in (Blumentritt & Nigh, 2002; Keim & Zeithaml, 1986), the next strategic decision it needs to make is to determine whether its political strategy will be conducted internally or externally.

In this process, lobbyists serving as an intermediary between businesses and politicians play a crucial role through their institutional knowledge and political networks (Blanes I Vidal et al., 2012; Drutman, 2015). Unlike other business activities where the capabilities accrued in one country may be transferred to another (Anand & Delios, 1997; Anand, 2011), lobbying capabilities developed in one country are not easily transferrable because access to key lawmakers and relevant constituents depends on a particular lobbyist's human capital (Mayer, Somaya, & Williamson, 2012) as well as on their knowledge of the lobbying process, which is country specific (Li, He, Lan, & Yiu, 2012; Mezias, 2002). Moreover, lobbying itself is country specific (Nownes, 2006).

Given that efficiency maximization is key in organizational boundary decisions (David & Han, 2004; Santos & Eisenhardt, 2005), the decision to invest in in-house lobbyists is likely to be affected by whether a firm can effectively create and consolidate its capabilities through hiring lobbyists in a specific institutional setting. If a foreign business believes that in-house lobbyists are beneficial and, thus, more effective, it will be more likely to opt for them. But if hiring and maintaining in-house lobbyists is seen as less effective and beneficial, the business will rely on outside professional lobbyists alone.

Because legitimacy can influence the effectiveness of nonmarket strategy, it is also likely to impact the benefits and costs of internalization, holding other factors constant. Regarding the former, the benefits of hiring outside lobbyists might be higher for companies with low legitimacy. Foreign MNEs suffering from low legitimacy will have difficulty accessing relevant political players and engaging in lobbying-related activities that are critical for the success of lobbying. Actors with relatively high legitimacy or status tend to avoid social relationships with low-legitimacy actors out of fear that their legitimacy or status will be tarnished by association (Rider, 2009; Stuart, 1998). Recent studies point to evidence that this same mechanism occurs in nonmarket strategy: Politicians typically avoid interacting with organizations of low reputation or legitimacy out of fear that such associations could influence their reelection (McDonnell & Werner, 2016; Nalick, Kuban, Hill, & Ridge, 2020). Furthermore, since, as noted, lobbying involves various activities such as information collection, constituency building on top of an interaction with political players, low legitimacy of foreign MNEs will hinder them to achieve desired outcomes through their own lobbying efforts.

Various studies have illustrated that low-status and illegitimate organizations may gain access to higher-legitimacy actors and important information using third-party brokers that can facilitate social interactions but also reduce the risk that illegitimacy will transfer because there is no publicly known direct tie (Burt, 1992; Shipilov et al., 2011). In this way, brokers serve as buffers against potential stigma and illegitimacy by association. Similarly, in the context of lobbying, hiring outside lobbyists could help low-legitimacy firms effectively engage with elected officials by reducing politicians' risk of receiving negative public attention. Moreover, if professional lobbyists are considered politicians' friends, supporters, and constituents (Birnbaum, 1992; Drutman, 2015; Kaiser, 2010), hiring outside lobbyists can help low-legitimacy firms enjoy other benefits of lobbying, which they cannot achieve on their own. A lobbyist explained: "Politicians are concerned about their constituency in their home states and congressional districts. Only a lobbyist with good connections and institutional knowledge can help firms that lack legitimacy" (interview with one of the authors, September 2018).

The cost of hiring in-house lobbyists may also be higher for low-legitimacy businesses. Studies suggest that the human capital of a lobbyist is tied directly to their political connections (Blanes I Vidal et al., 2012; Salisbury et al., 1989). Because lobbyists' political connections are not firm specific and can be used for any client (Raffiee & Coff, 2016), lobbyists likely act to enhance and protect this valuable resource to increase future job market value (Coff, 1997; Campbell, Ganco, Franco, & Agarwal, 2012). Furthermore, the literature on social ties asserts that perceptions of quality, status, and legitimacy can be affected by economic transactions with market actors: Working for a high-status organization can confer high status upon the organization's employees, whereas working for a stigmatized or illegitimate organization may damage employees' perceived legitimacy (Podolny, 2001). Working as an in-house lobbyist for a company with low legitimacy could put the human capital of lobbyists at risk by tarnishing their individual legitimacy, in turn eroding their ability to engage with elected officials in the present and the future (Kim, 2019). As a result, hiring competent in-house lobbyists might be difficult and could entail higher costs for a low-legitimacy company. In surveying dozens of lobbyists representing different organizations, Baumgartner and colleagues (2009) found that lobbyists cited their own reputation and legitimacy as being critical factors that opened doors with politicians and staff members. Not only has this finding been supported in other studies (Leech, 2013; Drutman, 2015), but it was also confirmed in our interviews with lobbyists. For instance, one lobbyist who previously worked as a legislative staffer in the U.S. Congress expounded:

> Reputation and credibility are the most important assets for a lobbyist. Once you lose these, your career as a lobbyist would end because your reputation and legitimacy are what allow you to meet with people, collect information, and represent your client. (Interview with one of the authors, September 2018)

Another lobbyist interviewed who worked in Congress echoed this argument:

> As a lobbyist, showing clients some outcomes and maintaining good relationship[s] with sitting politicians is critical. This is not possible if you work as an in-house lobbyist for companies with poor reputations. (Interview with one of the authors, September 2018)

Taken together, these points suggest that (1) *the benefits of hiring in-house lobbyists are likely to be lower* and (2) *the costs are likely to be higher for firms with low legitimacy engaging in political activities through in-house lobbyists than for firms with high legitimacy*.

Please insert Figures 2a and 2b about here

These arguments are illustrated in Figures 2a and 2b. Figure 2a illustrates the comparative costs of governance suggested by Williamson (2002). If there is no enduring legitimacy concern, foreign companies will base their organizational boundary decisions on the pure costs of internalization, holding everything else constant. For example, if the costs of internalization are less than b*, a firm will contract out because doing so is more cost efficient. Once the costs exceed b*, where the lines representing market costs and internalization costs intersect, a business will consider using firm hierarchy to organize related activities because doing so may cost less. However, the presence of legitimacy concerns changes the relative costs and benefits of efficiency; Figure 2b illustrates the effect of legitimacy on the internalization decision. Because of the illegitimacy effect, which makes it costlier but less beneficial for a business to internalize a certain function, the hierarchy graph (H(k1)) moves upward and becomes H(k2), which moves the original equilibrium (b*) to the new one (b**). In other words, for companies between k1 and k2, the internalization becomes less cost effective because of legitimacy concerns, holding all else constant. As a result of this change, the incentives to internalize certain nonmarket functions for less legitimate companies become less attractive.

Bringing together our arguments of a foreign firm's home-country political institutions with organizational boundary decisions in political lobbying, we thus argue that a foreign firm's home-country political system is an enduring factor tied to the sociopolitical legitimacy of foreign MNEs; and this determines the costs and benefits of their organizational boundary decision in their lobbying efforts. Therefore, a foreign MNE with low sociopolitical legitimacy operating in the United States is less likely to adopt an internal government affairs function than a business with higher legitimacy. For example, a company from China will be viewed as less legitimate by U.S. politicians than a company from Germany (a country that shares democratic values with respect to elections or individual human rights). Given our arguments, a Chinese company would be less likely than a German company to implement its political strategies using an in-house lobbyist.

Hypothesis: Foreign firms from more autocratic home countries are less likely to lobby in the U.S. through an in-house lobbyist than are foreign firms from more democratic home countries.

RESEARCH SETTING: FOREIGN-FIRM LOBBYING IN THE UNITED STATES

Examining lobbying in the United States is an appropriate setting for our research for a few reasons. First, lobbying is the most accessible political strategy corporations use to influence political actors in the United States (Drutman, 2015). Indeed, unlike many other countries that ban lobbying, it is the main way to influence U.S. politicians (Ahmed, 2020). Second, the Lobbying Disclosure Act (LDA) of 1995 requires all lobbyists in the United States to file a lobbying report on behalf of represented entities starting from 1998. Foreign MNEs' U.S. subsidiaries file the same lobbying report as U.S. domestic entities which informs us whether companies lobby through their in-house lobbyists or whether they rely on outside lobbyists.

Third, in more developed countries, monitoring and enforcement on illegal activities are relatively well executed and, thus, may effectively discourage illegal activities (e.g., Di Tella & Franceschelli, 2011; Olken & Pande, 2012). Consequently, it is not unreasonable to assume that in the United States, legalized political strategies (i.e., lobbying) are a preferred way for foreign firms to influence elected politicians (Jia, Markus, & Werner, 2021). Indeed, Figure 1 illustrates that lobbying by foreign companies is not uncommon: They spent more than $4 billion on lobbying during the sample period. This study does not examine whether a foreign firm engages in lobbying or other political activities, but whether it internalizes or outsources its lobbying *after it first decides to lobby*.

Fourth, typically, data on organizational boundary decisions is hard to obtain because access to the internal corporate data is quite limited (Monteverde & Teece, 1982; Macher & Richman, 2008). However, due to the LDA's disclosure requirements, we can obtain characteristics of company lobbying activities, and this allows us to effectively control for heterogeneity in firms' organizational boundary decisions on lobbying.

METHODS

Data and Sample

Our sample consists of subsidiaries of foreign MNEs, both private and public, located and operating in the United States that have engaged in lobbying at least once during the sample time period (1998-2012). This includes 10,647 firm-year observations, representing 2,051 U.S. subsidiaries of foreign MNEs from 84 countries. We obtained corporate lobbying data from the Center for Responsive Politics. One challenging factor in studying strategic activities of subsidiaries of foreign MNEs in a host country is that it is almost implausible to collect subsidiary-level operation data such as financial variables. Although this prevented us from controlling for some subsidiary-level variables (which will be further discussed in the subsequent section), we believe our sample and study design also have several advantages. First, most studies on political strategy are limited to large firms (e.g., Ridge et al., 2017; McDonnell & Werner, 2016), but our study examines the whole population regardless of their size, which we believe paints a holistic picture of lobbying that can address sample selection bias in prior studies (de Figuiredo & Richter, 2014). Second, although nonmarket strategy of foreign MNEs has been considered one of the most important topics in international business (Bucheli & Kim, 2015), studies on this subject are scarce (Rodriguez et al., 2006). This is because not only are (1) large-scale longitudinal data on political activities of foreign MNEs hard to obtain, but also (2) subsidiary-level data are difficult, if not impossible, to acquire. This is one of the first studies that we know of that examines political strategies of MNEs using a large-scale panel dataset.

We identify a firm as foreign if a foreign company controls the operations of the subsidiary and is at the top of the company ownership hierarchy, also known as global ultimate ownership (GUO), following prior research (Kim, 2019). There are a few reasons why we borrow this definition of foreign ownership. First, we believe this is a conservative measure of ownership. Many publicly traded firms have complex ownership structures that make it difficult to clearly identify the country of ownership. Because our argument is that a business's home country is evaluated by its host-country stakeholders, a subsidiary that is fully controlled by a foreign firm would be most recognizable by relevant stakeholders. Furthermore, in practice, countries are increasingly adopting the GUO measure to define foreign firms due to increased supranational compliance efforts. To do this, we use multiple data sources, including Orbis, Capital IQ, Worldscope, and Zephyr, to determine whether a business is a U.S. subsidiary of a foreign MNE. To ensure the accuracy of the information, we manually reviewed and confirmed the information for each company individually on the internet after collecting the data.

Dependent Variable

Assuming that companies must exceed a certain threshold in internalizing an organizational function based on calculations of the implicit and explicit costs and benefits of internalization (see Figures 2a and 2b), they will lobby through in-house lobbyists only if they view that its benefits outweigh the costs (Santos & Eisenhardt, 2005; Williamson, 2002). Thus, the dependent variable of our study is a binary variable indicating whether a firm lobbies through *in-house lobbyists* (1-yes, 0-no). Businesses can lobby federal agencies in three ways: (1) through outside lobbyists only, (2) through in-house lobbyists only, or (3) through both in-house and outside lobbyists. If a firm used an in-house lobbyist in any effort, we code the variable 1 (cases 2 and 3 above). If a company lobbied only through outside lobbyists on a contractual basis (case 1), we code the variable 0. Because many firms with in-house lobbyists also hire outside lobbyists to rely on and benefit from their access and knowledge as political insiders (Birnbaum, 1992; Drutman, 2015; Nownes, 2006), lobbying through in-house lobbyists is not just a substitute for, but also a complement to, the use of outside lobbyists (Leech, 2013; Parmigiani, 2007; Parmigiani & Mitchell, 2009). The allocation of resources between in-house and outside lobbyists is a separate strategic decision, which is beyond our scope of the study.

The data further justify the use of a binary dependent variable. Most companies with an in-house government affairs function also hire outside lobbyists or lobbying firms (Drutman, 2015; Parmigiani, 2007). In our sample, 94.9% of companies hired outside lobbyists, whereas only 5.1% relied solely on in-house lobbyists. Of the 94.9%, approximately 20% lobbied through both in-house and outside lobbyists. Thus, most companies engaging in lobbying rely on outside lobbyists, even those having their own in-house government affairs function. This is because of the complementary characteristics of lobbying (Parmigiani, 2007; Parmigiani & Mitchell, 2009).

Explanatory Variables

We measure the sociopolitical legitimacy evaluation of a foreign firm's home country using the political regime classification from the V-Dem democracy database (v2x_regime), which manifests "the competitiveness of access to power (polyarchy) as well as liberal principles (Coppedge et al., 2021: 266)." In this classification, there are four different regime types, ranging from 0 to 3, with higher scores corresponding to a more-democratic political system and lower scores corresponding to a more-autocratic political system (liberal democracy-3, electoral democracy-2, electoral autocracy-1, and closed autocracy-0), and this index is constructed based upon various democracy measures in the V-Dem database. For interpretation ease, we reversed the score for regime type. Throughout the sample period, the United States is considered a liberal democracy, the most advanced form of democracy. We believe our explanatory variable has several merits compared to other measures of democracy. First, legitimacy evaluations of foreign countries change little, implying that the V-Dem score should be aligned with host-country stakeholder perceptions. Second, the measure is constructed based upon two of the most important democratic principles—electoral freedom and liberty—as delineated above; thus, the measure captures a core ideological principle of individuals in the United States.

To lessen any potential endogeneity concerns, we instrumented our explanatory variable, *home-country autocracy*, by the differences in the ideal point from a country's United Nations General Assembly (UNGA) voting to the United States' voting behavior (Bailey, Strezhnev, & Voeten, 2017).

Control Variables

We control for several firm- and industry-level variables that may affect a company's organizational boundary decision with respect to political lobbying. At the firm level, we include variables related to political capability and experience that can influence lobbying internalization (Argyres & Zenger, 2012; Leiblein et al., 2002). Because research suggests that prior lobbying experiences and patterns as well as other political activities are critical in determining subsequent lobbying activities (Drutman, 2015; Kerr, Lincoln, & Mishra, 2014), we control for the *number of years firms have lobbied* throughout the sample period to account for the time-dependent experience of lobbying (Ghemawat & Spence, 1985). Relatedly, we also control for whether a business ever had an in-house lobbyist (*in-house lobbying experience*), as this could influence businesses' lobbying capabilities and latent decisions on establishing an in-house lobbying office. We control for campaign contributions (*campaign contribution amounts*) because studies also show that if companies engage in other types of political activities, this could strengthen their political capabilities (Holburn & Vanden Bergh, 2014). Given that the cost of hiring outside lobbyists could influence a firm's organizational boundary decision, we also included the average lobbying fee firms pay outside lobbyists each year (*average lobbying fee paid*).

We also include measures of current lobbying intensities because both the frequency and amount of lobbying can increase the incentives to lobby through in-house lobbyists (Drutman, 2015). We control for a firm's *annual lobbying spending* and the number of congressional issues that a company addresses each year (*number of congressional issues addressed*) as well as the *number of lobbyists hired*. Furthermore, depending on their lobbying necessity, coverage, and transaction hazard, companies might need to lobby different federal agencies, which would require additional lobbyists who have the access or know-how to navigate different agencies (Leech, 2013; Nownes, 2006). Thus, we control for firm lobbying focus (*% of report lobbying Congress*). At the industry level, we control for *industry advertising intensity,* a widely used proxy for the degree of an industry's asset specificity; this potentially influences a business's organizational boundary decision (Macher & Richman, 2008; Williamson, 2002). Finally, we also include year and industry fixed effects in all our regressions to control for any unobserved heterogeneity driven by time- and industry-specific effects.

Identification Strategy and Statistical Analysis

In testing our hypothesis, our main empirical challenge is an endogeneity concern—particularly omitted variable bias—because of unobservable (e.g., illicit bribery, operational costs of the in-house government affairs function) or observable factors that are not readily controlled for. We sought to address this endogeneity concern by using a two-stage approach with an instrumental variable. Fixed effects are not appropriate in our study because: (1) firms infrequently establish and close their lobbying function, limiting within-firm variation in the dependent variable; and (2) political systems are very stable, limiting variation in country-level legitimacy dissimilarity.

In the two-stage approach, we use the dissimilarity in the ideal point with the United States in the UNGA roll-call votes to "capture the position of states vis-à-vis a U.S.-led liberal order" (Bailey et al., 2017: 430) as an instrument variable. The exclusion restriction that (1) the instrument variable must be strongly correlated with the endogenous independent variable (2) whereas the error term of the second stage must not strongly correlate with the instrument is critical to justifying the use of an instrumental variable approach. Regarding the first property that the instrument (the dissimilarity in the ideal point in UNGA voting) must be highly correlated with the endogenous independent variable of home-country political regime (*home-country autocracy*), countries that share values and norms are highly likely to show many of the same behavioral patterns (Maoz, 2012; Weeks, 2008). These shared values and norms can be measured by each global matter or foreign policy that each country does or does not support (Bailey et al., 2017; Voeten, 2013). This is exemplified in this statement from an international relations scholar: "There are substantive moral principles that meaningfully address questions of international affairs, and [. . .] the formulation of foreign policy is intrinsically a domain of moral choice" (McElroy, 1992: 4). This argument has been supported by many studies in political science and international relations: How countries behave in their foreign policy, as captured by UNGA voting patterns, is strongly associated with country political institutions (e.g., Fawn, 2003; Rai, 1972; Smith, 2016). Under the assumption that fundamental societal norms and values are driven by the country's type of political system (score measured in the V-Dem political regime classification) and that they are manifested in a country's foreign policy (UNGA voting pattern), it is reasonable that the closer the UNGA ideal point is, the less political dissimilarity exists (Gartzke, 1998).

Regarding the second property that the dependent variable should not be strongly associated with the instrument, it is unlikely that company management looks at UNGA voting patterns in making their lobbying decision and vice versa. Furthermore, although there are foreign-related congressional issues such as trade, tariffs, our instrument, the UNGA voting pattern, has nothing to do with company lobbying capability since it manifests home country societal norms with regard to international relations and politics. In sum, analyses and evidence meet the theoretical properties of the exclusion restriction conditions and validate the exogeneity of the instrument. To further support the theoretical properties of the exclusion restrictions while alleviating that (1) the instrument might not be exogenous and (2) country characteristics might come into play in determining their lobbying capability, we provide additional empirical evidence. Figure 4 and Table 1 illustrate the relationship between *home-country autocracy*, the explanatory variable, and UNGA voting pattern.

Please insert Figure 4 and Table 1 about here

Empirically, the pairwise correlation between the *home-country autocracy* between a foreign MNE's home country and the United States (an instrumented endogenous variable) and dissimilarity in the ideal point (an instrument) is 0.689, while the correlation between our dependent variable (whether to lobby through an in-house lobbyist) and the dissimilarity in the ideal point (an instrument) is −0.083; these results are aligned with the first and second properties of exclusion restrictions discussed above.

To further validate our instrumental variable approach, we also tested (1) whether our instrument is exogenous and (2) whether the instrument is weak. First, we tested the exogeneity of our instruments, and it failed to reject the Wald test of exogeneity at the 5% significance level—the null hypothesis that the correlation between our instrument and the dependent variable is zero. Second, we also tested whether the instrument is weak. The coefficient of our instrument, the dissimilarity in the ideal point with the United States, is statistically significant at a p-value < 0.001 and positively correlated with the home-country autocracy in the first stage, which aligns with our theoretical prediction. As the dissimilarity of the UNGA voting ideal point with the United States increases, the dissimilarity of political regime (more autocratic) enlarges. Furthermore, the Kleibergen-Paap rk Wald F-statistic is 361.28; given that it is significantly higher than a rule-of-thumb value (Stock & Yogo, 2002), it confirms that the instrument is not weak. In sum, all the post-estimation test results for the justification of instruments strongly validate our instrumental variable approach.

We conducted a probit regression of whether a company uses in-house lobbyists on the *regime dissimilarity* instrumented by the ideal point dissimilarity in UNGA vote as our main analytical approach, and the regression equation is as follow:

$$\Pr\,(Y = 1) = \phi(\beta_p p_{i,t} + \delta' \boldsymbol{X}_{i,j,t} + \varepsilon_{i,j,t})$$

where $\Pr\,(Y = 1)$ is the probability that a firm lobbies through an in-house lobbyist, ϕ is the cumulative distribution function of the standard normal distribution, $p_{i,t}$ is the instrumented *regime dissimilarity* for a company *j*'s home country *I* at time *t*, and $\boldsymbol{X}_{i,j,t}$ is the vector of control variables. Standard errors are corrected for clustering at the firm level.

RESULTS

Table 1 illustrates the summary statistics for regime type and dissimilarity in UNGA ideal point, while Table 2 presents the descriptive statistics and pairwise correlations of variables included in the second stage. Table 3 presents our main second-stage probit regression results. Tables 4 and 5 provide additional regression results for robustness checks. Table 4 presents regression results to rule out alternative explanations, while Table 5 presents results that test the critical theoretical assumption in our explanatory variable.

Please insert Tables 1–3 about here

In Table 2, most firm-level variables related to firm capability and lobbying intensity are highly correlated with the dependent variable, as expected. Test for multicollinearity showed a mean variance-inflation factor (VIF) for individual variables less than 2.20, and no individual VIF exceeded 7.0, indicating an acceptable level.

Empirical Results for the Main Effect (Table 3)

Table 3 shows the main results of the second-stage probit regression analyses. Model 1 of Table 3 shows the regression results for control variables only; the direction of most of the control variables is as expected. Model 2 shows the results of the second-stage probit regression without any control variables. Model 3 is our main specification with *home-country autocracy* instrumented by dissimilarity in the ideal point in the UNGA vote, while model 4 shows the probit regression results of *home-country autocracy* without an instrumentation. With our hypothesis, we predict that foreign companies from countries more autocratic than the United States will be less likely to lobby through in-house lobbyists than will companies from countries with democratic political institutions more similar to the United States. Model 3 in Table 3 offers strong support for this hypothesis. Holding other variables constant, as the home country becomes more autocratic (increases by 1), the likelihood that foreign MNEs lobby through an in-house government decreases by 25.9%. To illustrate, throughout our sample period, Finland, India, and China are classified as liberal democracy, electoral democracy, and closed autocracy, respectively, meaning that the likelihood that an Indian company will internalize a lobbying function is 25.9% less than that for a Finnish company. However, compared with a Finnish business, a typical Chinese company is 59.3% less likely to internalize a lobbying function. In Table 3, model 5, we correct standard errors for bootstrapping. In estimating the second-stage bootstrapped standard errors, we define industry strata as a sampling group to further control for any confounding effects of industry heterogeneity. We conducted bootstrap resampling for all models 10,000 times. The coefficients for the instrumented electoral democracy dissimilarity are still statistically significant at a p-value < 0.05.

Models 6 through 10 correspond to models 1 through 5. Models were estimated by correcting standard errors for clustering at the country level (Bertrand, Duflo, & Mullainathan, 2004). The coefficients of our explanatory variable, *home-country autocracy*, are robust and statistically significant in all models, thereby supporting the hypothesis.

Ruling Out Alternative Explanations (Table 4)

In Table 4, we attempt to rule out major alternative explanations. In models 1 through 4, we attempt to rule out an alternative argument that institutional distance between the home country and the United States is the main driver of our outcome variable. In models 5 through 9, we attempt to reject alternative explanations related to organizational boundary decision.

Please insert Table 4 about here

In-House Legal Counsel Offices (model 1). Our basic premise is that a foreign company's overall legitimacy in the eyes of host country stakeholders is affected by the home country's perceived sociopolitical legitimacy driven by fundamental societal ideology and norms; this perception will influence the foreign company's decision to establish an in-house government affairs function. However, one could claim that instead of capturing perceived sociopolitical legitimacy, our explanatory variable, *home-country autocracy*, captures the institutional distance between the home country and the United States. To reject this alternative explanation, we conducted an additional analysis of whether the same firms establish in-house legal counsel offices. An in-house counsel office is a legal department within a business, staffed by in-house lawyers and typically led by the firm's general counsel or chief legal officer. Like the government affairs function, firms can either outsource legal activities, hire in-house lawyers, or use both outside law firms and in-house lawyers depending on their needs and capabilities. Studies in economics and management argue that home-country legal institutions determine the activities and capacities of a foreign firm in its host country (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Siegel, Licht, & Schwartz, 2013). If the legitimacy mechanism is distinct from institutional distance as argued, we would expect that our explanatory variable—

home-country autocracy—would be orthogonal to a firm's decision to use an in-house counsel office, which would be driven by institutional similarity.

For this analysis, we collected and coded as many directories of the Directory of Corporate Counsel as possible. We obtained panel data for 1998, 1999, 2000, 2001, 2005, 2007, and 2010.[3] We manually matched firm names in the directory, interpolated the dependent variable until 2010, and ran a regression of whether a firm established a legal counsel (binary dependent variable) on all other variables included in the main analysis as controls. The results in model 1 of Table 4 show that our explanatory variable (instrumented home-country autocracy) has no statistically significant effect on predicting the establishment of an in-house counsel office. These findings still hold, even when we do not interpolate the dependent variable.

Cultural and Institutional Distance (models 2 through 4). Because cultural distance between home and host countries can play a critical role in determining foreign MNEs' strategies (Ghemawat, 2001), we further controlled for cultural or institutional distance measures between home country and the United States to rule out the possibility of the institutional distance argument in models 2 through 4. In model 2, we calculated and included the Euclidean distance of all Hofstede cultural indices. In models 3 and 4, we controlled for cultural and institutional distance measures from Berry, Guillen, and Zhou (2010). Under the assumption that administrative distance and political distance can be the most relevant institutional dimensions in political strategy, in model 3, we first controlled for only these two variables. In model 4, we controlled for all nine cultural dimensions at the same time. The results in models 2 through 4 still strongly support our argument that our explanatory variable is a strong predictor of foreign

[3] We purchased and coded as many *Directory of Corporate Counsel* editions as possible.

MNEs' organizational boundary decisions in political lobbying, regardless of the additional cultural and institutional distance variables for which we further controlled.

Factors affecting Firm Boundary Decision (models 5 through 7). One could claim that a firm's decision to lobby through in-house lobbyists is determined by lobbying purpose, lobbying target, industry heterogeneity, and/or different transactional hazards (de Figueiredo & Kim, 2004). Although industry fixed effects and control variables related to lobbying should address many of these concerns, we also included a relative percentage of all congressional issues addressed by companies (79 variables). To do this, we calculated and controlled for how frequently each congressional issue was lobbied each year by company. For example, let's assume that company A lobbied issue X four times and issue Y six times for a total of two lobbying issues in 2009. (In 2009, there were a total of 79 unique congressional issues represented, of which the other 77 issues were not lobbied.) Consequently, we would assign 0.4 to issue X and 0.6 to issue Y and assign 0 to the remaining 77 congressional issues listed in the LDA forms. If a certain issue is more frequently addressed by businesses in the sample, this effect will be accounted for by these frequency variables. Even after including these lobbying frequency variables, the coefficients of the instrumented autocratic home country are statistically significant, which strongly supports our main prediction (Table 4, model 5).

In model 6, we controlled for firm size using a proxy measure since firm size could be related to organizational capability. Throughout our sample period, firms show stable lobbying behaviors, consistent with Kerr and colleagues' findings (2014): Nearly 87% of firms lobbied more than twice, and approximately 44.57% and 39.8% of firms lobbied more than five years and 10 years, respectively. If it is true that firms are persistent in their lobbying and lobbying is highly related to firm size (Schuler, 1996), controlling for cumulative lobbying should effectively capture the size of the firm as well. Even after controlling for this additional variable, the results supporting our argument remain unchanged (Table 4, model 6).

Similarly, other home-country institutions or characteristics can affect the capability of subsidiaries of foreign MNEs and, thus, the organizational boundary of their lobbying efforts. We do not believe this is the case because lobbying capabilities and contacts with important politicians are country specific and generally not transferrable from other countries (Nownes, 2006; Kim, 2019). Still, to further account for home country-driven capabilities empirically, we conducted additional analyses. First, to account for foreign firms from countries where lobbying is allowed and common, we included a binary variable indicating whether a home country has a specific and formalized *lobbying regulation* (OECD, 2014). We also included a binary variable indicating whether companies were from presidential electoral systems, which can be a source of political strategy capabilities. In addition, to capture institutional distance between home and host countries, we included various country-level variables: whether the company is from a country having colonial ties with the United States; geographic distance between the home country and the United States (Ghemawat, 2001); the home country's degree of corruption (Harstad & Svensson, 2011); whether a home country is a common law country (La Porta et al., 1998); and the size of the home-country economy measured by GDP (Siegel et al., 2013). Even with these control variables, our results and mechanisms still hold (Table 4, model 7). We also included these variables in a regression in Table 4, model 1. We used in-house legal counsel office as a dependent variable, and the results remained unchanged and support our argument.

Home-country Factors affecting Sociopolitical Legitimacy (models 8 through 9). Although country regime type changes little over time, it is still possible that inter-state relations between home and host country affect host-country stakeholder perceptions of a foreign MNE's home country (Wang, Weiner, Li, & Jandhyala, 2021). For instance, countries may have temporal disputes due to various matters such as trade between two countries even if they share the same societal norms and ideology and generally maintain a good relationship (Gartzke & Gleditsch, 2004). Furthermore, it is possible that other considerations, such as security or economic ties between two countries, can come into play in determining host-country stakeholders' legitimacy assessments (Biglaiser & DeRouen, 2007; Li & Vashchilko, 2010; Doyle, 1986; Walt, 1998). Therefore, in models 8 and 9, we attempt to further account for these additional inter-state relations effects (Soule et al., 2014; Odziemkowska & Henisz, 2021) that can influence host-country stakeholders' legitimacy assessments and, thus, foreign MNEs' political strategies. In model 8, we include the *GDELT Goldstein scale* between foreign MNE home country and the United States, which is widely used to understand international relations such as cooperative and conflictual relationship between and among countries (Ward, Beger, Cutler, Dickenson, Dorff, & Radford, 2013). In model 9, we control for two additional variables that measure security and economic ties between foreign MNE home country and the United States: (1) whether two countries have a free trade agreement and (2) whether a home country is a member of the North American Treaty Organization (NATO), the largest and strongest military alliance in which the United States is involved (Cook, 2017). Regardless of these additional control variables, our results still support our main argument.

Testing Critical Assumption on Sociopolitical Legitimacy (Table 5)

Our study's fundamental theoretical argument is that home-country political system, a type of regime, is the most prominent factor that host-country stakeholders will use in judging and evaluating MNEs' sociopolitical legitimacy when these MNEs engage in political lobbying. This argument is critically based upon an assumption that perceptions and evaluations of a home-country political system are quite stable and homogenous in the eyes of host-country stakeholders. In other words, if a foreign MNE's home country can be perceived differently (thus, their perceived sociopolitical legitimacy varies across different dimensions in political regime or democracy measures), the theoretical arguments cannot be sustained. To alleviate concerns that our results are driven by a specific measure of democracy, we tested other democracy metrics.

Please insert Table 5 about here

In model 1, we constructed a binary variable indicating whether a foreign MNE's home country is a liberal democracy. As noted, throughout our sample period, the United States maintained liberal democracy status. On top of our main explanatory variable, if a foreign MNE's home-country is either closed autocracy, electoral autocracy, or electoral democracy, we assigned 1 to these countries, and 0 to all countries with liberal democracy. In models 2 through 4, we used different democracy measures in the V-Dem database, and the definition and construction of each democratic measure is slightly different (see Altman et al. (2020) for the construction of variables). For example, we used *electoral democracy dissimilarity* in model 3, which is constructed based upon the weighted average of freedom of association, clean elections, freedom of expression and alternative sources of information, elected officials, and suffrage, which all are considered the crucial part of democracy. Based upon each country's electoral democracy index, we then calculated the difference in the index between the home country and the United States to construct the dissimilarity between the two countries. To illustrate, in 2009, the electoral democracy scores were 0.898 for the United States, 0.904 for Germany, and 0.095 for China; the electoral democracy dissimilarity between the U.S. and Germany is, thus, calculated as -0.006, while that between the U.S. and China is 0.803. We did the same for other democratic measures.

In model 5, we used the Polity IV measure (Marshall, Gurr, & Jaggers, 2016), a metric of country political systems widely used in economics, political science, and management research.

In model 6, we used a binary variable indicating whether a country is an electoral democracy or not, which we downloaded from Freedom House. Notwithstanding the different democratic measures employed, the results consistently show that foreign MNEs are less likely use in-house government affairs functions if they come from more autocratic countries, which strongly supports our critical theoretical argument.

DISCUSSION

We explore how a foreign firm's sociopolitical legitimacy, driven in part by home-country characteristics, influences the relative costs and benefits of internalizing political strategy in its host country. Bringing together studies in international business that suggest a foreign firm's home-country perception is an important determinant of how host-country stakeholders assess the firm (Bell et al., 2014; Bucheli & Salvaj, 2018; Shi et al., 2020) with studies in political science and international relations that highlight how a country's political institution defines vital social values and interactions in a society (McClosky, 1964; Snow, 1913), we propose and find that a foreign MNE will take into account its sociopolitical legitimacy when making its organizational boundary decision of whether to use in-house or outside lobbyists. If a foreign firm believes it is deemed legitimate in a host country, it will interact directly with key government officials by hiring in-house lobbyists. Low legitimacy, in contrast, will motivate the foreign MNE to contract lobbying firms to interact with government officials on its behalf, thereby increasing the effectiveness of its lobbying efforts.

This study contributes to international business studies. Although scholars acknowledge the importance of foreign MNEs' nonmarket strategies (James & Vaaler, 2018; Vaaler, 2008), our understanding of many aspects of the political and stakeholder management activities of foreign firms in a host country is far from complete (Rodriguez et al., 2006; Lu et al., 2021). We know little about the types of activities they engage in or the impact of such activities on business outcomes (Hillman & Wan, 2005). By showing that foreign firms implement political lobbying differently depending on the host-country stakeholders' perceptions of the foreign firm's home country, we shed light on this topic and provide a foundation for future research. Future scholarship might examine, for instance, how the impact of legitimacy on political strategy interacts with foreign companies' other strategic decisions such as mergers and acquisitions. In 2005, Lenovo, a Chinese-based firm, acquired IBM's personal computer hardware business. Although it originally kept its U.S. subsidiary's in-house lobbying function, it ended that function in 2010. Similarly, Severstal, a Russian steel company, acquired Rouge Steel, a U.S. firm, in 2004. Although it initially lobbied through its American subsidiary's in-house lobbyists, it closed its in-house government affairs function after 2009. In contrast, when France's Alcatel took over the U.S.'s Lucent Technologies in 2006, it continued using its American subsidiary's in-house lobbying function through the end of our study period. Other questions could address conditions that influence a foreign firm's liability of foreignness and its translation to nonmarket strategy effectiveness. What institutional aspects of a foreign business's home country could drive the propensity to engage in different types of political strategies? Can interstate conflict lead to different nonmarket strategies because of the same efficiency mechanism suggested in our study?

The findings also extend nonmarket strategy research in a couple of ways. First, many studies on nonmarket strategy, particularly those on lobbying, have attempted to explain why firms engage in lobbying and which types of firms are more likely to lobby (Lenway & Rehbein, 1991; Schuler, 1996). However, little scholarship—except a few notable exceptions (e.g., Kim, 2019; Espinosa, 2021)—has explored how firms lobby or what drives their organizational boundary decisions in the lobbying process. This is a significant omission given that this choice not only may be driven by external institutional arrangements, but may also influence a firm's effectiveness in influencing political stakeholders. Second, the legitimacy crises empirically and theoretically addressed in most studies are generally limited to punctuated and discontinuous legitimacy threats and do not represent ongoing concerns (Hiatt, Sine, & Tolbert, 2009). By exploring whether companies that face enduring legitimacy concerns implement their nonmarket strategies differently than those companies that are free of such legitimacy threats, we begin to address this limitation.

Given the findings that ongoing legitimacy concerns play a critical role in the formulation and implementation of nonmarket strategy, future studies could investigate how businesses or industries with enduring legitimacy concerns make their organizational boundary decisions to overcome negative labels. For instance, the oil and gas (Bowen, Bansal, & Slawinski, 2018; Hiatt et al., 2015), global coffee (Reinecke & Ansari, 2015), and apparel industries (Bartley, 2003) are often targeted by activists over environmental, wage, and labor issues, creating a perception that these industries are dirtier or more morally questionable than others (Carlos & Lewis, 2018). Such firms have generally responded by engaging in self-regulation and establishing industry standards and certification processes. Yet, the use of third-party certification agencies may constitute a form of outsourced nonmarket strategies (Kim, 2019; Lee, Hiatt, & Lounsbury, 2017). Addressing how the organizational boundary decision applies to business actions in low-legitimacy and stigmatized industries may help paint a more holistic picture of how legitimacy influences the way businesses seek to manage their relationships with key stakeholders. Moreover, it would be interesting to see how an intermediary certifier can reduce or compensate for the risk caused by being associated with these illegitimate players.

Our study also provides insights on the theory of the firm. Although scholars have argued and shown that a key factor in a firm's organizational boundary decision is efficiency maximization (David & Han, 2004) driven largely by transactional hazard and firm capabilities

(Jacobides & Winter, 2012), prior studies generally have not accounted for external constraints that can affect efficiency (Santos & Eisenhardt, 2005). Although recent studies attempt to consider external constraints as a driver of the organizational boundary decision (e.g., Jia, 2018; Kim, 2019), they fail to consider heterogeneity in sociopolitical legitimacy across firms, but assume that similar legitimacy within certain groups such as foreign firms. We address this limitation in one of the first empirical studies to show that a company's heterogenous legitimacy assessment can influence its decision to internalize or outsource the implementation of political strategies. Future research might explore when and how a company's boundary decision may affect business strategies and outcomes. For instance, are businesses more effective at influencing policy outcomes when they use in-house lobbyists in the face of negative stakeholder perceptions? Can a relational approach with lobbyists that leads businesses to make continuous lobbying efforts allow businesses to achieve positive nonmarket outcomes without accumulating internal political capabilities?

Finally, we believe this paper has practical implications for managers of foreign MNEs. Because foreign MNEs could suffer from legitimacy problems due to their home countries, their ability to build internal lobbying capabilities may be limited and, thus, influence the types of strategies they can execute. For such businesses, leveraging outside resources, talents, and social capital to enhance their performance may be a preferred route (Kim, 2019). Therefore, foreign MNE managers must be aware of how external environments can limit their ability to internalize certain business activities and be creative in deciding how to effectively outsource those functions to achieve comparable results.

REFERENCES

Ahmed, N. 2020. *Determinants of Firm's Nonmarket Strategy: Ownership and Lobbying in Emerging Economies*. Working paper: Ivey Business School.

Altman, M., Fish, S., Glynn, A., Hicken, A., Luhrmann, A., Marquardt, K., McMann, K., Paxton, P., Pemstein, D., Seim, B., Sigman, R., Skaaning, S., Staton, J., Cornell, A., Gastaldi, L., Gjerløw, H., Mechkova, V., von Romer, J., Sundtrom, A., Tzelgov, E., Uberti, L., Wang, Y., Wig, T., & Ziblatt, D. 2020. V-Dem Codebook v10. Varieties of Democracy (V-Dem) Project.

Anand, J. 2011. Permeability to inter- and intrafirm knowledge flows: the role of coordination and hierarchy in MNEs. *Global Strategy Journal*, 1: 283–300.

Anand, J., & Delios, A. 1997. Location Specificity and the Transferability of Downstream Assets to Foreign Subsidiaries. *Journal of International Business Studies*, 28: 579–603.

Argyres, N., & Zenger, T. 2012. Capabilities, transaction costs, and firm boundaries. *Organization Science*, 23(6): 1643–1657.

Bailey, M., Strezhnev, A., & Voeten, E. 2017. Estimating dynamic state preferences from United Nations voting data. *Journal of Conflict Resolution*, 61: 430–456.

Bartley, T. 2003. Certifying forests and factories: States, social movements, and the rise of private regulation in the apparel and forest products fields. *Politics & Society*, 31: 433–464.

Baumgartner, F., Berry, J., Hojnacki, M., Kimball, D., & Leech, B. 2009. *Lobbying and Policy Change: Who Wins, Who Loses, and Why*. Chicago, IL: University of Chicago Press.

Beazer, Q., & Blake, D. 2018. The conditional nature of political risk: How home institutions influence the location of foreign direct investment. *American Journal of Political Science*, 62(2): 470–485.

Bell, R. G., Filatotchev, I., & Aguilera, R. V. 2014. Corporate governance and investors' perceptions of foreign IPO value: An institutional perspective. *Academy of Management Journal*, 57(1): 301–320.

Berry, H., Guillen, M., & Zhou, N. 2010. An Institutional Approach to Cross-national Distance. *Journal of International Business Studies*, 41: 1460–1480.

Bertrand, M., Duflo, E., & Mullainathan, S. 2004. How much should we trust differences-in-differences estimates? *Quarterly Journal of Economics*, 119: 249–275.

Biglaiser, G., & DeRouen, K. 2007. Following the flag: Troop deployment and U.S. foreign direct investment. *International Studies Quarterly*, 51: 835–854.

Birnbaum, J. 1992. *The lobbyists: How influence peddlers work their way in Washington*. New York, NY: Times Books.

Blake, D., & Moschieri, C. 2017. Policy risk, strategic decisions and contagion effects: Firm-specific considerations. *Strategic Management Journal*, 38(3): 732–750.

Blanes i Vidal, J., Draca, M., & Fons-Rosen, C. 2012. Revolving door lobbyists. *American Economic Review*, 102(7): 3731–3748.

Blumentritt, T., & Nigh, D. 2002. The integration of subsidiary political activities in multinational corporations. *Journal of International Business Studies*, 33: 57–77.

Bowen, F., Bansal, P., & Slawinski, N. 2018. Scale matters: The scale of environmental issues in corporate collective actions. *Strategic Management Journal*, 39(5): 1411–1436.

Bucheli, M. 2008. Multinational corporations, totalitarian regimes, and economic nationalism: United Fruit Company in Central America, 1899–1975. *Business History*, 50(4): 433–454.

Bucheli, M., & Salvaj, E. 2013. Reputation and political legitimacy: ITT in Chile, 1927–1972. *Business History Review*, 87(04): 729–756.
Bucheli, M., & Kim, M. 2015. Attacked from both sides: A dynamic model of multinational corporations' strategies for protection of their property rights. *Global Strategy Journal*, 5(1): 1–26.
Bucheli, M., & Salvaj, E. 2018. Political connections, the liability of foreignness, and legitimacy: A business historical analysis of multinationals' strategies in Chile. *Global Strategy Journal*, 8(3): 399–420.
Burt, R. 1992. *Structural holes*. Cambridge, MA: Harvard University Press.
Campbell, B., Ganco, M., Franco, A., & Agarwal, R. 2012. Who leaves, where to, and why worry? Employee mobility, entrepreneurship and effects on source firm performance. *Strategic Management Journal*, 33: 65–87.
Carlos, C., & Lewis, B. 2018. Strategic silence: Withholding certification status as a hypocrisy avoidance tactic. *Administrative Science Quarterly*, 63(1): 130–169.
Coff, R. 1997. Human assets and management dilemmas: Coping with hazards on the road to resource-based theory. *Academy of Management Review*, 22(2): 374–402.
Cook, L. 2017. NATO, the world's largest military alliance, explained. *Defense News*. https://www.defensenews.com/global/europe/2017/05/25/nato-the-world-s-largest-military-alliance-explained/ [9 Jan 2020]
Coppedge, M., Gerring, J., Knutsen, C., Lindberg, S., Teorell, J., Altman, D., Bernhard, M., Cornell, A., Fish, S., Gastaldi, L., Gjerløw, H., Glynn, A., Hicken, A., Lührmann, A., Maerz, S., Marquardt, K., McMann, K., Mechkova, V., Paxton, P., Pemstein, D., von Römer, J., Seim, B., Sigman, R., Skaaning, S., Staton, J., Sundtröm, A., Tzelgov, E., Uberti, L., Wang, Y., Wig, T., & Ziblatt. D. 2021. *V-Dem Codebook v11*. Varieties of Democracy (V-Dem) Project.
Cordesman, A. 2021a. Strategic Competition and Foreign Perceptions of the United States. *Center for Strategic and International Studies*.
Cordesman, A. 2021b. Making America Great? Global Perceptions of China, Russia, and the United States: The International Scorecard. *Center for Strategic and International Studies*.
Corredoira, R., & McDermott, G. 2014. Adaptation, bridging and firm upgrading: How non-market institutions and MNCs facilitate knowledge recombination in emerging markets. *Journal of International Business Studies*, 45: 699–722.
Cowhey, P. 1993. Domestic institutions and the credibility of international commitments: Japan and the United States. *International Organization*, 47(2): 299–326.
David, R., & Han, S. 2004. A systematic assessment of the empirical support for transaction cost economics. *Strategic Management Journal*, 25(1): 39–58.
de Figueiredo, J., & Kim, J. 2004. When do firms hire lobbyists? The organization of lobbying at the Federal Communications Commission. *Industrial and Corporate Change*, 13: 883–900.
de Figueiredo, J., & Richter, B. 2014. Advancing the empirical research on lobbying. *Annual Review of Political Science*, 17: 163–185.
de Tocqueville, A. 2000. *Democracy in America*. New York, NY: Bantam Dell.
De Villa, M., Rajwani, T., Lawton, T., & Mellahi, K. 2019. To engage or not to engage with host governments: Corporate political activity and host country political risk. *Global Strategy Journal*, 9: 208–242.
Di Tella, R., & Franceschelli, I. 2011. Government Advertising and Media Coverage of Corruption Scandals. *American Economic Journal: Applied Economics*, 3: 119–151.

Diestre, L., Barber, B., & Santaló, J. 2019. The Friday Effect: Firm lobbying, the timing of drug safety alerts, and drug side effects. *Management Science*, 66: 3677–3698.
Dorobantu, S., Kaul, A., & Zelner, B. 2017. Nonmarket strategy research through the lens of new institutional economics: An integrative review and future directions. *Strategic Management Journal*, 38: 114–140.
Doyle, M. 1986. Liberalism and world politics. *American Political Science Review*, 80(4): 1151–1169.
Drutman, L. 2015. *The business of America is lobbying: How corporations became politicized and politics became more corporate*. New York, NY: Oxford University Press.
Durand, R., Hawn, O., & Ioannou, I. 2019. Willing and Able: A General Model of Organizational Responses to Normative Pressures. *Academy of Management Review*, 44: 299–320.
Erikson, R., & Tedin, K. 2019. American Public Opinion. New York: Routledge.
Espinosa, M. 2021. Labor Boundaries and Skills: The Case of Lobbyists. *Management Science*, 67: 1586–1607.
Fabrizio, K., & Kim, E. 2019. Reluctant Disclosure and Transparency: Evidence from Environmental Disclosures. *Organization Science*, 30: 1207–1231.
Fawn, R. 2003. Ideology and national identity in post-communist foreign policies. *Journal of Communist Studies and Transition Politics*, 19(3): 1–41.
Franklin, G. 2014. *Raisin Bran and Other Cereal Wars: 30 Years of Lobbying for the Most Famous Tiger in the World*. Bloomington, IN: iUniverse LLC.
Gartzke, E. 1998. Kant we all just get along? Opportunity, willingness, and the origins of the democratic peace. *American Journal of Political Science*, 42(1): 1–27.
Gartzke, E., & Gleditsch, K. 2004. Why democracies may actually be less reliable allies. *American Journal of Political Science*, 48(4): 775–795.
Ghemawat, P., & Spence, M. 1985. Learning curve spillovers and market performance. *Quarterly Journal of Economics*, 100: 839–852.
Ghemawat, P. 2001. *Distance Still Matters: The Hard Reality of Global Expansion*. Harvard Business Review.
Haber, S., Maurer, N., & Razo, A. 2002. Sustaining Economic Performance Under Political Instability: Political Integration in Revolutionary Mexico. in S. Haber (ed.) *Crony Capitalism and Economic Growth in Latin America: Theory and Evidence*. Hoover Institution Press: Stanford, CA, 25–74.
Hampel, C., & Tracey, P. 2017. How organizations move from stigma to legitimacy: The case of Cook's Travel Agency in Victorian Britain. *Academy of Management Journal*, 60(6): 2175–2207.
Harstad, B., & Svensson, J. 2011. Bribes, lobbying, and development. *American Political Science Review*, 105: 46–63.
Henisz, W., & Zelner, B. 2005. Legitimacy, Interest Group Pressures, and Change in Emergent Institutions: The Case of Foreign Investors and Host Country Governments. *Academy of Management Review*, 30: 361–382.
Henisz, W., Dorobantu, S., & Nartey, L. 2014. Spinning Gold: The Financial Returns to Stakeholder Engagement. *Strategic Management Journal*, 35(12): 1727–1748.
Hiatt, S., Sine, W., & Tolbert, P. 2009. From Pabst to Pepsi: The deinstitutionalization of social practices and the creation of entrepreneurial opportunities. *Administrative Science Quarterly*, 54: 635–667.

Hiatt, S., Grandy, J., & Lee, B. 2015. Organizational responses to public and private politics: An analysis of climate change activists and U.S. oil and gas firms. *Organization Science*, 26: 1769–1786.
Hiatt, S., Carlos, C., & Sine, W. 2018. Manu Militari: The institutional contingencies of stakeholder relationships on entrepreneurial performance. *Organization Science*, 29(4): 633–652.
Hillman, A., & Wan, W. 2005. The determinants of MNE subsidiaries' political strategies: evidence of institutional duality. *Journal of International Business Studies*, 36(3): 322–340.
Holburn, G., & Vanden Bergh, R. 2014. Integrated market and nonmarket strategies: Political campaign contributions around merger and acquisition events in the energy sector. *Strategic Management Journal*, 35(3): 450–460.
Hoyt, P. 2000. The 'Rogue State' Image in American Foreign Policy. *Global Society*, 14: 297–310.
Hymer, S. 1960/1976. *The international operations of national firms: A study of direct foreign investment*. Cambridge, MA: MIT Press.
Jacobides, M., & Winter, S. 2012. Capabilities: Structure, agency, and evolution. *Organization Science*, 23(5): 1365–1381.
James, B., & Vaaler, P. 2018. Minority rules: Credible state ownership and investment risk around the world. *Organization Science*, 29(4): 653–677.
Jia, N. 2018. "Make and/or buy" decisions of corporate political lobbying: An integration of economic efficiency and legitimacy perspectives. *Academy of Management Review*, 43(2): 307–326.
Jia, N., Markus, S., & Werner, S. 2021. Theoretical Light in Empirical Darkness: Illuminating Strategic Concealment of Corporate Political Activity. *Academy of Management Review*, forthcoming.
Kaiser, R. 2010. *So damn much money*. New York, NY: Vintage Books.
Keim, G., & Zeithaml, C. 1986. Corporate political strategy and legislative decision making: A review and contingency approach. *Academy of Management Review*, 11: 828–843.
Kerr, W., Lincoln, W., & Mishra, P. 2014. The dynamics of firm lobbying. *American Economic Journal: Economic Policy*, 6(4): 343–379.
Kim, J. 2019. Is your playing field unleveled? U.S. defense contracts and foreign firm lobbying. *Strategic Management Journal*, 40: 1911–1937.
King, B. 2008. A social movement perspective of stakeholder collective action and influence. *Business and Society*, 47(1): 21–49.
Kostova, T., & Zaheer, S. 1999. Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, 24(1): 64–81.
La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 1998. Law and Finance. *Journal of Political Economy*, 106: 1113-1155.
Lee, B., Hiatt, S., & Lounsbury, M. 2017. Market mediators and the tradeoffs of legitimacy-seeking behaviors in a nascent category. *Organization Science*, 28: 447–470.
Leech, B. 2013. *Lobbyists at work*. New York, NY: Apress.
Leiblein, M., Reuer, J., & Dalsace, F. 2002. Do make or buy decisions matter? The influence of organizational governance on technological performance. *Strategic Management Journal*, 23: 817–833.
Lenway, S., & Rehbein, K. 1991. Leaders, followers, and free riders: An empirical test of variation in corporate political involvement. *Academy of Management Journal*, 34: 893–905.

Li, Q., & Vashchilko, T. 2010. Dyadic military conflict, security alliances, and bilateral FDI flows. *Journal of International Business Studies*, 41: 765–782.
Li, W., He, A., Lan, H., & Yiu, D. 2012. Political connections and corporate diversification in emerging economies: Evidence from China. *Asia Pacific Journal of Management*, 29: 799–818.
Lu, J., Ma, H., & Xie, X. 2021. Foreignness research in international business: Major streams and future directions. *Journal of International Business Studies*, forthcoming.
Macher, J., & Richman, B. 2008. Transaction cost economics: An assessment of empirical research in the social sciences. *Business and Politics*, 10: 1–63.
Madhok, A., & Keyhani, M. 2012. Acquisitions as entrepreneurship: asymmetries, opportunities, and the internationalization of multinationals from emerging economies. *Global Strategy Journal*, 2: 26–40.
Maher, A., Clark, P., & Maher, A. 2010. International consumer admiration and the persistence of animosity. *Journal of Consumer Marketing*, 27: 414–424.
Maoz, Z. 2012. Preferential attachment, homophily, and the structure of international networks, 1816–2003. *Conflict Management and Peace Science*, 29: 341–369.
Markus, S. 2008. Corporate governance as political insurance: firm-level institutional creation in emerging markets and beyond. *Socio-Economic Review*, 6: 69–98.
Marshall, M., Gurr, T., & Jaggers, K. 2016. *Polity IV Project: Political Regime Characteristics and Transitions, 1800–2015*. Center for Systemic Peace.
Marquis, C., & Qiao, K. 2020. Waking from Mao's Dream: Communist Ideological Imprinting and the Internationalization of Entrepreneurial Ventures in China. *Administrative Science Quarterly*, 65: 795–830.
Mayer, K., Somaya, D., & Williamson, I. 2012. Firm-specific, industry-specific, and occupational human capital and the sourcing of knowledge work. *Organization Science*, 23: 1213–1522.
McClosky, H. 1964. Consensus and ideology in American politics. *American Political Science Review*, 58(2): 361–382.
McDonnell, M., & Werner, T. 2016. Blacklisted businesses: Social activists' challenges and the disruption of corporate political activity. *Administrative Science Quarterly*, 61(4): 584–620.
McDonnell, M., Odziemkowska, K., & Pontikes, E. 2021. Bad Company: Shifts in Social Activists' Tactics and Resources after Industry Scandals. *Organization Science*, 32(4): 1033–1055.
McElroy, R. 1992. *Morality and American foreign policy: The role of ethics in international affairs*. Princeton, NJ: Princeton University Press.
Mezias, J. 2002. Identifying liabilities of foreignness and strategies to minimize their effects: The case of labor lawsuit judgments in the United States. *Strategic Management Journal*, 23(3): 229–244.
Monten, J. 2005. The roots of the Bush Doctrine: Power, nationalism, and democracy promotion in U.S. strategy. *International Security*, 29(4): 112–156.
Monteverde, K., & Teece, D. 1982. Supplier Switching Costs and Vertical Integration in the Automobile Industry. *Bell Journal of Economics*, 13: 206–213.
Nalick, M., Kuban, S., Hill, A., & Ridge, J. 2020. Too Hot to Handle and Too Valuable to Drop: An Expanded Conceptualization of Firms' Reactions to Exchange Partner Misconduct. *Academy of Management Journal*, 63: 1976–2003.

Nownes, A. 2006. *Total lobbying: What lobbyists want (and how they try to get it)*. Cambridge: Cambridge University Press.
OECD, 2014. *Lobbyists, governments and public trust, Volume 3: Implementing the OECD principles for transparency and integrity in lobbying*. Paris, France: OECD Publishing.
Odziemkowska, K., & Henisz, W. 2021. Webs of influence: Secondary stakeholder actions and cross-national corporate social performance. *Organization Science*, 32: 233–255.
Olken, B., & Pande, R. 2012. Corruption in Developing Countries. *Annual Review of Economics*, 4: 479–509.
Page, B., Rabinovich, J., & Tully, D. 2008. How Americans Feel About Asian Countries and Why. *Journal of East Asian Studies*, 8: 29–59.
Parmigiani, A. 2007. Why do firms both make and buy? An investigation of concurrent sourcing. *Strategic Management Journal*, 28(3): 285–311.
Parmigiani, A., & Mitchell, W. 2009. Complementarity, capabilities, and the boundaries of the firm: The impact of within-firm and interfirm expertise on concurrent sourcing of complementary components. *Strategic Management Journal*, 30(10): 1065–1091.
Passow, T., Fehlmann, R., & Grahlow, H. 2005. Country Reputation — From Measurement to Management: The Case of Liechtenstein. *Corporate Reputation Review*, 7: 309–326.
Peterson, R., & Jolibert, A. 1995. A meta-analysis of country-of-origin effects. *Journal of International Business Studies*, 26(4): 883–900.
Pew Research Center. 2013. Saudi Arabia's Image Falters among Middle East Neighbors.
Pew Research Center. 2018. The public, the political system and American democracy.
Pew Research Center. 2020. Saudi Arabia's Mohammed bin Salman garners little trust from people in the region and the U.S.
Pew Research Center. 2021. Most Americans Have 'Cold' Views of China. Here's What They Think About China, In Their Own Words.
Podolny, J. 2001. Networks as the pipes and prisms of the market. *American Journal of Sociology*, 107: 33–60.
Raffiee, J., & Coff, R. 2016. Micro-foundations of firm-specific human capital: When do employees perceive their skills to be firm-specific? *Academy of Management Journal*, 59(3): 766–790.
Rai, K. 1972. Foreign policy and voting in the UN General Assembly. *International Organization*, 26: 589–594.
Ramachandran, J., & Pant, A. 2010. The Liabilities of Origin: An Emerging Economy Perspective on the Costs of Doing Business Abroad. In D. Timothy, P. Torben, & T. Laszlo (Eds.), *The Past, Present and Future of International Business & Management Advances in International Management*: 231-265. Bingley, UK: Emerald Group Publishing Limited.
Reinecke, J., & Ansari, S. 2015. What is a "fair" price? Ethics as sensemaking. *Organization Science*, 26(3): 867–888.
Rider, C. 2009. Constraints on the control benefits of brokerage: A study of placement agents in U.S. venture capital fundraising. *Administrative Sciences Quarterly*, 54: 575–601.
Ridge, J. W., Ingram, A., & Hill, A. D. 2017. Beyond lobbying expenditures: How lobbying breadth and political connectedness affect firm outcomes. *Academy of Management Journal*, 60(3): 1138–1163.
Rodriguez, P., Siegel, D. S., Hillman, A., & Eden, L. 2006. Three lenses on the multinational enterprise: Politics, corruption, and corporate social responsibility. *Journal of International Business Studies*, 37: 733–746.

Roth, M., & Romeo, J. 1992. Matching Product Category and Country Image Perceptions: A Framework for Managing Country-Of-Origin Effects. *Journal of International Business Studies*, 23(3): 477–497.
Salisbury, R., Johnson, P., Heinz, J., Laumann, E., & Nelson, R. 1989. Who you know versus what you know: The uses of government experience for Washington lobbyists. *American Journal of Political Science*, 33(1): 175–195.
Sanger, D. 2006. Under Pressure, Dubai Company Drops Port Deal. *The New York Times*.
Santos, F., & Eisenhardt, K. 2005. Organizational boundaries and theories of organization. *Organization Science*, 16(5): 491–508.
Schuler, D. 1996. Corporate political strategy and foreign competition: The case of the steel industry. *Academy of Management Journal*, 39(3): 720–737.
Shi, W., Gao, C., & Aguilera, R. 2020. The liabilities of foreign institutional ownership: Managing political dependence through corporate political spending. *Strategic Management Journal*, 42: 84-113.
Shipilov, A., Li, S., & Greve, H. 2011. The prince and the pauper: Search and brokerage in the initiation of status-heterophilous ties. *Organization Science*, 22: 1418–1434.
Siegel, J., Licht, A., & Schwartz, S. 2013. Egalitarianism, cultural distance, and foreign direct investment: A new approach. *Organization Science*, 24(4): 1174–1194.
Slater, S., & Olson, E. 2000. Strategy type and performance: The influence of sales force management. *Strategic Management Journal*, 21(8): 813–329.
Smith, A. 2016. Leader turnover, institutions, and voting at the UN General Assembly. *Journal of Conflict Resolution*, 60(1): 143–163.
Snow, A. 1913. *The American philosophy of government and its application to the annexed countries*. Proceedings of the American Political Science Association, 10: 76–93.
Soule, S. 2009. *Contention and Corporate Social Responsibility*. New York: Cambridge University Press.
Soule, S., Swaminathan, A., & Tihanyi, L. 2014. The diffusion of foreign divestment from Burma. *Strategic Management Journal*, 35: 1032–1052.
Stock, J., & Yogo, M. 2002. *Testing for weak instruments in Linear IV regression*. NBER Working Paper No. 284.
Strauss, K. 2017. Made In Where? The Countries With The Best Reputations For Producing Quality. Forbes (https://www.forbes.com/sites/karstenstrauss/2017/03/27/made-in-where-the-countries-with-the-best-reputation-for-producing-quality/#2deb00bd4b3d).
Stuart, T. 1998. Network positions and propensities to collaborate: An investigation of strategic alliance formation in a high-technology industry. *Administrative Science Quarterly*, 43: 668–698.
Suchman, M. 1995. Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3): 571–610.
Talbott, S. 1996. Democracy and the national interest. *Foreign Affairs*, 75(6): 47–63.
Tse, D., & Gorn, G. 1993. An experiment on the salience of country-of-origin in the era of global brands. *Journal of International Marketing*, 1(1): 57–76.
U.S. Department of State. https://www.state.gov/about/about-the-u-s-department-of-state/
Vaaler, P. 2008. How Do MNCs vote in developing country elections? *Academy of Management Journal*, 51(1): 21–43.

Vasi, I., & King, B. 2012. Social Movements, Risk Perceptions, and Economic Outcomes: The Effect of Primary and Secondary Stakeholder Activism on Firms' Perceived Environmental Risk and Financial Performance. *American Sociological Review*, 77(4): 573–596.

Vasudeva, G. 2013. Weaving together the normative and regulative roles of government: How the Norwegian Sovereign Wealth Fund's responsible conduct is shaping firms' cross-border investments. *Organization Science*, 24: 1662–1682.

Vasudeva, G., Nachum, L., & Say, G. 2018. A Signaling Theory of Institutional Activism: How Norway's Sovereign Wealth Fund Investments Affect Firms' Foreign Acquisitions. *Academy of Management Journal*, 61: 1583–1611.

Voeten, E. 2013. Data and analyses of voting in the UN General Assembly. In B. Reinalda (Eds.), *Routledge handbook of international organization*: 54–66. New York: Routledge.

Walt, S. 1998. International relations: One world, many theories. *Foreign Policy*, 110: 29–46.

Wang, D., Weiner, R., Li, Q., & Jandhyala, S. 2021. Leviathan as foreign investor: Geopolitics and sovereign wealth funds. *Journal of International Business Studies*, 52: 1238–1255.

Ward, M., Beger, A., Cutler, J., Dickenson, M., Dorff, D., & Radford, B. 2013. Comparing GDELT and ICEWS Event Data.

Weeks, J. 2008. Autocratic audience costs: Regime type and signaling resolve. *International Organization*, 62: 35–64.

Werner, T. 2015. Gaining Access by Doing Good: The Effect of Sociopolitical Reputation on Firm Participation in Public Policy Making. *Management Science*, 61: 1989–2011.

Williams, B. 1961. Democracy and Ideology. *Political Science Quarterly*, 32: 374–384.

Williamson, O. 2002. The theory of the firm as governance structure: From choice to contract. *Journal of Economic Perspectives*, 16(3): 171–195.

Zaheer, S. 1995. Overcoming the liability of foreignness. *Academy of Management Journal*, 38: 341–363.

Zhang, J., & Luo, X. 2013. Dared to Care: Organizational Vulnerability, Institutional Logics, and MNCs' Social Responsiveness in Emerging Markets. *Organization Science*, 24: 1742–1764.

Figure 1: Lobbying Expenditures (USD) of Foreign Firms in the United States and Degree of Democracy by Country

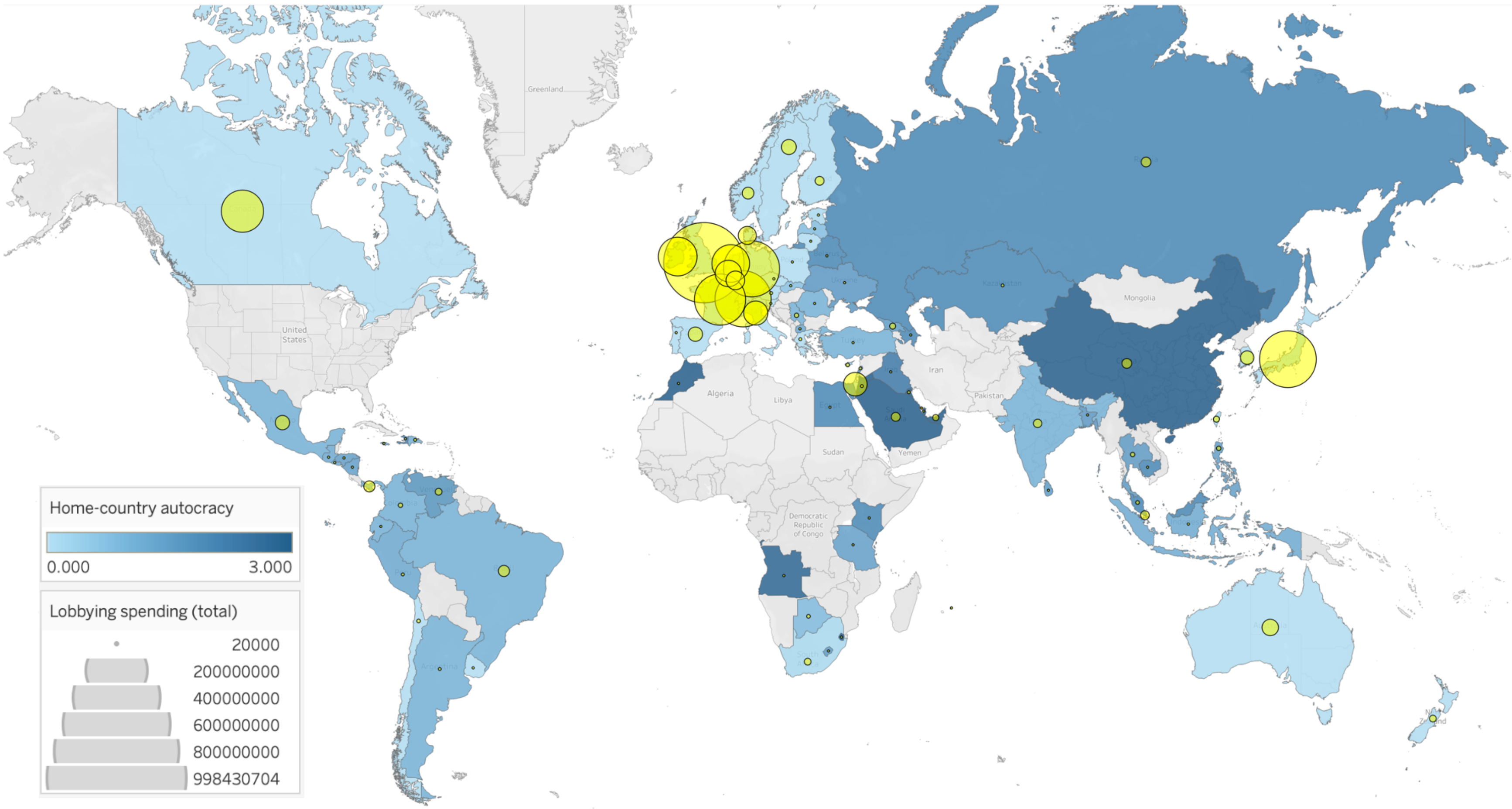
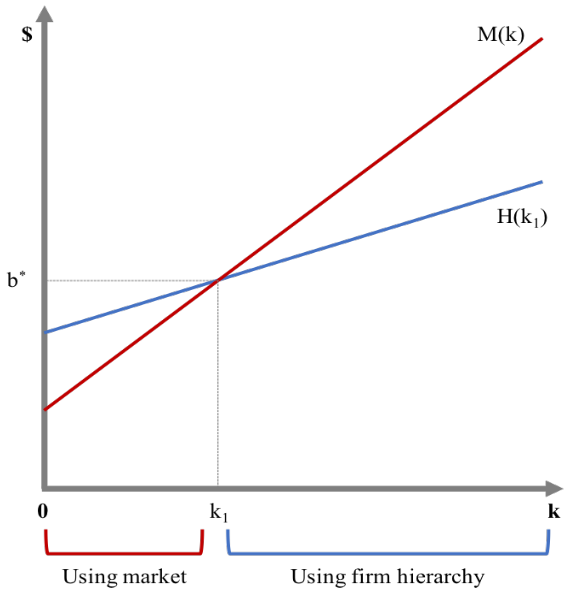


Figure 2

2a. Comparative Costs of Governance



2b. Comparative Costs of Governance under Legitimacy Concern

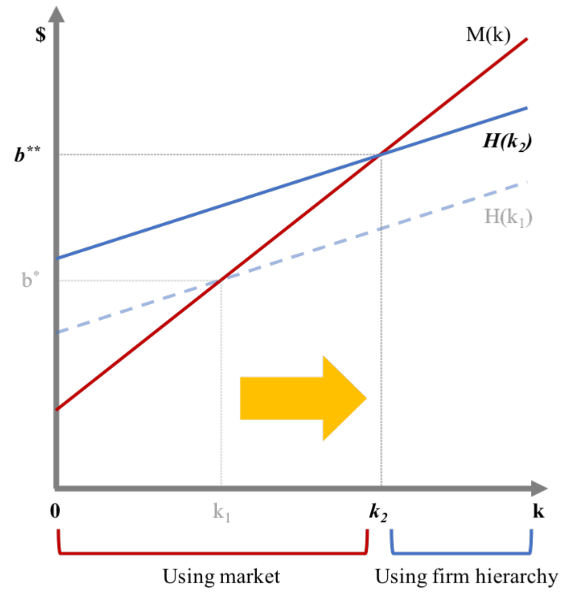


Figure 3: Fitted Values Between Home-country Autocracy and Ideal Point Dissimilarity in UNGA Voting (instrument)

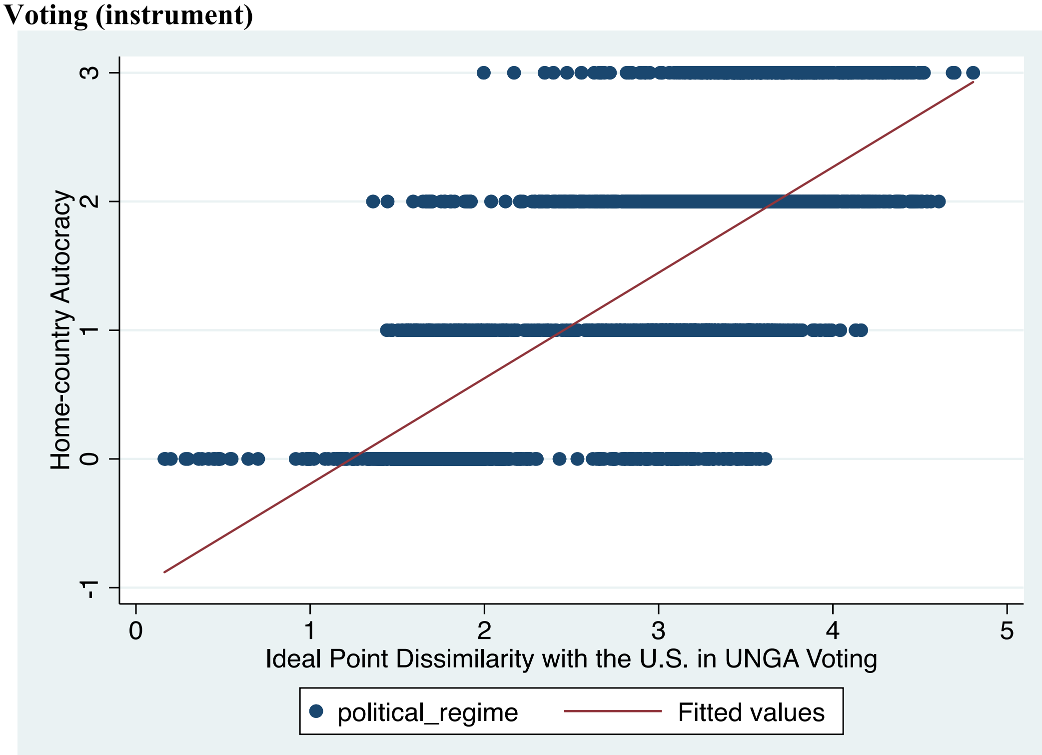


Table 1: Summary Statistics of Country Regime Type (0: Liberal democracy; 1: Electoral democracy; 2: Electoral autocracy; 3: Closed autocracy) and UNGA Ideal Point Dissimilarity (average score during the sample period)

Country	Regime type	UNGA ideal point dissimilarity	Country	Regime type	UNGA ideal point dissimilarity
Angola	2.8	3.268	Kuwait	3	3.676
Argentina	1	2.595	Latvia	0.73	1.606
Australia	0	1.446	Lebanon	1.73	3.809
Austria	0	1.820	Lesotho	1.53	3.337
Azerbaijan	2	2.894	Lithuania	0	1.622
Bahrain	3	3.719	Luxembourg	0	1.644
Bangladesh	1.6	3.648	Macedonia	1.2	1.757
Belarus	2	2.987	Malaysia	2	3.625
Belgium	0	1.592	Mauritius	0	3.146
Botswana	0.8	3.195	Mexico	1	2.993
Brazil	1	2.951	Montenegro	1.67	1.733
Cambodia	2	3.443	Morocco	3	3.540
Canada	0	1.267	Netherlands	0	1.579
Chile	0	2.806	New Zealand	0	1.949
China	3	3.444	Nicaragua	1.4	3.227
Colombia	1	3.028	Norway	0	1.706
Cyprus	0.4	2.060	Panama	1	2.855
Czech Republic	0	1.591	Peru	1.2	2.792
Denmark	0	1.611	Philippines	1.4	3.270
Dominican Republic	1	3.060	Poland	0	1.602
Ecuador	1	3.294	Portugal	0	1.707
Egypt	2	4.076	Qatar	3	3.867
El Salvador	1.07	2.938	Romania	1	1.667
Estonia	0.07	1.643	Russia	2	2.603
Finland	0	1.689	Saudi Arabia	3	3.700
France	0	1.224	Singapore	2	3.083
Georgia	1.47	1.877	Slovakia	0.07	1.669
Germany	0	1.596	Slovenia	0	1.690
Greece	0	1.787	South Africa	0.13	3.097
Guatemala	1.13	2.818	South Korea	0	2.061
Haiti	2.07	3.091	Spain	0	1.705
Honduras	1.4	2.850	Sri Lanka	1.47	3.548
Iceland	0	1.686	Swaziland	3	3.319
India	1	3.241	Sweden	0	1.786
Indonesia	1.13	3.787	Switzerland	0	1.875
Iraq	2.33	3.571	Tanzania	1.4	3.420
Ireland	0	1.885	Thailand	1.53	3.124
Israel	0	0.378	Turkey	1	2.153
Italy	0	1.686	Ukraine	1.6	2.067
Jamaica	1	3.235	UAE	3	3.633
Japan	0	2.016	United Kingdom	0	1.049
Jordan	3	3.609	Uruguay	0	2.861
Kazakhstan	2	2.764	Venezuela	1.67	3.711
Kenya	2	3.257	Yugoslavia	1	1.996

Table 2: Descriptive Statistics and Pairwise Correlations

This table presents summary statistics and pairwise correlations of variables for the main analysis at the firm level. Summary statistics are based on the sample in Table 3, model 3, a representative sample for the main regression results. Moderating variables are based upon models 1 and 5 in Table 5. * denotes significance at the 5% level.

	Variables	Mean	S.D.	Min.	Max.	1	2	3	4	5
1	In-house lobbyists	0.239	0.427	0	1	1				
2	Home-country autocracy	0.157	0.537	0	3	-0.093*	1			
3	Number of years firms have lobbied	4.730	3.568	1	15	0.279*	-0.081*	1		
4	In-house lobbying experience (1: Yes, 0: No)	0.938	0.241	0	1	0.113*	-0.040*	0.187*	1	
5	Campaign contribution amounts (logged)	0.590	2.368	0	13.453	0.271*	-0.031*	0.131*	0.059*	1
6	Average lobbying fee paid (logged)	11.177	0.526	8.517	14.246	0.148*	-0.286*	0.057*	0.064*	0.056*
7	Annual lobbying spending (logged)	11.532	1.539	7.473	16.665	0.569*	-0.066*	0.320*	0.199*	0.217*
8	Number of congressional issues addressed	2.647	3.084	0	38	0.531*	-0.063*	0.253*	0.139*	0.214*
9	Number of lobbyists hired	5.095	7.500	0	101	0.329*	-0.052*	0.175*	0.108*	0.095*
10	% of report lobbying Congress	0.534	0.343	0	1	-0.214*	-0.034*	-0.084*	0.401*	-0.034*
11	Industry advertising intensity (1/100000)	0.045	0.109	0.002	1.182	0.024*	-0.003	-0.103*	-0.012	0.010

	Variables	6	7	8	9	10	11
6	Average lobbying fee paid (logged)	1					
7	Annual lobbying spending (logged)	0.215*	1				
8	Number of congressional issues addressed	0.139*	0.585*	1			
9	Number of lobbyists hired	0.121*	0.584*	0.552*	1		
10	% of report lobbying Congress	0.003	-0.117*	-0.189*	-0.175*	1	
11	Industry advertising intensity (1/100000)	0.006	0.009	0.053*	0.047*	-0.011	1

Table 3: Second-Stage Probit / Probit Regression of Firm Boundary Decision of Lobbying with Home-country Autocracy

This table presents the results of the second-stage probit and probit regression in which whether a firm lobbies through its in-house lobbyists, a binary variable, is used as the dependent variable. Model 1 only includes control variables while model 2 only includes our main explanatory variable instrumented. Model 3 shows the second stage probit regression results, our main specification, with an instrument while mode 4 is a probit regression result without an instrumentation. Model 5 shows the results of bootstrapped standard errors where each industry is used as a stratum for replications which were conducted 10,000 times. Models 6 through 10 correspond to models 1 through 5 respectively. All models include year and industry fixed effects. Standard errors are corrected for clustering at the firm level in models 1 through 5 while at the country level in models 6 through 10. Further, bootstrapped clustered standard errors are used in models 5 and 10. These standard errors are presented in parentheses. ***, **, *, and † denote significance at the 0.1%, 1%, 5%, and 10% level, respectively.

DV: In-house lobbyists	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Home-country autocracy		-0.325**	-0.300*		-0.288*		-0.325**	-0.300*		-0.288*
(instrumented)		(0.107)	(0.140)		(0.140)		(0.123)	(0.149)		(0.135)
Home-country autocracy				-0.218*					-0.218*	
				(0.102)					(0.110)	
Number of years firms have	0.062***		0.058***	0.060***	0.063***	0.062***		0.058***	0.060***	0.063***
lobbied	(0.013)		(0.013)	(0.013)	(0.013)	(0.010)		(0.011)	(0.010)	(0.015)
In-house lobbying experience	0.421†		0.391	0.395	0.388	0.421*		0.391*	0.395*	0.388
	(0.245)		(0.250)	(0.249)	(0.267)	(0.166)		(0.172)	(0.171)	(0.251)
Campaign contribution amounts	0.090***		0.088***	0.091***	0.079***	0.090***		0.088***	0.091***	0.079***
(logged)	(0.014)		(0.014)	(0.014)	(0.014)	(0.012)		(0.014)	(0.013)	(0.014)
Average lobbying fee paid (logged)	0.147†		0.064	0.079	0.055	0.147		0.064	0.079	0.055
	(0.084)		(0.096)	(0.087)	(0.099)	(0.103)		(0.120)	(0.108)	(0.107)
Annual lobbying spending (logged)	0.505***		0.507***	0.511***	0.501***	0.505***		0.507***	0.511***	0.501***
	(0.039)		(0.040)	(0.040)	(0.040)	(0.040)		(0.040)	(0.041)	(0.040)
Number of congressional issues	0.167***		0.165***	0.165***	0.165***	0.167***		0.165***	0.165***	0.165***
addressed	(0.017)		(0.017)	(0.017)	(0.017)	(0.016)		(0.016)	(0.015)	(0.017)
Number of lobbyists hired	-0.041***		-0.041***	-0.041***	-0.042***	-0.041***		-0.041***	-0.041***	-0.042***
	(0.006)		(0.005)	(0.006)	(0.006)	(0.004)		(0.004)	(0.004)	(0.006)
% of report lobbying Congress	-0.879***		-0.855***	-0.854***	-0.842***	-0.879***		-0.855***	-0.854***	-0.842***
	(0.118)		(0.120)	(0.121)	(0.121)	(0.133)		(0.133)	(0.136)	(0.134)
Industry advertising intensity	-0.241		-0.240	-0.231	-0.256	-0.241		-0.240	-0.231	-0.256
(1/100000)	(0.169)		(0.185)	(0.170)	(0.200)	(0.154)		(0.167)	(0.155)	(0.206)
Constant	-8.595***	-2.073***	-8.551***	-8.555***	-8.024***	-8.595***	-2.073***	-8.551***	-8.555***	-8.024***
	(0.977)	(0.383)	(1.048)	(1.026)	(1.054)	(0.920)	(0.415)	(0.981)	(0.963)	(1.028)
Year Fixed Effects	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Industry Fixed Effects	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included

Number of clusters	2,159	2,052	2,051	2,073	2,128	96	84	84	86	436
Number of observations	11,257	10,682	10,647	10,843	10,812	11,257	10,682	10,647	10,843	10,812
Log pseudolikelihood	-3547.108	-10506.11	-7932.014	-3430.628	-8297.156	-3547.108	-10506.11	-7932.014	-3430.628	-8297.156
Wald chi^2	732.44	97.70	754.90	747.89	689.23	19711.54	2089.56	259257.20	120196.21	747.88

Table 4: Second-Stage Probit Regression of Firm Boundary Decision of Lobbying with Home-country Autocracy Instrumented

This table presents the results of the second-stage probit regression in which whether a firm has an in-house legal counsel (model 1) and whether a firm lobbies through its in-house lobbyists (models 2 through 9), a binary variable, are used as the dependent variable. In models 1 through 4, we attempt to rule out that a country institutional distance is the main driver of our outcome variable; Hofstede Euclidean distance is included in model 2, WVS administrative and political distance in model 3, and all other distance measures in model 4. Models 5 through 7 are ran to rebut an alternative argument related to the transaction cost economics. Model 5 includes the percentage of each congressional issues addressed in a given year (79 variables) to rule out any possibility that the current results are driven by country industry, or issue heterogeneity in lobbying, which is related to transactional hazard and capability. Models 6 and 7 are related to organizational capability driven by firm and country characteristics. Model 6 includes cumulative lobbying spending (logged) as an additional control variable to control for firm-size related capability effects. Model 7 includes country level variables to capture any capability heterogeneity driven by country characteristics. In models 8 and 9, we control for any country characteristic that could affect sociopolitical legitimacy of foreign MNEs. Model 8 includes annual average of GDELT Goldstein scale to rule out that any temporal inter-state conflict can drive the results while model 9 includes economic and security ties between foreign MNE's home country and the United States. All models include year and industry fixed effects. Standard errors are corrected for clustering at the firm level, and these are presented in parentheses. ***, **, *, and † denote significance at the 0.1%, 1%, 5%, and 10% level, respectively.

Dependent variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**	**Model 9**
Home-country autocracy (instrumented)	-0.110	-0.429*	-0.277*	-0.382†	-0.357*	-0.296*	-0.371*	-0.345**	-0.367*
	(0.132)	(0.188)	(0.138)	(0.216)	(0.141)	(0.139)	(0.163)	(0.131)	(0.160)
Number of years firms have lobbied	0.117***	0.057***	0.058***	0.080***	0.061***	0.012	0.060***	0.057***	0.058***
	(0.011)	(0.014)	(0.013)	(0.020)	(0.015)	(0.018)	(0.013)	(0.013)	(0.013)
In-house lobbying experience	0.001	0.411	0.394	0.352	0.962**	0.283	0.387	0.384	0.387
	(0.138)	(0.250)	(0.246)	(0.287)	(0.323)	(0.255)	(0.242)	(0.249)	(0.248)
Campaign contribution amounts (logged)	0.041**	0.089***	0.091***	0.101***	0.089***	0.087***	0.093***	0.088***	0.089***
	(0.015)	(0.015)	(0.014)	(0.017)	(0.016)	(0.014)	(0.014)	(0.014)	(0.015)
Average lobbying fee paid (logged)	0.359***	0.012	0.111	0.064	-0.040	0.056	-0.081	0.076	0.008
	(0.083)	(0.104)	(0.096)	(0.119)	(0.101)	(0.096)	(0.096)	(0.097)	(0.096)
Annual lobbying spending (logged)	0.091***	0.507***	0.508***	0.490***	0.852***	0.360***	0.508***	0.508***	0.507***
	(0.025)	(0.040)	(0.040)	(0.046)	(0.045)	(0.043)	(0.041)	(0.040)	(0.040)
Number of congressional issues addressed	0.037**	0.171***	0.167***	0.173***	0.264***	0.167***	0.169***	0.165***	0.166***
	(0.012)	(0.018)	(0.017)	(0.020)	(0.023)	(0.017)	(0.017)	(0.017)	(0.017)
Number of lobbyists hired	-0.002	-0.040***	-0.041***	-0.044***	-0.039***	-0.042***	-0.041***	-0.041***	-0.041***
	(0.005)	(0.005)	(0.005)	(0.007)	(0.006)	(0.005)	(0.005)	(0.005)	(0.005)
% of report lobbying Congress	0.019	-0.912***	-0.859***	-0.872***	-0.119	-0.806***	-0.859***	-0.852***	-0.855***
	(0.081)	(0.122)	(0.120)	(0.140)	(0.115)	(0.121)	(0.120)	(0.120)	(0.120)
Industry advertising intensity (1/100000)	0.038	-0.324	-0.250	-0.661†	-0.101	-0.266	-0.254	-0.244	-0.239
	(0.125)	(0.202)	(0.185)	(0.358)	(0.236)	(0.186)	(0.188)	(0.186)	(0.185)
Hofstede Euclidean distance		0.003†							
		(0.002)							

Administrative distance	0.002	0.000			
	(0.001)	(0.002)			
Political distance	-0.005†	-0.009			
	(0.002)	(0.007)			
Cultural distance		0.005			
		(0.004)			
Demographic distance		-0.013			
		(0.021)			
Economic distance		0.014			
		(0.011)			
Finance distance		-0.016			
		(0.017)			
Knowledge distance		-0.006			
		(0.006)			
Geographic distance		0.000			
		(0.000)			
Global connectedness distance		0.020			
		(0.060)			
Cumulative lobbying spending (logged)			0.207***		
			(0.051)		
Lobbying regulation (1: Yes, 0: No)				-0.140	
				(0.102)	
Presidential system (1: Yes, 0: No)				-0.013	
				(0.127)	
Colonial ties (1: Yes, 0: No)				0.671	
				(0.452)	
Geographic distance (in thousands /kms)				0.000	
				(0.000)	
Country corruption distance				-0.002	
				(0.061)	
Common law country (1: Yes, 0: No)				0.050	
				(0.097)	
Country GDP (logged)				0.094*	
				(0.042)	
GDELT Goldstein scale					0.085
					(0.065)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Free trade agreement (1: Yes, 0: No)									-0.113
									(0.117)
NATO membership (1: Yes, 0: No)									-0.039
									(0.104)
Constant	-6.831***	-8.427***	-9.100***	-8.516***	-9.970***	-9.012***	-9.908***	-8.939***	-8.084***
	(0.920)	(1.150)	(1.067)	(1.522)	(1.191)	(1.074)	(1.262)	(1.076)	(1.041)
Year Fixed Effects	Included	Included	Included	Included	Included	Included	Included	Included	Included
Industry Fixed Effects	Included	Included	Included	Included	Included	Included	Included	Included	Included
% of each congressional issue addressed					Included				
Number of firms	2,087	1,919	2,045	1,506	2,051	2,051	2,039	2,048	2,051
Number of observations	10,812	10,061	10,630	6,379	10,646	10,647	10,596	10,634	10,647
Log pseudolikelihood	-10111.558	-5507.481	-7786.332	-2939.515	-6524.416	-7902.155	-6587.045	-7602.874	-7742.539
Wald chi^2	463.71	755.27	748.59	613.65	1711.43	746.32	774.22	772.37	754.42

Table 5: Second-Stage Probit Regression of Firm Boundary Decision of Lobbying with Various Democracy Measures Instrumented

This table presents the results of the second-stage probit regression in which whether a firm lobbies through its in-house lobbyists, a binary variable, is used as the dependent variable. Every model uses a different political regime or democratic measure as an explanatory variable to further support that our results are still supportive even if different measures of democracy are used. A binary V-Dem liberal democracy measure is used in model 1. In models 2 through 4, different democracy measures from V-Dem database is used; liberal democracy in model 2, electoral democracy in model 3, and participatory democracy in model 4. Model 5 uses Polity IV score while model 6 uses the Freedom House electoral democracy measure. The dissimilarity used in models 2 through 6 is calculated based upon the difference in each measure between a home country and the United States. All models include year and industry fixed effects. Standard errors are corrected for clustering at the firm level, and these are presented in parentheses. ***, **, *, and † denote significance at the 0.1%, 1%, 5%, and 10% level, respectively.

DV: In-house lobbyists	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
V-Dem non-liberal democratic home country (1: Yes, 0: No; instrumented)	-0.526*					
	(0.245)					
V-Dem Liberal democracy dissimilarity (instrumented)		-1.352*				
		(0.611)				
V-Dem Electoral democracy dissimilarity (instrumented)			-1.478*			
			(0.680)			
V-Dem Participatory democracy dissimilarity (instrumented)				-1.793*		
				(0.829)		
Polity IV score dissimilarity (instrumented)					-0.068*	
					(0.032)	
Freedom House non-electoral democratic home country (1: Yes, 0: No; instrumented)						-0.926*
						(0.468)
Number of years firms have lobbied	0.059***	0.059***	0.058***	0.056***	0.058***	0.054***
	(0.013)	(0.013)	(0.013)	(0.014)	(0.013)	(0.014)
In-house lobbying experience	0.388	0.394	0.394	0.394	0.393	0.339
	(0.250)	(0.251)	(0.250)	(0.250)	(0.249)	(0.253)
Campaign contribution amounts (logged)	0.088***	0.088***	0.088***	0.087***	0.087***	0.090***
	(0.014)	(0.014)	(0.014)	(0.015)	(0.014)	(0.015)
Average lobbying fee paid (logged)	0.064	0.043	0.050	0.022	0.068	0.100
	(0.096)	(0.099)	(0.098)	(0.106)	(0.096)	(0.095)
Annual lobbying spending (logged)	0.507***	0.507***	0.506***	0.501***	0.503***	0.495***
	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)
Number of congressional issues addressed	0.165***	0.165***	0.164***	0.162***	0.164***	0.161***
	(0.017)	(0.017)	(0.017)	(0.018)	(0.017)	(0.018)
Number of lobbyists hired	-0.041***	-0.041***	-0.041***	-0.041***	-0.041***	-0.040***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.006)

% of report lobbying Congress	-0.857***	-0.861***	-0.858***	-0.855***	-0.850***	-0.806***
	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.127)
Industry advertising intensity (1/100000)	-0.230	-0.237	-0.245	-0.227	-0.251	-0.236
	(0.187)	(0.184)	(0.184)	(0.183)	(0.183)	(0.198)
Constant	-7.633***	-7.399***	-7.482***	-7.085***	-7.666***	-7.942***
	(1.123)	(1.169)	(1.158)	(1.269)	(1.129)	(1.124)
Year Fixed Effects	Included	Included	Included	Included	Included	Included
Industry Fixed Effects	Included	Included	Included	Included	Included	Included
Number of firms	2,060	2,051	2,051	2,051	2,048	1,885
Number of observations	10,683	10,647	10,647	10,647	10,643	9,698
Log pseudolikelihood	-959.466	4749.133	5453.905	6051.157	-26717.328	316.718
Wald chi^2	757.37	763.09	752.70	768.72	753.28	692.89