

Corporate political strategy and liability of foreignness: Similarities and differences between local and foreign firms in the South African Health Sector

Albert Wöcke*, Terence Moodley

Gordon Institute of Business Science, University of Pretoria, PO Box 787602, Sandton 2146, South Africa

Corresponding author. Tel.: +27 011 7714000. E-mail address: wockea@gibs.co.za (A. Wöcke).

ABSTRACT

We investigate the differences between corporate political strategies (CPS) of local and foreign firms in the South African Health Sector. We expected to find significant differences in CPS due to MNE subsidiaries' needs to overcome liability of foreignness (LOF) effects and MNEs possessing superior resources than local firms. We surveyed 103 firms and found considerable commonality in perceptions of uncertainty for both groups of firms, however foreign firms are more likely than local firms to adopt adaptation and avoidance strategies. We find that antecedent conditions such as turnover, age of the subsidiary and industry are more important than LOF in the selection of CPS.

Keywords:

Corporate political activity
Liability of foreignness
Multinational enterprises

1. Introduction

Corporate political strategy is of critical importance for foreign firms that desire a reduction in their risk (Puck, Rogers, & Mohr, 2013; Sethi & Guisinger, 2002) and is especially important as relations between MNEs and governments could become antagonistic, despite superficial cordiality (Ramamurti, 2004). Multinational enterprises benefit from greater access to traditional resources but face a liability of foreignness while local companies benefit from local understanding of institutional practices and social embeddedness. The direct impact on firm profits by policy changes is the main justification for engaging in CPS in countries where regulatory policy is more volatile. Hoffmann, Trautmann, and Schneider (2008) define regulatory uncertainty as the inability to predict the future state of the regulatory environment. They differentiate it from regulatory-induced uncertainty, which is defined as the inability to predict the future state of the non-regulatory environment that is caused by a regulation. Hoffmann et al. (2008) emphasised that uncertainty in this context is about perception, since firm decisions may be based on what the leaders perceive rather than what might objectively be the case.

More recent scholarly research on corporate political activity has focussed on developed markets with less done emerging markets and evolving political systems (Lawton, McGuire, & Rajwani, 2013). However, research in this area, has largely

focussed on the use of corporate political activities and strategies that are focussed on overcoming country risk by interacting with local governments and stakeholders (e.g. Puck et al., 2013). The shortcoming of these studies is that they do not compare the strategies of local and foreign firms and therefore imply a liability of foreignness for MNE subsidiaries. A comparison between the political activities of local and foreign firms is important to understand both how strategies are shaped to deal with a common business environment and what non-MNE specific factors may influence political strategies. Research into antecedents of corporate political activities suggested that CPA may be influenced by other factors such as size of the firm, the degree of regulatory uncertainty and age of the firm (Hillman, Keim, & Schuller, 2004; Weymouth, 2013). However, research into antecedents has been confined largely to the US and local firm/government interactions and does not deal with evolving emerging market contexts.

A good understanding of the potential differing strategies of local and foreign firms is vital for both policymakers and for firms themselves. An additional benefit from comparing foreign and local firms' political activities is to derive insights into the role of liability of foreignness (e.g. Hillman, 2003; Zaheer, 1995). Foreign MNEs can trigger tough responses from local institutions by not using, or improperly implementing accepted practices, and the resultant tensions enhance the liability of foreignness and shape MNE strategic responses (Luo & Mezas, 2002).

These and other factors, such as regulatory uncertainty, suggest that there should be a difference in the corporate political strategic choices of local and foreign companies. Our study explores possible differences and similarities in corporate political strategies of

multinational and local firms in the South African healthcare sector. The South African healthcare sector is a useful context for this study as the South African Government is implementing a major overhaul of the healthcare system with wide-sweeping changes that disrupt both local and foreign healthcare firms' business models and profitability (Motsaedi, 2010, 2011; Ramjee & McLeod, 2010; Rispel & Moorman, 2010). Fundamental areas that are affected include funding sources and funding flows; regulatory systems; and service models to manage the implementation of a universal National Healthcare System (Schaay, Sanders, & Kruger, 2011, p.12).

2. The South African Health Sector

South Africa is an emerging market that is generally considered to have strong institutions (Kahn, 2011; World Economic Forum [WEF], 2013), however the operations of existing health regulatory institutions and the proposed creation of new ones pose great uncertainty resulting in discordant relationships between private sector firms and the South African Government (Dodds, 2013; Gray, Vawda, & Jack, 2013; WEF, 2013). The most high profile example occurred when 39 drug companies took the South African government to court over proposed changes to the Medicines and Related Substances Act of 1997 (Sidley, 2001a). The legislation proposed changes to parallel imports, generic substitution, pricing regulation and marketing practises. Although the pharma companies claimed their actions were to protect the rule of law and intellectual property rights, public sentiment portrayed them as profiteering companies who wished to deny life-saving HIV treatment to millions who needed it (Sidley, 2001a). On the back of a local and international backlash, the companies eventually dropped the lawsuit (de Paoli, Mills, & Grønningsæter, 2012; Sidley, 2001b).

At the time of writing, the South African Government was establishing a National Health Insurance (NHI) for its entire populace. This was accompanied by numerous regulatory changes including pricing, quality, marketing, supply chain and tax changes (Ramjee & McLeod, 2010).

These changes were accompanied by a comprehensive overhaul of all health regulations in South Africa (Crisp, 2012) and have led to some firms within the health sector claiming that the operating environment had become very complex and unpredictable (Buthelezi, 2012). As a consequence, healthcare companies in South Africa are highly active in industry processes to provide input for all proposed legislation (Netcare, 2012).

3. Literature review

In our paper we use the terms CPA and CPS predominantly. Corporate political strategy (CPS) is a component of the overall non-market strategy and corporate political activity (CPA) refers to the specific actions and tactics taken by firms to influence policy to mitigate against environmental risks and/or increase profits (Puck et al., 2013).

Tian and Deng (2007) defined corporate political strategy (CPS) as "the strategy that enterprises employ to influence the formulation and implementation process of government policy and regulation in order to create a favourable external environment for their business activities" (p. 341). A firm's political strategies include a wider network of stakeholders than just government and include all relations with non-market stakeholders that may affect the operations of a firm (Holtbrugge, Berg, & Puck, 2007; Puck et al., 2013). The firm may benefit through decreased environmental uncertainty, lower transaction costs or better long-term sustainability (Hillman, Zarkhoodi, & Bierman, 1999; Lawton et al., 2013).

The direct impact on firm profits by policy changes is the main justification for engaging in CPS in countries where regulatory policy is more volatile. Hoffmann et al. (2008) define regulatory uncertainty as the inability to predict the future state of the regulatory environment. They differentiate it from regulatory-induced uncertainty, which is defined as the inability to predict the future state of the non-regulatory environment that is caused by a regulation. Hoffmann et al. (2008) emphasised that uncertainty in this context is about perception, since firm decisions may be based on what the leaders perceive rather than what might objectively be the case.

It has been argued that corporate activity is directly related to the extent of regulatory uncertainty and its interpretation as a threat (Engau & Hoffmann, 2011b). Conversely, firms may elect not to engage at all if policy is too erratic (Weymouth, 2013).

Traditionally, international competition was thought to stimulate CPA as a means to counter the threat of foreign competitors (Schuler, 1996). However, more recent analysis suggested the contrary (Kim, 2008). This change may be caused by the extensive adoption of free market perspectives in business and government communities (Lux, Crook, & Woehr, 2011).

3.1. Antecedents of CPS

The antecedents of CPS are commonly grouped as firm-level, industry-level, issue-based, and institutional factors (Hillman et al., 2004). At firm level, factors that play a role are firm size, firm age, dependency on government, slack assets, diversification level and formalised firm structures (Hillman et al., 2004; Tian & Deng, 2007; Weymouth, 2013). Firm size can be measured by sales, assets, market share or number of employees and is often a representation for available resources (Hillman et al., 2004). Firms with added resources are more likely to engage policymakers and do so alone, while those with fewer resources often act collectively with others (Hillman & Hitt, 1999; Macher & Mayo, 2012). Firms with greater market power are more politically active and influential as are those firms that are membership of an industry association (Weymouth, 2013). Additionally, resource dependency theory suggests that those firms with higher levels of dependence on government will engage in higher levels of CPA (Hillman & Hitt, 1999). There is limited evidence that firms with high levels of slack will engage more in CPA because they can afford to do so (Hillman et al., 2004). Firm age has not been shown to impact CPA, but it has been used as a proxy for firm visibility, reputation, experience or credibility which all have a positive correlation with CPA (Hillman et al., 2004).

3.2. Classification of CPS

Hillman et al. (2004) categorise CPA according to nature (proactive or reactive), approach (transactional or relational), participation level (alone or in groups) and strategy type (information, financial incentive or constituent building).

More recently researchers have differentiated between two distinct behaviours of buffering and bridging (Blumentritt & Nigh, 2002; Hillman et al., 2004; Meznar & Nigh, 1995). Buffering implies that a firm is "trying to insulate itself from external interference or trying to actively influence its environment" (Meznar & Nigh, 1995, p. 976) and involves proactive behaviours such as lobbying and campaign contributions (Hillman et al., 2004). Bridging occurs when firms "seek to adapt organisational activities so that they conform to external expectations" (Meznar & Nigh, 1995, p. 976). Bridging is reactive and involves tracking of legislative changes to ensure compliance once effected. Buffering can be seen as passive.

Another dimension to corporate political activity is whether it is transactional or relational (Hillman & Hitt, 1999). In the transactional approach, firms engage in political activity on an

Table 1
Strategies to cope with uncertainty.

Strategy	Activity	Description
Avoid	Postponement	Defer decisions and wait for more certainty
	Stabilisation	Increase predictability through Implementation of standard procedures or establishment of long-term contracts
	Withdrawal	Exit business in uncertain markets and focus on predictable environments
Reduce	Investigation	Collect additional information; draw on professional expertise to be applied in decision-making process
	Simplification	Reduce number of uncertain factors considered in decision making process
	Influencing	Manipulate determining circumstances or actors that constitute uncertainty
Adapt	Internal design	Change organisational design by establishing modular structures, low degree of formalisation, or decentralisation
	Integration	Restructure business portfolio through mergers and acquisitions
	Cooperation	Collaborate with suppliers, customers, or competitors in research or production; engage in trade associations
	Flexibility	Enlarge range of strategic options, e.g., through diversification
Disregard	Imitation	Examine and copy strategy of successful competitors
	Substitution	Replace uncertain decision criteria with assumptions derived from comprehensive consideration or detailed analysis
	No-regret moves Business as usual ^a	Execute activities associated with uncertainty that are advantageous regardless of how uncertainty resolves Pretend that uncertainty does not affect decisions

Adapted from Engau and Hoffmann (2011a,b).

^a Not included in the Engau and Hoffmann (2011a,b) empirical analysis.

ad hoc basis, waiting for issues to arise before engaging and influencing policy makers. The relational approach is about building relationships pre-emptively so that avenues for influence exist when the need arises. In the relational approach, social capital is built through trust which then enables on-going exchange. These approaches differ in terms of length and scope, with transactional being more short-term and relational being more long-term.

According to Hillman and Hitt (1999), factors that influence the choice of approach are: dependence on government policy, levels of product diversification, and whether the country is corporatist or pluralist. Accordingly, firms with higher dependency on government policy, less product differentiation, and with corporatist national cultures are more likely to adopt a relational approach. Emerging markets such as South Africa are corporatist in nature and their firms are expected to adopt this national culture (Habib, 1997). Domestic firms are often single businesses with less product differentiation and more reliant on government for protectionism through mechanisms like preferential local procurement.

More recently, Engau and Hoffmann (2011a) enumerated thirteen types of corporate activities that deal with regulatory uncertainty that they found in the literature. They categorise these activities into four strategies according to their objective towards the regulatory uncertainty: avoidance, reduction, adaptation or disregard (Engau & Hoffmann, 2011b). These strategies are summarised in Table 1 below.

A reduction strategy includes activities that directly aim to decrease the regulatory uncertainty (Engau & Hoffmann, 2011b). This can be mere monitoring for additional information, active influencing of the environment or simplification by dissecting concepts and systems into simpler units.

If uncertainty cannot be avoided or reduced, firms can adapt to the circumstances to lessen the adverse effects (Engau & Hoffmann, 2011b). This adaptation strategy can be achieved through imitation, cooperation, integration through mergers and acquisitions, organisational restructuring and flexibility through diversification.

It is possible that firms choose to disregard decision making under uncertainty, leaving them unprepared and fully exposed to associated risks (Engau & Hoffmann, 2011b). They do so by making assumptions around the unclear facts, taking no-regret decisions or passively continuing business as usual.

3.3. Liability of foreignness and CPS

Liability of foreignness (LOF) refers to the additional costs faced by firms doing business abroad. These added costs arise from multiple sources, such as unfamiliarity with the local environment, cultural, political and economic differences, higher coordination

cost across geographic distances, a lack of information networks or political influence; or the inability to appeal to local, patriotic customers (Zaheer, 1995; Zaheer & Mosakowski, 1997). According to Sethi and Guisinger (2002) it is important that LOF be differentiated from two other concepts: lack of fit, which occurs where firm strategy is incompatible with the environment, and liability of newness, which is the high failure rate associated with new organisations and these challenges can be incurred by both domestic and multinational organisations. Social embeddedness theory suggests that foreign firms are likely to have less developed local networks and relevant contacts than local businesses (Eden & Miller, 2004; Zaheer, 2002).

Subsidiaries will often import skills and resources unique to the MNE to overcome LOF (Zaheer, 1995). Firm-specific managerial and organisational capabilities may provide competitive advantages to counter LOF. However, institutional theorists argued that MNE sub-units deal with the local environmental demands by mimicking the practise of successful, local firms (Rosenzweig & Singh, 1991; Zaheer, 1995). In the field of non-market strategy, this divergent view translates into whether foreign firms bring their experience to the new host country, or whether they attempt to align their local strategy with the best-performing domestic models. LOF is also likely to be heightened in simple, market seeking, horizontal MNEs where the subsidiaries are essentially replicas that aim to compete in different national markets (Zaheer, 1995; Zaheer & Mosakowski, 1997). Suppliers of healthcare products would fall into this category.

4. Segmentation and hypotheses

We used the approach of Freixanet (2012) to explore the differences between local and foreign firms' approaches to CPA and the role of antecedent conditions in CPS. Freixanet (2012) used contrast groups to explore the impact of export promotion programmes on the internationalisation and competitive performance of companies. The classification approach (Freixanet, 2012) allowed us to examine both the differences in types of CPA and the role of antecedent conditions in the selection of CPA. We did this by first segmenting firms into foreign and local firms followed by a comparison of the types of CPA that the respective groups of firms engage in. We then looked at the role of the antecedent conditions in the selection of these CPAs.

We may expect differences between MNEs and local firms initially due to differences in perceived risk and regulatory uncertainty. Local firms may be expected to have the advantage of local knowledge and networks, while foreign firms have to overcome varying degrees of LOF. This LOF adds to the perceptions that the foreign firms have of the local environment.

Hypothesis 1. The level of regulatory uncertainty perceived by the firm is greater in foreign firms than local ones.

The strategic choice of MNEs in an uncertain environment is different to that of local firms because they have different organisational competences and perceptions of the uncertainty (Luo & Tan, 1998). It is expected that foreign firms' chosen course of action is reinforced by the practise and success in their home countries (Hillman et al., 2004). Firms with added resources are also more likely to engage policymakers than those with limited resources (Hillman & Hitt, 1999; Macher & Mayo, 2012). Starting on the back-foot due to LOF, a proactive approach would seem even more essential to achieve success. This leads to the second hypothesis.

Hypothesis 2. Foreign firms are more proactive in CPS than local firms.

This liability of foreignness suggests that foreign MNEs do not have the requisite connections and will therefore adopt a more transactional approach to CPA. The profile of the foreign firm outlined above and the local firm's better access to contacts leads to the next hypothesis.

Hypothesis 3. Local firms are more likely to adopt a relational approach to CPS than foreign firms.

Multinational enterprises are more likely to have a high level of product diversification and often have their roots in pluralist nations such as USA and UK (Habib, 1997; Mezas, 2002). MNEs are less dependent on government because they are generally well entrenched. In emerging markets, MNEs often operate largely in the private rather than public sector.

Large MNEs have more bureaucratic controls and information processing requirements that cause slower and more considered decision making; they often have market dominance that enables the prescription of contractual conditions more easily and are usually more diversified, enabling them to change focus areas (Hill & Kim, 1988; Luo, 2001). Conversely foreign MNEs have greater resources and firm-specific advantages and would be more proactive in dealing with the uncertainty rather than just wanting to avoid it (Macher, Mayo, & Schiffer, 2011; Mezas, 2002). In seeking expansion opportunities in emerging markets, foreign firms appreciate that uncertainty is included in the process (Luo & Mezas, 2002). They are willing to take the risk for the potential payoff and are consequently unlikely to adopt an avoidance strategy. In keeping with the earlier hypothesis that foreign firms are more proactive with CPS, it is suggested that local firms are more likely to adopt an avoidance strategy to cope with regulatory uncertainty. An alternative possibility is that foreign firms have the option of an exit strategy, an option not immediately available to local firms and it would follow that local firms cannot use an avoidance strategy.

Hypothesis 4. Local firms are more likely than foreign firms to adopt an avoidance strategy to cope with regulatory uncertainty.

As discussed previously, the greater availability of financial and intangible resources of foreign MNEs suggests that they are more likely to collect additional information, get expert input and be able to influence circumstances and stakeholders causing the uncertainty. These are the hallmarks of a reduction strategy, hence the hypothesis that foreign firms are more likely to adopt such an approach.

Hypothesis 5. Foreign firms are more likely than local ones to adopt a reduction strategy to cope with regulatory uncertainty.

Foreign firms face a LOF which they seek to overcome through mimicry, alternate modes of entry and attempting to engender themselves to the local networks (Meyer & Estrin, 2013; Meyer, Estrin, Bhaumik, & Peng, 2009; Zaheer, 1995, 2002). This suggests

that they are more receptive to imitation and cooperation. Local firms may have a non-adaptive, defensive, and risk-averse strategy (Luo & Tan, 1998). MNEs are more likely to merge or acquire a local firm as a potential mode of entry into a new market has greater leeway in restructuring and are generally more diversified. These are all activities of an adaptation strategy as defined by Engau and Hoffmann (2011b) consequently it is hypothesised that foreign firms are more likely to adopt such a strategy.

Hypothesis 6. Foreign firms are more likely than local ones to adopt an adaptation strategy to cope with regulatory uncertainty.

MNEs seeking growth focus on identifying and capitalising on emerging market opportunities and they have extensive capabilities to respond to environmental changes (Luo & Tan, 1998). Local firms are often not as equipped to deal with flux and are more likely to be caught up with everyday business activities. This would cause an absence of a pre-emptive focus on regulatory issues. This leads to the final hypothesis that local firms are more likely to adopt a disregard strategy.

Hypothesis 7. Local firms are more likely than foreign ones to adopt a disregard strategy to cope with regulatory uncertainty.

The arguments presented above are used to support the basic contention of this study that corporate political strategy and strategic choices under uncertainty differ between local and foreign firms.

5. Methodology

5.1. Survey design

The unit of analysis for this study was the firms that supplied products into the South African healthcare sector. These firms were identified through industry associations and direct communication with industry experts. The member companies of these associations provided the population and complete sampling frame for this study. Two large companies (a local pharmaceutical and funder organisation) are known not to belong to their respective trade associations and were individually added to the list. Twelve companies belonged to more than one association, giving a total of 295 companies in the population. All 295 were sent surveys to complete.

5.2. Questionnaire

The first section of the questionnaire collected general data on the respondent and the firm. As the survey addressed issues related to firms' strategies, it was important to target senior managers and executives because participants below this level would be less informed on these issues and would therefore reduce the survey's reliability (Engau & Hoffmann, 2011a). The subsector to which the company belonged was requested to ensure that the final sample was representative of the sector as a whole and to potentially allow for subsector stratification and analysis.

Indicators of the presence and extent of antecedent conditions that influence CPS (Lawton et al., 2013) was requested in Section 2 of the questionnaire. These indicators were:

- The classification of the companies' operational bases to classify them as either "local" or "foreign". This also included consideration of shareholding and ownership.
- Company size in terms of turnover and staff complement, age of the operation in South Africa. The age of a subsidiary provides an indication of the existence of an obsolescing relationship where the balance of power between the host government and MNE evolves over time (Ramamurti, 2001). New entrants into the

Table 2
Characteristics of the sample.

	Local		Foreign		Total	
	n	%	n	%	n	%
Respondents current position						
Executive	45	74%	32	76.2%	77	75%
Senior management	14	23%	7	16.7%	21	20%
Middle management	2	3%	3	7.1%	5	5%
Total	61	100%	42	100.0%	103	100%
Firm sector						
Pharmaceutical	9	15%	21	50%	30	29%
Medical device	24	39%	15	36%	39	38%
Laboratory/in vitro diagnostics	15	25%	6	14%	21	20%
Funder	13	21%	0	0%	13	13%
Total	61	100%	42	100%	103	100%
Firm turnover (Rm/year)						
0–5	10	16%	0	0%	10	10%
6–50	19	31%	2	5%	21	20%
51–500	20	33%	19	45%	39	38%
>500	12	20%	21	50%	33	32%
Total	61	100%	42	100%	103	100%
Staff complement						
1–5	16	26%	0	0%	16	16%
6–50	24	39%	11	26%	35	34%
51–200	10	16%	21	50%	31	30%
>200	11	18%	10	24%	21	20%
Total	61	100%	42	100%	103	100%
Length of firm existence						
Minimum	2		1		1	
Maximum	100		100		100	
Mean	22.4		40.9		29.9	
Standard deviation	18.1		27.0		23.8	

market, especially foreign ones, may have been prone to a liability of newness that would impact their strategic decisions (Sethi & Guisinger, 2002).

- Perceptions of regulatory uncertainty in the South African healthcare industry.

For the rest of the questionnaire we used the measures developed by Engau and Hoffmann (2011a) to indicate the use of the CPS described in Table 1. We then used Hillman & Hitt's (1999) classification of CPS to determine whether the company's activities are mainly proactive or reactive, relational or transactional. All the measures for these questions were based on the definitions and classifications provided by Hillman et al. (1999, 2004) that is accepted as the influential work in the field (Lawton et al., 2013). Details of these questions are shown in Table A1 in Appendix.

The purpose of this research focused on which corporate political strategies companies are likely to adopt. It was not intended to determine outcomes of the chosen strategies and is unable to do so as it is not longitudinal in nature. However, as a proxy, respondents were also asked to rate what impact they believed their actions would have. This was an open-ended question.

6. Data analysis and results

We used both online and face-to-face surveys between 22 July 2013 and 9 September 2013. This led to 107 responses but four responses were excluded as it was unable to determine whether they were or local or foreign firms. The remaining 103 responses were included in the analysis but there were only 89 complete data sets to give us a 30% response rate.

Subsidiaries of foreign MNEs were referred to as a foreign firm and all other firms were considered to be local and the final sample was composed of 40.8% ($n = 42$) foreign firms and 59.2% ($n = 61$) local firms. Table 2 compares the general characteristics of the local and foreign firms in the sample.

A feature of our sample was that foreign firms were operational in the country for almost twice as long as their local counterparts (40.9 vs. 22.4 years). This could be expected due to the highly technical and capital-intensive nature of the industry. Another reason for this is that most of the Intellectual Property of international pharmaceutical firms will be abroad and not locally based.

We used Logistic Regression to test our hypotheses and analyse how local firms' CPS compare to that of foreign firms as the question falls within a classification (sorting) problematic (e.g. Freixanet, 2012). Logistic Regression (LR) is a widely used data analysis method to determine membership of a group based on known key characteristics or a finite set of criteria/alternatives (Antipov & Pokryshevskaya, 2010; Liang & Foo, 2013). We chose an LR approach as it solves the problem of data heterogeneity in our classification of foreign and local firms and the potential problem of an inaccuracies arising from aggregate predictive methods (Antipov & Pokryshevskaya, 2010). In our study we sought to explain the dichotomous variable (local/foreign) that was the predicted variable. Three sets of variables were entered into the equation to determine their respective impact on classification success. The first set contained the key explanatory variables, uncertainty and the four CPS strategies: relational, avoid, reduce, adapt and disregard. The second set contained the antecedent conditions: age of the firm (or age of the subsidiary in South Africa), turnover (revenue). The third set added was sector (medical funder, pharmaceutical, laboratory or medical device). Sectors were categorical variables so they were recoded as a series of dummies. The dummy for medical devices/not medical devices proved to be significant.

The introduction of each block led to great gains in the explanatory power of the model for each block. The initial Nagelkerke R -squared was 0.224, which improved to 0.428 in the second block and to 0.681 in the final block. The significance increased from 0.030 in the first block to 0.000 in the second and

Table 3
Significance of the variables.

	Model 1		Model 2		Model 3	
	B	Sig.	B	Sig.	B	Sig.
Uncertainty	-0.109	0.765	-0.088	0.835	0.162	0.768
Proactive	0.578	0.210	0.912	0.098	1.033	0.137
Relational	0.294	0.548	-0.305	0.581	-0.789	0.272
Avoid	-1.069	0.011*	-0.992	0.028*	-1.355	0.040*
Reduce	-0.501	0.236	-0.538	0.261	-0.828	0.166
Adapt	0.823	0.036*	0.862	0.044*	0.578	0.270
Disregard	-0.036	0.918	-0.205	0.611	0.219	0.663
How long firm/subsidiary operated South Africa			0.024	0.114	0.014	0.470
Annual turnover (R 000s)			0.847	0.039*	1.589	0.012*
Funder					-23.868	0.998
Laboratory					-1.702	0.102
Medical devices					-2.241	0.024*
Constant	-0.078	0.969	-2.417	0.325	-0.789	0.831

* Significant at 5% level (bold values).

Table 4
Classification table for CPS variables, turnover and age.

	Foreign vs local			
	Local		Foreign	
	Predicted group		Predicted group	
	Local	Foreign	Local	Foreign
	Mean	Mean	Mean	Mean
Avoid	2.97	2.46	2.94	2.29
Adapt	2.55	2.60	2.67	2.66
Uncertainty	2	2	2	2
Proactive	2.69	3.04	2.79	3.24
Relational	2.64	3.30	3.02	2.97
Reduce	3.43	3.46	3.42	3.32
Disregard	3.35	3.25	3.45	3.12
What is your company's annual turnover (Rm/year) ^a	2	4	3	4
How long has your organisation been operational in South Africa?	20	45	30	48

^a Turnover coded as 1=less than R5m; 2=R6m to R50m; 3=R51m to R500m; 4=more than R500m. "Avoid" and "Adapt" measured on a 5-point Likert-type scale.

third blocks. The significance and influence of the respective variables in the three models is shown in Table 3:

In model 1 *Avoid* and *Adapt* were most significant with no significant differences between local and foreign firms on the other CPS. When we added age and turnover to the model (block 2), only turnover was significant and this is due to the foreign firms operating mainly in the pharmaceutical industry where scale is required for manufacturing and distribution.

The key variables in the final model are *Avoid*, *Annual Turnover* and *Sector* (medical devices in particular). Although *Avoid* has a high significance, it also shows a negative Beta (-1.069), which is indicative of an inverse relationship. *Adapt* was significant in the first two models but its effect was overridden by the introduction of sector in the last block. This suggests that the *Adapt* CPS and medical devices may be collinear in that firms that are in medical devices are more likely to choose an adapt strategy than those in other sectors. Nevertheless the gains from model 3's sector additions increased the ability of the model to classify the firms as local or foreign from 70.6% in model 1 to 77.6% in model 2 and 83.5% in the final model. The greatest gains in predictability were for foreign firms as the additional variables were added.

We cross-tabulated the predicted and actual variable category with the significant variables in each equation to analyse the differences between foreign and local firms. This is shown in Tables 4 and 5.

From Table 4 above, we can see that large local firms were misclassified as foreign by the model with regards to turnover and age, which would indicate that larger firms tend to behave similarly in the health services sector, whether local or foreign.

This was also true of firms that had been operating in South Africa for a longer period.

When comparing the CPS of local to foreign firms, we find that local firms use *Avoid* somewhat more than foreign firms but foreign firms are more likely to *Adapt* and less likely to *Avoid*. The reasons for this are probably due to foreign firms largely operating in the pharmaceutical sector and having larger revenues.

Table 5 below shows the classification according to sector. There are no foreign firms participating as medical funders and few in the laboratory/in vitro sector, yet four of the (local) funders were misclassified as foreign. This is most likely due to the nature of their business and size of turnover, which will make them behave similarly to foreign firms. The concentration of foreign firms in certain sectors has predictive power in the equation in that adaptation did not have much significance when sector was introduced in block 3. The high degree of collinearity we see with

Table 5
Classification table for sector.

Sector	Local actual		Foreign actual	
	Predicted group		Predicted group	
	Local	Foreign	Local	Foreign
	Count	Count	Count	Count
Funder	9	4	0	0
Laboratory/in vitro diagnostics	11	0	2	3
Medical device	17	2	2	10
Pharmaceutical	4	2	7	12

sector and foreign presence leads to the conclusion that foreign firms will only enter certain sectors where adaptation is high.

In terms of [Hypothesis 1](#), we expected that liability of foreignness would increase the level of uncertainty for foreign firms, largely due to unfamiliarity with the local environment and weaker information networks than local firms. However we found that the two groups experienced the regulatory challenges in the same way. The LOF that the foreign firms should be experiencing is not as prevalent in the South African Health industry because most foreign firms in this industry have been present in South Africa for a long time and on average longer than their local counterparts. This has enabled them to develop networks and a long-established familiarity with the local environment that is at least as good as that of a local firm. The staffing of the subsidiary by locals would also support overcoming most LOF effects, however this may not be the case in an emergent industry in a host country where local firms are displaced by foreign firms.

An additional reason for the similarity in perceptions on uncertainty is the overall lack of clarity on regulatory reforms that universally distresses both local and foreign companies ([Adminuser, 2012](#); [Schaay et al., 2011](#)). In support of this view, a respondent from a local firm stated, “*Government only pretends to listen*”, while a respondent from a foreign subsidiary was of the view that “*Regulations are legislated but the implementation and even-handed application of the legislation is non-existent.*” The findings indicate that the age of a subsidiary is a more important than any liability of foreignness in predicting CPS.

The same reasons would hold when explaining the lack of support for [Hypothesis 2](#), that foreign firms are more proactive than local firms in CPA. The regulatory environment equally overwhelms local firms and foreign firms even though foreign firms have generally been operating in South Africa for a longer period than local firms. As a respondent from a local subsidiary viewed it, “*Whilst the general direction of healthcare reform is reasonably clear, the actual impact and timing is unclear. History dictates [emphasis added] reform legislation takes longer than planned and thus there is a relative amount of certainty in the short to medium term – the status quo remains allowing a degree of certainty for now*”

[Hypothesis 3](#) was that local companies would be more likely to adopt a relational approach to CPS than foreign companies. There was little difference between local and foreign firms with this type of CPS. Dependency on government policy is a critical factor in choosing between a relational or transactional approach ([Hillman & Hitt, 1999](#)) and government is the provider of healthcare for the vast majority of South African citizens and is therefore a potential dominant customer for all firms active in this market, even foreign ones. The importance of government as a customer can also be considered an antecedent condition and this condition appears to be more important than LOF in explaining CPS. A respondent from a foreign firm stated: “*Government and regulators are more open to those who demonstrate a willingness to being part of finding solutions with them rather than, what they perceive as, obstructive opposition*”. However this view was not universal and another foreign firm manager was of the view that “*Endless interaction with government and submissions of highly substantive data with recommendations has in the past not been particularly successful.*”

[Hypothesis 4](#) argued that local firms are more likely than foreign firms to adopt an avoidance strategy to cope with regulatory uncertainty. This was supported by the data. The reason for this could be that foreign MNEs have more resources and skills and would therefore prefer to deal with the uncertainty rather than avoiding it ([Macher et al., 2011](#); [Mezias, 2002](#)). Uncertainty is part of expansion efforts of MNEs ([Luo & Mezias, 2002](#)). They are willing to take the risk for the potential payoff. Withdrawal from uncertain markets would also instinctively have appeared to be more likely amongst foreign MNEs, yet the opposite

was found and may be due to the size of investment in the South African healthcare market. An additional finding was that foreign firms are more committed to remain in South Africa while local firms are internationalising and reducing their dependence on the South African market.

[Hypothesis 5](#) suggested that foreign companies are more likely than local ones to adopt a reduction strategy to cope with regulatory uncertainty due to the greater availability of financial and intangible resources. However this was not confirmed in the analysis. Local companies are therefore as willing and able as foreign companies to collect additional information, access expert inputs and be able to influence circumstances and stakeholders causing the uncertainty ([Engau & Hoffmann, 2011a](#)). The uncertainty with healthcare reform is all-pervading and it is in the interests of *all* companies to create a more stable external environment for them to do business ([Hoffmann et al., 2008](#)). This finding is an additional indicator of the importance of industry factors in explaining the CPS of foreign firms rather than explanations based on the “foreignness” of the MNE subsidiary.

[Hypothesis 6](#) argued that foreign companies would be more likely than local ones to adopt an adaptation strategy due to LOF ([Zaheer, 1995, 2002](#)). An adaptation strategy can be achieved through imitation, cooperation, integration through mergers and acquisitions, organisational restructuring and flexibility through diversification ([Engau & Hoffmann, 2011b](#)). This could involve decentralisation with low degrees of formalisation and may indicate that foreign MNEs in these markets are given more autonomy, especially with their non-market strategies. Foreign firms find that cooperating with other industry players is preferable to going it alone, according to a respondent from a foreign firm, “*We think that it (adaptation) is the most appropriate strategy, and believe that the government prefers to engage with a united industry that speaks with one voice.*” A respondent from a different foreign firm had the view that “*the principle of lobbying or developing advocacy directly or indirectly is critical for influencing government policy and change. Given the cynical view that government has of the pharmaceutical industry, it is sometimes better to work through the influence of others.*” Local firms do not adapt as much as foreign firms and prefer to use their local connections to an industry voice. According to a respondent from a large South African firm, “*Being a large local player, with established relationships with decision makers in Government, we are able to lobby and campaign for workable solutions.*” This finding supports the view that LOF influences CPS and that acting in an industry-wide forum is a viable CPS for MNEs that may not have local relationships equivalent to local firms.

[Hypothesis 7](#) theorised that local companies are more likely than foreign ones to adopt a disregard strategy to cope with regulatory uncertainty. Contrary to expectations, we found that foreign firms were as likely as local firms to use disregard strategies. This is likely due to the relationship between the South African government and the healthcare industry as a whole. Healthcare reform in South Africa has been characterised by numerous iterations of the same regulations being published without enactment over extended periods of time ([Adminuser, 2012](#); [Gray et al., 2013](#)). The regulatory uncertainty may be the reason for the disregard strategy being used equally amongst both groups. According to a respondent from a foreign firm, “*The majority of the “big picture” regulatory issues will not be influenced by our company, however I believe there is scope to influence some of the application and implementation issues that will need to be formalised.*” This finding is another example of an antecedent condition having a greater influence in shaping foreign firms’ CPS than LOF.

7. Discussion

It is clear from the results that LOF provides insufficient explanation for CPS and that the differences between local and foreign firm CPS should not be expected to differ greatly,

particularly when antecedent conditions are similar. However we found that there were significant differences in *Avoid* and *Adapt* strategies *only* in that foreign firms are more likely to adapt than local firms and local firms are more likely to avoid than foreign firms.

This finding is important because existing theories on international business suggest that foreign multinational enterprises may benefit from greater access to traditional resources but face a liability of foreignness and that local firms benefit from local understanding of institutional practices and social embeddedness (Eden & Miller, 2004; Zaheer, 1995). This was the assumption implicit in our hypotheses. However, we found that the LOF was not greatly evident in the foreign firms in our sample and that the antecedent conditions of industry, age and turnover had a greater effect on firm's selection of CPS than "foreignness". The reasons for this are most likely due to the following:

- (a) The foreign firms were, on average, in operation for almost twice as long as local ones. The difference in firm ages would suggest that antecedents such as firm visibility; know-how and standing were strongly weighted in favour of foreign firms and reduced the impact of LOF. This is an important finding and raises questions around much literature that assume or imply that foreign firms are more recent entrants into a host country than local firms. The pharmaceutical industry demonstrates that MNEs would be first-movers in industries in emerging markets that require large-scale capital expenditure and have expensive intellectual property. The pharmaceutical industry places high barriers to entry for local players and they are unlikely to be first movers as a result.
- (b) In industries such as healthcare, "foreignness" may actually provide an advantage over local firms. In contexts where there are a high percentage of foreign firms, foreignness could be seen as an asset (Zaheer & Mosakowski, 1997) and even more so in industries with high value intellectual property and scale requirements. Additionally, in healthcare there is an agency relationship in that the final customer (patient) is reliant on others, such as the doctor and funder, to make the decision on what product is used. In many emerging markets, doctors (and patients) often choose branded medicines from MNEs, because of higher perceived quality (Goguen & Connolly, 2012). We find in our study that the foreign firms first mover advantage would offset any LOF effects and that imitation is the reverse of what was expected. Foreign firms determine the standard and local firms imitate them. This was particularly evident in our sample when local firms became large and had international subsidiaries.

Additional factors that reduce the effect of LOF but influence CPS of foreign firms in our sample were the effect of South Africa's indigenisation like Broad-Based Black Economic Empowerment (BBEEE) and by the geographic distance from the home country. This allows MNEs to acquire cultural knowledge that aligns internal and external business practices with local stakeholder expectations (Mezias, 2002; Zaheer & Mosakowski, 1997).

We also found that foreign firms were less likely to individualise their CPS than local firms and preferred to work in associations

and use a collective industry voice. This approach has the advantage that foreign firms are usually larger and therefore have more say in industry associations, and the South African government prefers to engage with an industry representative than with individual firms.

7.1. Implications for management and policy makers

The study is relevant to corporate decision-makers because, as Meyer (2003) posits, identifying areas of mutual alignment and potential conflict helps in the negotiation process of doing business. This research suggests that companies should consider that there is a much greater alignment and synergies between them than might initially be imagined. The benefits of working together may therefore yield greater mutual benefits than independent competition.

The lessons of this study for policy makers in South Africa are that the health industry as a whole, feels fairly disempowered when it comes to influencing policy. The South African Government could view this as a positive in that they are less prone to influence but government should more appropriately see this as an area for concern as it may be alienating an entire industry. Politicians are concerned with how MNEs influence local firms, and thus economic development and national welfare. They need to appreciate how policies can persuade MNEs and local companies to act in ways that are beneficial to the domestic economy. Policy-makers however need to be mindful that the polarisation of local and foreign into good and bad is not as distinct as is often thought.

8. Limitations and suggestions for further research

Areas for further research arise from the context and limitations of this study. There are some elements of this sample and context that are unique but the findings related to strategic alignment, diminished LOF and changing dynamics of business-government relations over time are very interesting and should be verified in other contexts and sectors. As emerging markets become an even greater focus for international business, they provide a rich setting for future research.

This research sought to identify and describe the political strategies adopted by companies, especially during times of uncertainty. There was much alignment in the strategic choices and anticipated outcomes but it would be useful to evaluate the results of these choices. An assessment in time of what policy changes were effected and the degree of satisfaction with the final product would be useful. This would help to determine whether the choices made were the correct ones and help to validate decisions made in the future.

Although some interesting findings have been made in this study, it is arguable whether more differences could have been identified using different methods. Single item measures that were previously validated through research were used in order to maximise the response rate. Research focussing on specific strategies would allow these to be unpacked to a greater level and validate the findings of this study.

Appendix A. List of questions and strategies

See Table A1

Table A1

Mapping questions to strategies and activities.

Question	Reference	Activity	Strategy
What is the level of certainty in your company about possible regulation of the health sector and the impact it will have on your business?	Hoffmann et al. (2008)	Uncertainty	
I am certain about the general direction of health regulation	Hoffmann et al. (2008)	Uncertainty	
I am clear about the operationalization (rules, design and measures) of further health regulation	Hoffmann et al. (2008)	Uncertainty	
I am sure about the implementation process of further health regulation	Hoffmann et al. (2008)	Uncertainty	
I am clear about how new and existing regulations will interact with each other sum of scores for each of these questions	Hoffmann et al. (2008)	Uncertainty level of activity	
My company adapts systems and processes to ensure compliance only once legislative changes are finalised	Hillman and Hitt (1999)		Reactive vs proactive
My company attempts to share information with policy decision-makers before legislation is drafted/finalised	Hillman and Hitt (1999)		Reactive vs proactive
My company waits for issues to arise before engaging and influencing policy makers.	Hillman and Hitt (1999)		Relational vs transactional
My company deals with legislative issues on an ad hoc basis	Hillman and Hitt (1999)		Relational vs transactional
Our interactions with govt. on matters relating to legislation and regulation are...	Hillman and Hitt (1999)		Reactive vs proactive
My company has a good professional relationship with decision makers	Hillman and Hitt (1999)		Relational vs transactional
My company is easily able to discuss relevant issues with decision makers	Hillman and Hitt (1999)		Relational vs transactional
My company prefers dealing with decision-makers only when the need arises rather than building on-going relationships	Hillman and Hitt (1999)		Relational vs transactional
What percentage of your activities in dealing with regulations and legislative uncertainty is done collectively (i.e. together with other stakeholders or via industry associations, as compared to activities your company undertakes alone)?	Hillman and Hitt (1999)		Alone vs collective
In order to influence the legislative/regulatory processes we share relevant information with the decision maker directly.	Hillman and Hitt (1999)		Information-sharing
In order to influence the legislative/regulatory processes we provide direct financial incentives e.g. campaign contributions, PPPs, bribes	Hillman and Hitt (1999)		Financial incentivisation
In order to influence the legislative/regulatory processes we try to create lobby/support groups/coalitions for the cause	Hillman and Hitt (1999)		Constituent building
We systematically search for additional information.	Engau and Hoffmann (2011a,b)	Investigation	Reduce
We engage in the policy-making process to contribute to the decision making.	Engau and Hoffmann (2011a,b)	Influencing	Reduce
We postpone our strategic decisions until we have more certainty.	Engau and Hoffmann (2011a,b)	Postponement	Avoid
We rearrange our portfolio through mergers, acquisitions, or divestures to be less exposed to regulatory uncertainty.	Engau and Hoffmann (2011a,b)	Integration	Adapt
We select specific issues in our business environment to focus on in order to simplify decision making.	Engau and Hoffmann (2011a,b)	Simplification	Reduce
We change our organisational structure, e.g., by increasing decentralisation or lowering the degree of formalisation, to better deal with the uncertainty.	Engau and Hoffmann (2011a,b)	Internal design	Adapt
We prepare for more than one potential outcome of the policy-making process.	Engau and Hoffmann (2011a,b)	Flexibility	Adapt
We join forces with others, e.g., suppliers, customers, or competitors.	Engau and Hoffmann (2011a,b)	Cooperation	Adapt
We observe the activities of other companies and follow them if appropriate.	Engau and Hoffmann (2011a,b)	Imitation	Adapt
We create predictability, e.g., by negotiating contracts or long-term rules with other companies or the government.	Engau and Hoffmann (2011a,b)	Stabilisation	Avoid
We agree on the regulation scenario we consider the most likely and focus on preparing for this scenario.	Engau and Hoffmann (2011a,b)	Substitution	Disregard
We shift our business to markets probably not affected by a regulation.	Engau and Hoffmann (2011a,b)	Withdrawal	Avoid
We only make investments which have a guaranteed positive return regardless of the outcome of a possible future regulation.	Engau and Hoffmann (2011a,b)	No-regret moves	Disregard

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