

KOÇ UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES AND HUMANITIES

**CORPORATE DIPLOMATIC ACTIVITY: HOW FIRMS BEHAVE IN
FOREIGN POLICY**
THE CASES OF ENERGY AND DEFENSE SECTORS
IN TURKEY AND IN THE UK

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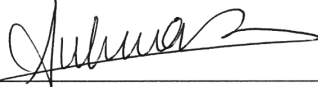
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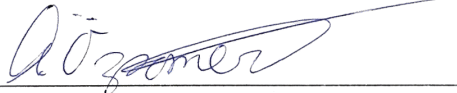
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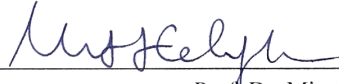
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Abstract

As a result of the end of the Cold War and advances in technology, the lines that divide business and politics have become increasingly blurred. The rapid globalization the world has experienced in the past decades brought the entanglement between business and politics to the international level. Firms get involved in cross-border political matters to achieve their business objectives. Governments deal with business activities to understand and shape their impact on societies. Consequently, organizations and institutions develop new capabilities to survive and thrive in this complex environment. This thesis is based on the assertion that business as an actor should become a part of the scientific inquiries and practical applications of international relations discipline. It makes the case that business and international politics have gotten inextricably mixed, but this phenomenon is yet to be studied theoretically. To this end, it suggests a conceptual model called “corporate diplomatic activity” (CDA) and empirically tests its validity in the energy and defense sectors in Turkey and in the UK. The data is gathered via semi-structured in-depth interviews from business and government circles in both countries. Throughout the research, firms, institutions and international mechanisms are analyzed to uncover the underlying drivers of the business and international relations. Change of firm’s governance structure in response to political circumstances are studied in the case of Turcas A.S., institutional traits and their implications on firm behavior are studied in the cases of Turkey and South Korea, and international drivers of firm behavior are analyzed in sanctions regimes. The CDA model applies the core insights of resource dependence, institutional theory, public choice and resource-based view to the research question and builds a three-layered model that analyzes firm, sector and political/institutional level determinants. The model is suggested to become the third pillar of nonmarket strategy literature - along with corporate political activity and corporate social responsibility - which deals with public policy and social issues respectively. By doing so, CDA makes a contribution to the international relations and strategic management fields by developing a theoretical framework within which further studies on the impact of business on international politics can be studied. It also provides practical ideas to business executives and policy-makers.

Keywords: Nonmarket Strategy, Corporate Diplomatic Activity, Corporate Political Activity, energy, defense, institutional theory

Özet

Soğuk savaşın bitişi ve teknolojideki gelişmelerin neticesinde, iş dünyasını ve siyaseti ayıran çizgiler gittikçe belirsiz hâle geldi. Dünyanın deneyimlediği hızlı küreselleşme, iş dünyası ve siyaset arasındaki bu iç içe geçmişliği uluslararası seviyeye taşıdı. Şirketler ticari hedeflerine ulaşmak için sınır aşan siyasi konulara dâhil oluyorlar. Hükümetlerse toplumlar üzerindeki etkisini anlamak ve şekillendirmek için ticari faaliyetlerle ilgileniyorlar. Sonuç olarak, organizasyonlar ve kurumlar bu karmaşık ortam içerisinde varlıklarını devam ettirebilmek ve başarılı olmak için yeni yetkinlikler geliştiriyorlar. Bu tez, iş dünyasının bir aktör olarak uluslararası ilişkiler disiplininin bilimsel araştırmalarının ve pratik uygulamalarının bir parçası olması gerektiği savının üzerine kurulmuştur. Tez, iş dünyası ve uluslararası politikanın bir birinden ayrılmaz bir biçimde iç içe geçtiğini, ancak bu olgunun teorik olarak hâlâ incelenmediğini ortaya koymaktadır. Bu amaçla, “kurumsal diplomatik faaliyet” (KDF) olarak adlandırılan bir kavramsal model öneriyor ve modelin geçerliliğini Türkiye ve Birleşik Krallık’ta enerji ve savunma sektörlerinde test etmektedir. Veri toplaması her iki ülkedeki iş ve hükümet çevrelerinde yapılan yarı yapılandırılmış derinlemesine mülakatlarla ile gerçekleştirilmiştir. Araştırma boyunca, şirket, kurum ve uluslararası mekanizmalar iş dünyası ve uluslararası ilişkilerin temel etkenlerini ortaya çıkarmak amacıyla incelenmiştir. Şirketlerin siyasi koşullara cevaben kendi kurumsal yapılarını değiştirmesi Turcas A.Ş. vakasında, kurumsal farklılıkların şirket davranışına olan etkisi Türkiye ve Güney Kore karşılaştırmasında, şirket davranışının uluslararası etkenleri ise yaptırım rejimleri çerçevesinde incelenmiştir. KDF kaynak bağımlılığı, kurumsal, kamu tercihi ve kaynaklara dayalı bakış kuramlarının temel iç görülerini araştırma sorusuna uyarlayarak şirket, sektör ve kurum seviyelerindeki etkenleri ortaya koyan üç katmanlı bir model inşa etmiştir. Modelin piyasa dışı strateji literatürünün – kamu politikalarını inceleyen kurumsal siyasi faaliyetler ve toplumsal boyutu inceleyen kurumsal sosyal sorumluluk kavramları ile birlikte – üçüncü ayağı olması önerilmektedir. Böylece KDF, uluslararası ilişkiler ve stratejik yönetim alanlarına iş dünyasının uluslararası politika üzerindeki etkisini gelecekte yapılacak çalışmalarda teorik bir çerçevede incelenmesini sağlayacak bir katkı yapmaktadır. Ayrıca iş dünyasının yöneticilerine ve politika yapıcılara pratik fikirler sunmaktadır.

Anahtar kelimeler: Piyasa dışı strateji, kurumsal diplomatik faaliyet, kurumsal siyasi faaliyet, enerji, savunma, kurumsal teori

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My journey to complete the Ph.D. and accomplish the goal of making a contribution to the literature could not have been possible if I have not been able to receive the support of outstanding individuals that I am lucky to have in my life.

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I have also been fortunate to have a professional consultancy job as the managing partner of StratejiCo., which gave me the possibility to observe fundamental issues of business and politics that are related to my academic research. I have gained tremendous experience in working with multinational companies and their business executives – whose names I prefer not to disclose -while trying to find solutions to thorny questions. Being involved in this professional network helped me to get different perspectives from private and public sectors.

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To my family,
whose happiness will always be my life's greatest accomplishment...



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Preface

Approaching social sciences in a holistic manner is an exciting endeavor. The researcher discovers new insights by exploring concepts and theories to make a novel contribution to various disciplines. Yet, such attempts are not without its challenges. Going beyond the disciplinary boundaries requires the ability to remain focused on the research question while exploring broader ideas in various fields. Thus, the social scientist finds himself in a situation where he must strike the balance between generalization and specialization. This means making connections between the established disciplines in order to suggest new paradigms.

The starting point of this thesis is inspired by the idea that the two disciplines of social sciences, namely international relations and strategic management, have much to learn from and contribute to each other. While both disciplines are also sub-fields, of political science and business respectively, they remain disconnected from each other.

Business has been mostly perceived as a somewhat standalone organization, one that has its own objectives and interests that are not related to its environment. Academic studies and managerial practices have remained apart from social and political considerations, and mostly dealt with the question of achieving and sustaining competitive advantage in the face of market rivalry (It should be noted that even today's fundamental questions like strategy and competition have appeared as a result of the transformations in the global economy in the second half of 20th Century). The literature that aims to make connections between business and other social disciplines is relatively new. As this study will explore in detail, social and political aspects of strategic management have emerged as a result of increasing pressure from

stakeholders that have not been considered as the actors of business in the past, but nevertheless had an impact on its practice. Indeed, if one looks into the theoretical and empirical development of the business literature, as well as organization of the firm as a managerial practice, it becomes evident that the social and political circumstances, and a wide range of stakeholders have been the at the forefront of building economic and commercial institutions.

International relations has a specific focus on studying the relations between governments and other organizations. While various topics are of interest to the researchers, the objective has always been to understand what makes countries behave in a certain way in the international system. The economic aspect of international relations – international political economy – provides a perspective into the economic causes of international politics. Nevertheless, business has still not made its way into the international relations discipline. This is despite the fact that from a historical perspective, business has been one of the drivers of international politics. Even though the boundaries between public and private spheres were not that clear before the 20th Century (most business organizations belonged to the rulers), entrepreneurs and businessmen who explored new technologies and territories had a certain impact on the relations between sovereign political entities.

In brief, if one looks into the roots of international relations and strategic management disciplines, the dialogue between the two remains unexpectedly absent. I have decided to take on the challenge. The attempt to bridge these two fields has turned out to be a more demanding task than I had initially thought. I have faced five main difficulties throughout the research.

First, conducting an interdisciplinary study required an sharp attention to disciplinary boundaries. Each discipline has its own terminology and bringing them together needs methodological rigor to ensure that the research is a coherent whole. Second, I had to familiarize myself with the strategic management literature. This was a new territory for a researcher with a political science background. Third, the topic and cases created additional obstacles to obtain information. Sectorial dynamics in energy and defense areas were hard to uncover, especially on a sensitive topic such as the relations with the government and their implications on foreign policy outcomes. Fourth, the two cases - Turkey and the UK - went through massive political transformations throughout the study. While Turkey's political regime was transformed into Presidentialism as a result of the referendum that was held in 2016, another referendum in the UK resulted in the so-called Brexit, Britain's gradual disintegration from the European structures (as of this writing, the new political system of Turkey is still being deployed via legal changes and the talks between the British government and the EU are ongoing to determine their new relationship). These transformations led to the changes in formal and informal institutions, including those that arrange the relations between public and private institutions which stand at the core of this study. Fifth, I have tried to make the research have practical implications for policy-makers and business executives. While pursuing this ambition, I have continuously realized that there is still a mismatch between the academic research and needs of the business professionals.

The above-mentioned challenges notwithstanding, I have had the possibility to benefit from exploring the intersection between business and international relations (and political science in general). While there is a growing literature in this area, I have realized that there is still improvement to be made, especially by the contributions from

social science scholars. Moreover, courses on nonmarket strategy or corporate diplomacy have become an integral component of the curriculum of prestigious universities. This means that the scholarship in this area will be further expanded. It also means that insights generated at the intersection of business and politics will be reflected in managerial practices for many years to come. Being a business consultant on corporate and public affairs has provided me with valuable insights in this respect. I have had the possibility to observe the evolution of managerial ideas and practices, as well as make the use of management engagements for academic purposes. Advising clients from a wide range of sectors gave me the opportunity to get first-hand experience.

What has started as an intellectual curiosity turned out to be a challenging yet rewarding experience. I hope this experience will have a positive contribution to make business, politics and society work better.

1. Introduction

1.1. Research Question, Motives and Objectives

The former British ambassador to the United Arab Emirates Dominic Jerney had been appointed as the chief executive of UK Trade and Investment (UKTI) on May 1st, 2014.¹ Two members of the British cabinet, business secretary Vince Cable and Foreign Secretary William Hague issued declarations in support of Mr. Jerney's appointment, underlining that the British economy and foreign relations benefit from the cooperation between their departments.

The two ministers made these declarations because they had a common interest in making Mr. Jerney's appointment a success, for both personal and institutional reasons. Just like most public and private sector decision-makers, the British ministers are aware that their individual efforts alone will make little difference in today's economic and political circumstances. There is a need to combine capabilities of different actors - both public and private - to achieve the desired ends. It is the density and the level of interconnectedness between various fields that determine the ultimate success of each connected part, as well as that of the system as a whole. In this case, officials in charge of enhancing UK's foreign policy and international business interests have demonstrated a common desire to build a bridge between their respective fields. Practical reasons to deliver the required outcomes drive the actions of actors. It indicates how international relations and international business got inextricably intertwined. But it is also a sign of the pressure building on policymakers and scholars to study and implement such actions.

¹ "British Ambassador to UAE is new UKTI Chief Executive", *UK Government*, 1 May 2014 (accessed 4 May 2014) <https://www.gov.uk/government/news/british-ambassador-to-uae-is-new-ukti-chief-executive>

Globalization has turned international relations into the study of complex interactions. Two major causes of this complexity are the variety of actors and interdependency of issues. Variety of actors is caused by the amalgamation of non-state players and their increasing significance in international politics. Each has its own interest and is embedded in its relational network. They interact both among themselves and with governments, affecting policy outcomes at national and international levels. Thus, policy-makers have to gauge interests and influence of each relevant player before deciding on a certain action. Moreover, issues do not stand in isolation from each other. This is why the second significant cause of complexity is issue interdependency. It is hardly possible to identify which single factor of international relations (I.e., politics, economy, security, geography, environment, business etc.) has a specific impact on others. What matters for a non-state actor may fall under the scope of a government's responsibility, and vice versa. In the end, decision-makers find themselves in a position where they have to deal with various players and issues at the same time.

As the UKTI example demonstrates, a major area of multi-player, multi-issue interaction is business-to-government relations. It involves two main players, governments and firms, as well as their diverse political and commercial interests. Government as an actor operates under political constraints and its primary interest is to protect the national interests, while appealing to the electorate to remain in power. It has a specific task to grow the economy (mostly by increasing exports and attracting foreign investments) so that new jobs will be created for current and potential constituents. For this reason, governments rely on the private sector's performance. It is also under the obligation to regulate the markets to boost growth or reallocate resources in order to meet political, economic and social requirements. Firms, on the

other hand, operate according to market forces. But they also need favorable regulations, administrative endorsement and financial incentives to maintain profitability. It goes without saying that there is a natural inclination for interaction between two sides on a variety of issues. Indeed, the professional gap between policymakers and business executives has been narrowing all over the world (Baron, 2013). This has implications on both management practice and scholars. The nonmarket strategy literature deals with these implications.

The research on nonmarket strategy has been expanding over the past decades, encompassing various aspects of firm's political, social, cultural and legal environment. As the subsequent chapters will discuss in detail, how firms affect their environment and are affected by the environmental factors has become a managerial and scholarly interest. There is a pragmatic reason behind this growing interest. The ever-increasing complexity of the business dynamics lead to the result that firms need to deal with governments, interest groups, individuals and other nonmarket stakeholders more attentively to gain and sustain competitive advantage (Bach & Allen, 2010). While the strategic management literature has a tendency to focus on the impact of nonmarket strategy on organizational performance, public policy domain provides perspectives on the implications for political, institutional and regulatory structures. From the nonmarket actors' point of view, regulating the political and social interactions with firms is an essential element of economic and societal development (Ordeix-Rigo & Duarte, 2009). In line with the need to manage the interrelated areas of business environment, the scholarship on nonmarket strategy has grown since Baron's seminal study on the topic (Baron, 1995b). The theoretical focus on firm's nonmarket environment encompassed conceptual contributions from various

disciplines. Therefore, the nonmarket research continues to be an interdisciplinary field with the potential to bring about new paradigmatic approaches.

Despite the advances in nonmarket strategy, there is still room to expand the scholarly and managerial knowledge. This is especially the case regarding the firm's activities at international scale. The political power of firms has elevated into the international level as a result of the rapidly globalizing world economy. However, the existing nonmarket strategy literature remains confined within the public policy domain. Our understanding of the interactions between firms and governments within the foreign policy domain remains limited. This is despite the calls from scholars that international relations and international business should "talk to each other" for a better understanding of why governments and firms behave in the way they do (Stopford, Strange, & Henley, 1991). Therefore, there is a gap in the literature to study the firm as the unit of analysis in international relations. Such an attempt can provide two main benefits: first, having a broader understanding of nonmarket strategy, that will include the factors at play in the international domain. Second, the international relations theory would also enrich its theoretical outreach by encompassing business as an actor. In brief, both strategic management (nonmarket strategy in particular) and international relations disciplines are bound to benefit from a study on business as an actor of international relations.

This study builds upon the assumption that corporate power extends beyond national borders and firms become international political actors. A logical implication of this argument is that firms are in a position to respond to political relations between governments. This theoretical interest leads to making two main contributions. First, "actorness" of firms in international relations becomes a key factor for theoretical and

practical analysis. By positioning the firm as an actor of international relations, this study suggests a new unit of analysis in related fields. Second, the suggested framework aims to provide a better understanding of how the firm-level responses to international relations make it an agent of foreign policy. While developing and deploying firm-level capabilities may be driven by the purpose of achieving competitive advantage, the firm also becomes a part of its environment as well by taking certain actions.

The core of this thesis is to develop and empirically test a conceptual model to explain firms' involvement in international relations. The main purpose is to answer the “how” question regarding firms' behavior in this realm. This study brings the firm into the field of international relations by positioning it as an agent of foreign policy making. By keeping the focus on the firms' involvement in foreign policy, this study aims to extend the nonmarket research into the field of international relations. More specifically, I try to answer the following question: what are the determinants of firms' foreign policy behavior? What will emerge as an outcome of this theoretical extension is the conceptual development of “**corporate diplomatic activity**”. This concept will lay the groundwork for further theoretical development and can have implications in management practice. As we will review more in detail in the second chapter, the nonmarket research literature is currently composed of corporate social responsibility (CSR) and corporate political activity (CPA) literatures. By developing the concept of corporate diplomatic activity (CDA), this study enlarges the scope and depth of nonmarket research by integrating CDA as the third pillar. In addition to that, this study also contributes to the field of international relations. The existing foreign policy analysis literature does not have a well-established scope on the firm as an actor.

Therefore, the newly developed CDA framework (to be detailed in chapter 4.3.) is the main theoretical contribution of this thesis.

The scope of this study differs from the previous researches in the literature that attempt to generate a multidisciplinary theorizing that includes both international relations and international business fields (D. Lee & Ruel, 2012). While the idea to generate novel theoretical contribution that stems from the business and politics fields is not entirely new, this study provides a fresh perspective. There are differences in terms of the scope and goal of existing studies, and that of this thesis. For instance, confusion may arise about seeming similarities between the contribution of CDA and the field of commercial diplomacy. However, there are clear distinctions between the two regarding research interests and unit of analysis. The commercial diplomacy research concerns itself with the application of diplomatic tools to the field of business. It provides an understanding of how business can benefit from diplomacy, either via policy actions by governments or using their own capabilities. According to Steger, it aims to develop and implement activities that help firms to conduct business smoothly (Steger, 2003). In this sense, however, commercial diplomacy is akin to ‘corporate diplomacy’ that also studies how firms can get ‘license-to-operate’ from governments and societies, and what should be done to that end (Henisz, 2014). According to Kostekci and Naray, the term is used in two different types of activities (Kostecki & Naray, 2007). The first is to use diplomacy for trade policy making between countries. In this sense, governments engage in traditional diplomatic activities, but they do so to further the economic interests of their countries. The second is to conduct activities that are supportive of business interests. Commercial diplomats may engage with businesses and endorse them in so far as those commercial objectives are aligned with government’s goals.

Another field that involves similarities is with the topic of this thesis is economic diplomacy or the political economy of foreign policy (Kutlay, 2011, 2012; Okano-Heijmans, 2011; van Bergeijk, Okano-Heijmans, & Melissen, 2011). The field examines the impact of state's macroeconomic interests and their role in shaping the foreign policy outcomes. The economy can be a driving force behind the foreign policy behavior of governments depending on the priorities of the policy agenda, as well as the salience of economic issues in international relations. Therefore, political economy can be a factor of foreign policymaking and its deployment. While business is an economic and social actor at macro-level, such studies have not positioned firms the unit of analysis in their research. In other words, the role of firms in driving the economy of the foreign policy has not been made explicit in this discipline.

The research question of this study thus creates significant differences with these two areas by putting the focus on the firm's capability to respond - either by adapting or influencing - to the political relations between governments. Therefore, the first distinction is the unit of analysis. By providing a perspective on the firm's involvement in international politics, this thesis makes a unique contribution to the fields of both international relations and strategic management. On the international relations side, the scope of this study will aim to enrich our understanding of how governments interact with private sector actors when it comes to their behavior in international relations. Thus, a new input to the foreign policy analysis will be provided. On the strategic management side, the main novelty is to introduce the idea of achieving and sustaining competitive advantage - which is the core purpose of the field - in response to the external factors at international level. While the existing literature does not rule out the impact of nonmarket factors, it only deals with this question at the national

level. Thus, the second distinction is scaling up the nonmarket research in the international relations discipline.

The motivation of this research is also in line with the theoretical considerations outlined above. I believe this thesis will create new avenues for scholarly and practical knowledge. For the practical purposes, the need for understanding managerial implications of the nonmarket environment has been growing exponentially. Business actors are developing new management skills to manage the power relations between government, business and society for being successful in getting a “license to operate” (Ordeix-Rigo & Duarte, 2009). Today, most large corporations have corporate affairs departments to meet the increasing expectations of various domestic and foreign stakeholders, such as governments, international organizations, NGOs and pressure groups. Corporate expectations require firms to build private sector diplomacy, to “engage the widening network of consumers, organizations, communities and governments that make up stakeholder groups.”² Thus, diplomacy has become a core competency of businesses, especially those with cross-border operations. International firms have a greater urge to minimize the risk of creating political disputes or missing business opportunities (Saner, Yiu, & Sondergaard, 2000).

“Indeed, managing the growing interaction between a company and its ‘stakeholders’ is fast becoming the primary function of public affairs executives—a broader task that goes well beyond their traditional focus on maintaining relations with investors and governmental authorities. This has triggered in many large firms a substantial reorganization and re-orientation of the public affairs department, creating internal “foreign policy” units which develop diplomatic strategies, analyze emerging

² “Building private-sector diplomacy”, McKinsey&Company Insight, October 2009, http://www.mckinsey.com/insights/corporate_social_responsibility/building_private-sector_diplomacy

global issues that affect the company's "interests," and manage relationships with external stakeholders (Muldoon, 2005, p. 354)."

On the academic side, the research on business-to-government relations has been in line with the managerial requirements. Moreover, there is an obvious difference between the contributions of different fields in terms of scholarly interest in the subject. Since the topic of this study is mostly business-to-government in scope, the theory building process includes concepts and findings of corporate political activity research. The literature review demonstrates that the nonmarket research is mostly dominated by the perspective of management scholars, while the contributions from the political science have remained limited. The increasing focus on government relations has brought about the extensive literature on how businesses should interact with governments: bargaining models, efficient lobbying strategies, the effectiveness of corporate donations, personal political agendas of top-level managers, foreign direct investments and the impact of firm size on negotiations with governments are among the topics that are studied. However, the research mostly centered on the performance of firms, leaving the "social aspect" questions regarding the private sector (e.g., how policymakers consider the input of private sector, why the level of social trust to business remains low) unanswered. Consequently, most of these studies have been published in management journals, providing greater insight on firm-level implications.

The difference in academic interest between management and political science fields is somewhat unsurprising. After all, profit-driven private sector players are expected to be quicker to adapt to the changing nature of business-to-government relations, and thus lead to scholarly attention in the field. To be fair, there is a growing recognition

of the role that private sector plays in producing policy outcomes. But the literature demonstrates that the field has been constrained by public policy related issues, such as regulations, tax reform, competition, and so forth. In other words, political scientists have studied business-to-government relations only in so far as it relates to the polity and policy outcomes. A major premise of this thesis is that a similar approach can be applied to international relations field. Understanding how business affects international relations will provide a greater perspective to both policymakers and scholars.

Currently, there is no solid evidence that scholars of international relations have paid equal attention to how concepts and paradigms of international business and management can contribute to the discipline (McGuire, 2015). The conceptual development of firm as a political actor is still not a well-founded area in international relations. That said some scholars have previously indicated the benefit of getting involved in theoretical discussions on the intersection of business and international politics. Stopford, Strange and Henley are among the first who stated that the two fields, international relations and international business, should 'talk to each other' for a better understanding of why governments and corporations behave in the way they do (Stopford et al., 1991). Nevertheless, the international aspect of business effect on government remains an area that needs further development. According to McGuire, the international area - driven by the increasing competition on a global scale - is a promising field for the further development of the nonmarket strategy. Indeed, international relations has much to offer to the management studies by clarifying the mechanisms by which the firm can influence the state behavior, which is the main subject of the field.

Each thesis is an attempt to provide an internally coherent argument about a novel idea. The development of what this thesis terms “corporate diplomatic activity” as a novel theoretical construct in nonmarket research is an attempt to this end. Theory development is a much-needed pillar of social sciences and an exciting part of the academic career. The personal motivation of this thesis comes from the ambition to position the doctoral study in an interdisciplinary area with a significant potential to grow both in academic research and managerial practice. Approaching the management studies from the political science and international relations perspectives does not only create new theoretical insights but also creates the possibility to contribute to the real-life challenges that business leaders and policy-makers face every day. It has the potential to contribute to the focus of management scholars on firm performance, as well as deepening the understanding of decision-makers (both public and private) about the non-state actors. Thus, by attempting to theorize the firm as a political actor of international politics, I hope to make an impact on the way we understand and govern the relations between the two critical actors at international level: firms and states.

1.2. Research Strategy

1.2.1. Methodology

This study attempts to develop a firm-centered view of international relations. This means describing the firm as an international political agent, as well as establishing the relationships between firm behavior and foreign policy outcomes. Therefore, the research strategy is in accordance with the theoretical purpose of making sense of existing observations by understanding the causal relationships between the elements of the research subject (Shah & Corley, 2006). Following the footsteps of Blaikie, I aim to suggest a theoretical construct by describing an observed phenomena, deducing

hypotheses from the existing theories in social sciences and then testing them via empirical research (Blaikie, 2010). In line with the research question, the research design pursues the goal of reaching generalizable conclusions. This is why this study adopts a theory building approach, rather than theory testing, because it aims to answer the “how” question (Kathleen M Eisenhardt & Graebner, 2007).

Doz claims that social sciences and particularly the field of international business are in need of theory building (Doz, 2011). The theoretical need is often indicated by various studies. Even though theory development is highly desired by the journal editors and researchers alike, the efforts in this area are far from being satisfactory. There are pragmatic and methodological reasons behind the lack of engaging in theoretical studies in the literature (Colquitt & Zapata-Phelan, 2015). Such studies require data collection and analysis techniques that can provide thick description of events, which can be achieved through conducting qualitative research or mixed methodologies. Gathering data on business decisions, especially as they relate to the political strategies in international relations is a challenge for the researcher. Another challenge of theory-oriented research is identifying the right unit of analysis and analyzing it within the appropriate context. Under the scope of the present study, identifying the firm as the unit of analysis in international nonmarket context was only possible as a result of iterative researches.

Deducing hypothesis from existing theories and drawing inferences from the observed phenomena requires a two-pronged methodology. The research approach that I pursue to solve this challenge is based on combining cross-case and within-case analyses. While in some cases such an approach may indicate mixed methodology, it is important to note that the mixed research approach does not necessarily indicate the

use of quantitative methods and statistical models. Indeed, Goertz argues that “the central role of case studies is combining within-case causal inference with analyses of causal mechanisms (Goertz, 2017, p. 2).” According to George and Bennett, there is a growing consensus that “the strongest means of drawing inferences from case studies is the use of a combination of within-case analysis and cross-case comparisons (George & Bennett, 2005, p. 87).” Such studies aim to investigate causal mechanisms and make causal inferences within individual cases. As King et.al. state, case studies are fundamental to social sciences because they are essential for description. Causal inference (or explanation) is possible only the phenomena to be studied are described with a reasonable degree of precision. For this reason, I will first describe the causal mechanism and then demonstrate the causal relationships throughout the study. Therefore, exploring causal mechanism through comparative cases and then demonstrating the validity of those mechanisms - whether they work as proposed or not - within cases is the main methodological way adopted in this thesis. Such a two-layered research approach will therefore provide generalizable theoretical conclusions.

Hypotheses development and theory building require rich empirical descriptions. This is why qualitative research is often employed in this type of work (Doz, 2011; Woodside & Wilson, 2003). Qualitative methods are powerful in terms of data collection and analysis, especially when used for developing new or refining new theories. When it comes to the different methodologies within the qualitative research, case study is considered appropriate for theory building. King, Keohane and Verba and Bennett and George state, case study research is the most insightful method to develop hypotheses and build new theories (George & Bennett, 2005; King, Keohane, & Verba, 1994). According to Eisenhardt and Graebner, the relevance of theory building from case studies comes from the fact that “it is one of the best (if not the

best) of the bridges from rich qualitative evidence to mainstream deductive research (Kathleen M Eisenhardt, 1989, p. 25).” Therefore, the theoretical construct that this study suggests will be built upon comparative case studies.

As the previous studies suggest, building theories from case studies is an effective approach. Eisenhardt describes the process of inductive theory building as a process beginning with no theory under consideration. He makes this argument to avoid bias and the possibility of limiting the findings. While the research approach should avoid a priori theorizing during data collection, it should not aim to ignore contextualization of findings to advance our understanding of the social world. As Eisenhardt admittedly says, the “clean” state is hardly possible. The researcher comes with a certain mental model that helps analyze the observed phenomena and offers new thinking. Therefore, the purpose of this study requires adopting a deductive approach. Anckar describes the deductive process as follows:

“When the main research interest is on the independent variable the research question is expressed in the sentence ‘Does X affect Y?’ We are, in other words, not primarily concerned with explaining all the variation in the dependent variable, i.e. accounting for the explanatory value of every single explanatory factor. Instead, we have the ambition to establish whether or not there is a causal relation between one specific independent variable and the dependent variable (Anckar, 2008, p. 392).”

Deductive research is particularly useful in establishing whether or not there is a causal link between an independent variable and the dependent variable, rather than trying to explain all the variation in the dependent variable. In this case, the research is limited to finding out the causal link between ‘firms corporate diplomatic activities’ and ‘foreign policy outcomes of governments’. Thus, theory’s ability to explain the

variance in the dependent variable is the main criteria of its evaluation (Colquitt & Zapata-Phelan, 2015). In deductive study, the goal of the analyst is to establish causal mechanisms and clarify the theoretical argument, and then empirically verify the model to test whether it functions as theorized (Beach & Pedersen, 2013). Throughout this thesis, I identify independent variables in the beginning of the research process by means of theoretical reasoning. Though as a likely consequence of engaging in an interdisciplinary research, those variables are prone to adjustments at further stages of the research. It helps limit the question being asked and therefore provides the researcher with the ability to focus on developing new theoretical constructs.

In order to uncover the causal mechanisms via within-case analysis, I use process tracing to observe the links between possible causes and observed outcome. Process tracing is described as a procedure for identifying steps in a causal process leading to the outcome of a given dependent variable of a particular case in a particular historical context. According to Goertz, to do process tracing “means to make causal claims about the case (Goertz, 2017, p. 2).” Theory-centric process tracing can aim to both theory building (does the mechanism function as theorized?) or theory building (what’s the causal mechanism?). The researcher looks for diagnostic pieces to see whether the mechanism is supported or not.

Operationalizing the key terms is important to clarify the causal links between the independent and dependent variables during the empirical research. Nonmarket activities refer to the set actions that a firm undertakes to shape its political, social and cultural environment in favor of its business interests (Bach & Allen, 2010). Variation in foreign policy indicates the difference that takes place in foreign policy outcome as a result of an outside intervention. Therefore, the research focuses on why and how the

nonmarket activities of firms can adapt to or influence the variations in relations between countries.

1.2.2. Case Selection

Case selection is a critical component of the research strategy. In line with the main purpose of this study that aims for theory building, the sampling has to be both representative and useful in explaining the variance of theoretical interest (Seawright & Gerring, 2008). Dooley argues that new theory does not emerge quickly “but will be developed over time as the research is extended from one case to the next and more and more data are collected and analyzed (Dooley, 2002, p. 336)” Nevertheless, sampling and analysis of the cases constitute the main pillar for the scientific value of the research, whose evaluation is based on generalizability and internal validity. While clarifying the misunderstandings regarding case-study research, Flyvbjerg argues that this type of research does not impede context-independent knowledge and generalizability (Flyvbjerg, 2006). Case selection approach of this study thus serves this purpose.

As described in the subsequent section, I will seek empirical evidence in two cases to discuss the validity of the proposed theoretical framework on firms’ impact on international politics. There are two main strategies to conduct a comparative case study: most similar cases design and most different cases design. There are various arguments on how most different systems design can be used. The dependent variable does not necessarily need to be constant for most different systems design to be adopted. This is important given the fact that dependent variable of this study (firm’s nonmarket strategy in international relations) might vary according to the causal relationship. If most different systems design is to be used in a deductive study, Anckar

argues that the dependent variable should not be considered “prior to the research problem.” Naturally, the goal in a deductive study is to examine representative cases in order to reach general conclusions. Seawright and Gerring state “most different cases that are broadly representative of the population will provide the strongest basis for generalization (Seawright & Gerring, 2008, p. 298).” Therefore, the cases studied in this research have significant differences when it comes to the variables that will be analyzed.

While there are many strategies to select the cases, most different cases design is thus adopted to meet this needs of this research. For the purposes of this study, a comparison between Turkey and the UK in energy and defense sectors seem appropriate. Turkey is a developing country whose institutional arrangements differ significantly from those of the UK (Cetin, Cicen, & Eryigit, 2016). According to North, formal and informal institutions structure social interactions (North, 1990b). One such interaction is obviously that takes place between firms and governments. The idiosyncrasies of Turkey’s interactions are particularly salient when it comes to the relations between business and government (Keyder, 1987). The emergence of Turkish business class has largely been dependent on state policies to create a national bourgeoisie (Bugra, 1994b). But it also created policy-induced uncertainties and erosion of social legitimacy on behalf of the business class (Bugra, 1991, 1994a). The lack of state and business cohesiveness has resulted in somewhat confrontational relation between both sides, where the business class considers the state as the main source of wealth, while the state considers the business class as a mere tool of policy objectives (Ozel, 2015). The British example has clear distinctions with Turkey. The British institutional structure creates a distance between public and private sector, whose interactions are based on mutual or diverging interests, rather than ideological

lines. In contrast with the determining effects of Turkey's informal institutions, the UK has formal effective institutions that arrange the relations between both sides. Moreover, business interests drive the political goals, a stark difference with Turkey.

The comparison between the two different cases is complemented by the cross-sectorial examination. Energy and defense sectors are selected due to their presumable relation with international politics. The selection of these two sectors can be justified by using the critical case selection. In this case-selection method, the researcher demonstrates that the critical cases - most likely or least likely - are useful to illuminate the causal relationship that this study aims to establish, and if that fails, then then it becomes clear that the mechanism does not work. This study assumes that the two sectors are the most relevant in this respect, because they are supposedly interrelated with the firm's interactions at international factors. Business performance in both sectors can be dependent on foreign policy outcomes because of cross-border regulations and political considerations. This is why energy and defense firms are presumed to be involved in international political relations by either adapting themselves to the developments in international relations or by trying to cause variations in foreign policy outcomes. In other words, firm's nonmarket strategy vis-a-vis international politics is expected to be observable in those cases. Therefore, cross-country and cross-sector analysis provides the possibility of broadest possible comparison to study the subject. The two countries have comparable features at firm, sector and political structure levels (Summarized in Table – 1 below).

Table - 1

Country/ Level	Resource- based View	Sector-level	Institutional/Political Structure
Turkey	Small firms, less financial and technological capacity, narrow international presence.	Developing energy & defense sectors, dependent on imports for energy security and has a strategy to become an energy hub between the west and Cyprus, Iraq and Azerbaijan. Fledgling defense sector, slightly increasing share in exports. Both industries are critical to foreign policy.	Less developed political institutions, no institutional framework for private sector impact on policy-making, greater political & economic risks.
UK	Big firms, greater financial and technological capacity, wider international presence.	Advanced energy and defense sectors, firms in those industries are the biggest among British firms. Both industries are critical to foreign policy.	Developed political institutions, UKTI as the institutional framework for private sector impact on policy-making, stable political & economic situation.

1.2.3. Data Collection, Limitations and Boundaries

The main data collection method of the study is conducting in-depth interviews with former and current business executives, as well as government officials who are involved in business – government relations at international and national levels. The sample of interviewees is representative of the two countries and sectors to make cross-case comparisons (a list of interviewees can be found in Annex - I). The secondary

method is reviewing state archives and publicly available information. Finally, observation of the causal mechanism is used to make data triangulation. In-depth interviews provides the possibility of gathering information that is not accessible to outside observers, though it also has limitations. Archival research, on the other hand, provides the ability to identify whether there is a sequence of events subject to the hypotheses. Observation provides the possibility of analyzing how the social context and the agent influence each other. Therefore, data triangulation is employed to complement the findings.

Data collection methods used throughout this study are in line with the methodological choices. As a general rule, data collection procedure needs to be explicit and public. *First*, I conduct semi-structured in-depth interviews with business executives of each country and each sector. Interviewees have been notified about the purpose of the research and the use of findings. The questions are based on the hypotheses of the theoretical framework, but also allowed the flexibility to discover new insights throughout the interviews. *Second*, review of state archives and business news help me identify whether there is a sequence of events demonstrating the causal evidence of hypotheses. Here I refer to primary sources that can be obtained from official sources. *Third*, participating in academic and professional events that gather business and policy decision makers provides a broader view of the field. Another source of information is the findings of reputable professional firms and their surveys among executives.

The major limitation of this research is the scarcity of information that is available within the area of study. First and foremost, it is difficult to reach out to the senior interviewees, because of the limited time they can allocate. I have had the relative

advantage of making use of a professional network and accessing relevant information sources. Moreover, both business and policy decision makers are very cautious and confidential when it comes to sharing information related to the main research question. This is especially true for energy and defense sectors, because information that can be made public might be critical to business competitors, governments and other stakeholders.

The difficulty of conducting elite interviews is also something to be reckoned with when conducting qualitative research related to international business (Welch, Marschan-Piekkari, Penttinen, & Tahvanainen, 2002). Welch et.al. state four main obstacles that scholars may face in such research projects: obtaining access to elites, managing the power asymmetry between interviewer and interviewee, assessing the openness of elites, and providing feedback. Each of these obstacles proves to be valid in the research phase of this study.

This study is specifically about firms' nonmarket strategies in foreign policy and examines defense and energy firms in the UK and in Turkey. Therefore, literature review and empirical evidence included in this thesis is incorporated only so long as it serves the purpose of studying the research question. For instance, Turkey's energy policy and pipeline politics with Iraq is relevant to the research, but the focus remains on what role Turkish energy firms play in that regard, not the energy policy itself. Similarly, sanctions literature has a strong emphasis on the effectiveness on sanctions, multilateral vs. unilateral sanctions and the linkage between sanctions and regime type. However, this study carefully draws the boundary so as to keep the question focused on whether firms get involved in sanctions decisions and how sanctions change business-to-government relations.

This study aims to follow the main principle of good social science, that is it should be problem-driven and not methodology driven. The research strategy, case selection and data collection are thus aligned to achieve that purpose.

1.3. Theoretical and Empirical Contributions

The main theoretical contribution of this thesis is to introduce the ‘foreign policy’ aspect to nonmarket strategy, thus development of the concept of Corporate Diplomatic Activity (CDA).

The existing literature on nonmarket strategy is – as we will explore more in detail in the second chapter – are composed of corporate political activity (CPA) and corporate social responsibility (CSR) disciplines. While both are extensive and deep literatures on their own, their scope has well-defined boundaries. CPA deals with the firms’ interactions within the public policy area, while CSR involves societal factors. This thesis complements the nonmarket literature by taking the first step at the level of international relations. Table – 2 demonstrates the existing concepts in nonmarket strategy and where the conceptual development of CDA falls in this literature.

Table - 2

Development of Nonmarket Strategy Literature			
Existing Concepts			Theoretical Contribution
	Corporate Political Activity	Corporate Social Responsibility	Corporate Diplomatic Activity
Main Focus	Public policy	Societal factors	Foreign policy
Related Field	Political science	Sociology	International relations
Context	<p>Regulation and deregulation in macro-economic policies.</p> <p>Increasing influence of public policies on private sector.</p> <p>Increasing interest and capability building of firms in policy-making.</p>	<p>Changing expectations of citizens and social stakeholders from business.</p> <p>Increasing impact of social interests on public policy-making.</p>	<p>The importance of international political relations on business.</p> <p>Increasing uncertainty in international relations and political risks in specific countries.</p> <p>Transformation of diplomatic institutions and tools into more business-oriented objectives.</p>
Main Questions	<p>What means firms use to affect public policy making?</p> <p>What is the impact of CPA on firm performance?</p> <p>The linkage between organizational capability (political</p>	<p>How can firms respond to the changing demands of social actors?</p> <p>How can 'strategic CSR' benefit firms in terms of business performance?</p> <p>What are the mechanisms through which</p>	<p><u>Current thesis:</u> How do firms behave in foreign policy?</p> <p><u>Future research:</u> What is the impact of CDA on firm performance?</p> <p>What tools firms use to influence foreign policy making?</p>

	resources of the firm) and CPA performance. The impact of institutional environment on CPA.	firms can create stakeholder value? What is the relation between CSR and CPA?	How do political relations between governments change as a result of firm involvement?
Source: Author's compilation			

The literature review shows that business influence on foreign policy does neither fit within international relations, nor strategic management fields alone. However, a pragmatic way to extract concepts and methods from various fields, most notably corporate political activity in this case, will give me the ability to capture causal mechanisms that currently remain in isolation to each other. Therefore, I will pursue a strategy that adopts the “analytical eclecticism” approach with the aim of unpacking various concepts that will potentially contribute to explaining the main research question (Sil & Katzenstein, 2010). This means by taking on a subject at a wider scope – business involvement in international relations – I delve into the complexity of real world phenomena that do not fit within established research traditions. An important point here is not to lump together “incoherent normative positions”,³ while combining causal mechanisms in an attempt to frame a theory that meets the conceptual requirements of the research question.

In addition to making theoretical contributions to the two disciplines, this study - to the best of my knowledge - is the first work that uncovers empirical input for the

³ “Peter Katzenstein on anti-Americanism, Analytical Eclecticism and Regional Powers”, *Theory Talks*, 29 August 2008 (accessed on 14 February 2014), <http://www.theory-talks.org/2008/08/theory-talk-15.html>

relationship between firms and international relations. While there are previous studies that provided some empirical cases on the topic before, this thesis is the first attempt to validate the suggested theoretical framework with primary empirical data. Moreover, nonmarket research on energy and defense sectors are fairly limited. Therefore, uncovering the knowledge on these two sectors are will be helpful for further studies as well. Besides being a part of theory building, the empirical part is a contribution on its own because of the insight it provides regarding the rather obscure area of firms' involvement in foreign policy making.

1.3.1. Why We Need an Interdisciplinary Study

The central theme of this thesis is to conjoin international relations with strategic management to build a theory that explains the causal mechanism regarding firms' involvement in foreign policy. The existing literature shows that there is a theoretical gap in both fields about this topic that needs to be filled. Previous studies clearly indicate the theoretical necessities. Fuchs argues that international relations urgently needs theoretical development that takes into the account the power of non-state actors, in particular business (Fuchs & Lederer, 2007). Jarvis supports this view by asserting that the field of international relations does not fully capture the growing role of MNEs in international politics and the resources they control, while studies on MNEs do not contextualize interstate political factors that are in play:

“... intellectual constructs represent false dichotomies, and that the construction of boundaries separating the study of international relations from international business is detrimental to the longer term evolution of ideas, the betterment of knowledge, and an understanding of the technical means by which states, markets and commercial actors reflexively interact. (...) [The paper] argues that as a consequence of the

deepening complexity of the modern global political economy, the study of states and markets, the processes endemic to them and the actors who operate in them, requires a conjoining of international relations with international business in ways that comprise a fundamentally new and more inclusive paradigmatic approach (Jarvis, 2005, p. 202).”

However, the question has thus far received little attention despite the recognition of this theoretical gap. My goal is to bridge the two fields: building theoretical knowledge and seek empirical evidence on how strategic management can contribute to the theory of international relations and how international relations can expand the scope of nonmarket research. The specific area that this contribution will be addressed is foreign policy making. This study suggests that firms try and affect foreign policy decisions of governments for certain reasons, by employing various tools and according to a series of determinants.

The research question determines how the researcher will approach the problem. This thesis pursues a two-pronged strategy. On the one hand, the goal is to study business-to-government relations and its impact on foreign policy, and the topic requires interdisciplinary approach to be properly studied. On the other hand, I believe interdisciplinary research contributes a great deal to the knowledge in various academic fields, particularly international relations, so the topic is formulated in a way to enable interdisciplinary research. In other words, question and approach of this research are designed to be complementary.

The reason of this complementarity is two-fold. The first and practical reason is about the scope of work that corporate political strategists and policymakers deal with.

Since this study is closely related to foreign policy making processes, the fact that the practitioners of the area assume a ‘boundary-spanning’ role also defines the nature of scholarly work. Foreign policy-making procedures are based on getting insight from various fields, including input from the business community, and theoretical studies need to follow a similar path for the sake of being policy-relevant. The second reason is the idea of building a framework that creates a theoretical link between international relations and strategic management fields. By doing this, I aim to develop a holistic view of how businesses affect behaviors of governments at international level. Since the focus is on grasping the influence of private sector players on intergovernmental relations, the scope of the study will naturally encompass mainly these two fields.

The fact that interdisciplinary research is not bound by the limitations of specific fields does not mean that there is no unique rule regarding how such studies should be done. Conducting interdisciplinary research requires integrating phenomena, theories, methods and perspectives from across disciplines in a systematic and coherent manner:

“The very premise of interdisciplinarity is that disciplines cannot explain everything, and thus the first sign of disciplinary narrowness cannot be taken as proof of incoherence. Empirical evaluation of the logic and coherence of different disciplines is nevertheless both possible and desirable (Szostak, 2002, p. 109).”

Interdisciplinarity is defined as integrating “contributions of the various disciplines to provide holistic and systemic outcomes (Tait & Lyall, 2007, p. 1).” The researcher should not integrate each and every input from related fields, but should keep the focus on the research question while collecting information. Even though this is true for all studies, interdisciplinary researcher has a particular obligation to make sure that the outcome is not a collection of disorganized facts piled up from various disciplines.

Otherwise the outcome would risk becoming a rough combination of cross-sectional knowledge.

The research design should meet the requirements of interdisciplinary study. A major premise of such a research design is to provide the freedom to explore any theory or method or phenomenon that the researcher thinks appropriate to the question being asked (Szostak, 2002). It may sound less deterministic in terms of information collection and analysis, however a clear definition of what kind of theoretical and empirical knowledge is needed to study the main research question will avoid the risk of creating an ambiguous framework. That said exploring the boundaries of each discipline and how they can fit together to explain phenomena requires a high level of tolerance for ambiguity. But embracing this ambiguity is the responsibility of the scholar during the research phase and it is necessary until the scope is clearly defined. This is why interdisciplinary researcher has a greater responsibility to perform an extensive literature review. The literature review is not only aimed to find what needs to be included in the theory building phase, but also what needs to be left out.

An important distinction here is between multi-method research and interdisciplinarity. It is true that any attempt to explore the interaction between two or more disciplines may require adopting various approaches to empirical analysis. However, the multi-method research and interdisciplinarity are not equal. While the first is about *how* the data should be collected, the latter tells us *where* the research question needs to be located. Method diversity can be an integral part of interdisciplinarity, but it is not a prerequisite.

1.3.2. IPE as the Precedent

The goal of this study is inspired by the emergence of international political economy (IPE) field and aims to position its contribution as a sub-field. Therefore, exploring the emergence of IPE from theoretical and empirical point of views is of interest. Interdisciplinarity is a cross-sectional research approach that, if properly focused on the research question during data collection and analysis, will advance scientific and practical knowledge on the topic of interest. Understanding IPE as an interdisciplinary field and how it contributed to our understanding of international relations can set a precedent.

The field of international relations has incorporated theoretical and methodological knowledge from several other disciplines. Some insightful scientific approaches have emerged at the intersection between international relations and other fields. IPE was born in 1970s out of a similar quest. Prior to 1970, economics and political science were treated as two unrelated fields, each with its own view of international affairs (Cohen, 2008). However, it had become difficult to grasp the core questions without integrating phenomena from both fields.

Intellectual and theoretical developments need to be understood in their historical context. The rapid growth of world economy following the World War II – in terms of trade and FDI volume – has drawn attention to the role of economics as a major driving force in international relations. In fact, the new economic order was defined by institutionalism and commitment to multilateralism (Ravenhill, 2008). As a consequence, political systems, institutions, policymakers and procedures played a bigger role in how markets function and market players behave. On the other hand,

providing wealth to citizens has become a major concern for the governments in developed and emerging countries. Consequently, it has become inevitable for political scientists to delve into the topics that are primarily within the realm of economics.

Similar theoretical inquiries were made by international relations researchers. Interdependence among national economies has taken the interrelationship between economics and political science to international level. Not only the developments in global economy forced policymakers to combine insight from these two fields, but also international relations scholars got interested in understanding international economics as a part of their study. Strange pointed out that the “mutual neglect” between international relations and international economics seriously hampered the whole study of international relations (Strange, 1970). Her recommendation was to build a theory on international economic relations, “a political theory which is consistent with whatever other sort of theory of international relations we individually find most satisfactory.” Following Strange’s idea, the middle ground between politics and economics in the world arena has increasingly become the focus of international relations scholars. Robert Gilpin’s *The Political Economy of International Relations* laid the groundwork for the subsequent works in the field, especially based on the distinctions between realist, liberalist and Marxist views (Gilpin, 2001). Cohen in *International Political Economy: An Intellectual History* pointed out the differences between British and American schools of IPE (Cohen, 2008).

This broader theoretical concern is also reflected in country-specific case studies. Kutlay points out to a similar conceptual deficiency, specifically in the case of Turkish foreign policy (Kutlay, 2011). He argues that the literature on the Turkish foreign policy needs to integrate the developments in economy and business - rather than

limiting itself to security and identity-based considerations - to adequately explain Turkey's behavior in international relations. Onis underlines a similar point by arguing that there is a significant political economy factor behind Turkey's multidimensional foreign policy and business actors have become major actors of Turkish diplomacy (Onis, 2011). Even though Atli finds that business organizations only play a supportive and non-autonomous role in Turkish foreign policy, he supports the argument that business should be a part of foreign policy analysis (Atli, 2011). In sum, scholars still emphasize the importance of political economy perspective that Susan Strange brought up four decades ago to have a broader understanding of the world affairs.

Going into the details of IPE literature is beyond the scope of this study. Rather, the goal here is to demonstrate that interdisciplinary studies – driven by developments in real world – have been productive in terms of advancing our theoretical and empirical knowledge. I claim there is no reason why such an interdisciplinary approach cannot be applied to study the interrelationship between firms and governments in shaping international relations. Indeed, there is no doubt that research on international business needs to include the interplay with political science and international relations. The expectations of business community have come to a point where policy outputs are a significant driver of business decisions. Therefore, international business researchers also tend to focus on studies that exceed the boundaries of the discipline. Supporting this view of interdisciplinarity is the position of *Journal of International Business Studies*, whose editors declared their aim to transform the journal into an interdisciplinary research platform by exceeding methodological barriers across disciplines (Cantwell & Brannen, 2011).

In a way, the outcome of this thesis can be considered as a sub-field of IPE. As the previous authors mentioned above study how economy affects foreign policy making and international relations, I aim to lay the groundwork for a similar contribution with regards the firm as the unit of analysis. The theory should explain the causal relationship between the key explanatory variable (firm's corporate diplomatic activity; that is why, how and to what degree firms affect foreign policy making) and the dependent variable (foreign policy output of government).

1.3.3. Firm and the International Relations Theory

The review of international relations discipline with the perspective of understanding the firm as an agent of foreign policy shows that the conceptual development regarding 'actorness' of the firm is not yet fully captured. Given the lack of theoretical contribution in the field, there is an opportunity of extending the nonmarket research into international relations. McGuire describes this situation as follows:

"[...] International relations has until recently said very little about the firm as a political actor. This is in spite of a widespread belief that firms were and are political actors in the sense that they have preferences in respect of policy-makers and act to advance those preferences. Nonetheless, international relations scholarship, whilst accepting firms are actors, has not done much to conceptualize this "actorness" until recently. More precisely, international relations has left the question of firms' political activity and influence to other sub-fields of political science, notably comparative politics (McGuire, 2015, p. 166)."

The lack of understanding of the firm as the 'actor' of international relations is caused by the fact that the discipline puts the state at the center of analysis. Fuchs argues that this is because the influence of realist perspective in international relations theory tended to ignore firm for the analysis of power (Fuchs, 2005). Despite the fact that the non-market research studies the firm as an agent in policy-making process (in the sense that it has the ability to influence the outcome), strategic management literature considers firm's 'actorness' as an approach to gain and sustain competitive advantage. However, it could make a contribution to political science (and international relations as its sub-discipline) as well, if the field could explain how firms' preferences are formed by the international system and how they respond.

Nevertheless, the international relations theory has recently increased its focus on the firm, especially how firm's nonmarket strategies have started to make an impact on state's actions in the international system. This is driven by the changes in the global economic order, such as government's growing concern with providing domestic welfare. It resulted in the increasing power and involvement of firms in the governance of international system, as well as political dependence on business to achieve certain policy goals. The influence of private interests in foreign policy making has attracted the attention of scholars. Supporting this argument is the result of Transparency International Global Barometer in 2013. According to the survey, 58% of EU citizens believe their country's government is to a large extent or entirely controlled by a few big interests. Mearsheimer and Walt argue that the private-interests are much effective on specific issue-areas, including foreign policy, due to the lack of collective action by the majority of the population:

“Special-interest groups enjoy disproportionate power when they are committed to a particular issue and the bulk of the population is indifferent. This is often the case in foreign affairs. Policymakers will tend to accommodate those who care about the issue in question, even if their numbers are small, confident that the rest of the population will not penalize them (Mearsheimer & Walt, 2006, p. 41).”

The increasing impact of business on foreign policy notwithstanding, the mainstream international relations theories do not provide adequate conceptual and empirical accounts on the topic. The realism and neo-realism literature neglect the non-state actors in the analytical framework (Keohane, 1986; Waltz, 1979). Such actors are considered as instruments of foreign policy, whose actions are not consequential on their own. Based on the same paradigm, political economy approaches to international relations study firms as the components of national economic power. They can be instrumentalized according to the policy preferences, which are formed independent from business interests. McGuire’s interpretation of realism and its relation with firms provides another perspective. He argues that despite the supremacy of states, realism considers firms as political actors, but only in so far as they provide political and social input into policy-making at national level. When it comes to international relations, national security concerns are the main filters of decision-making. Strange, however, argue that the structural changes brought about by firms, such as production, technology and capital, will influence the options of states at international level (Strange, 1998). Therefore, what she terms as ‘new realism’ will provide basis for triangular diplomacy that includes firms’ actions.

Liberal and neoliberal international relations perspectives explore the role of firms in a more inclusive manner, but they are still not independent actors of foreign policy.

Jarvis asserts that even though those approaches are less state-centric, non-state actors - including firms - are considerable actors only “insofar as they personify processes that contribute to complex interdependence and delimit state maneuverability through the extension of rule-governed regimes.” Regimes are rule-governed systems that make actors interact in a certain way (mostly shaped by ideas) and possibly on a continuous manner. If firms can influence the rules and norms that determine the governance mechanisms in which states operate, they can become authoritative decisions, which can be seen legitimate.

In brief, while the field of international relations has a burgeoning interest in firms as an actor, it is far away from having a coherent conceptual and methodological framework to study their involvement in foreign policy as an actor of international relations. The ‘uneasy’ relationship between firms and international relations therefore necessitates new paradigmatic approaches.

1.3.4. Foreign Policy Analysis: The Business Aspect

Foreign policy making is the main process in which the firms may get involved to create an impact on international relations. The scope and pace of globalization also makes it necessary for foreign policy apparatus to interact with private actors. Those interactions might aim to serve the purposes of political objectives, as well as commercial ones.

The field of foreign policy analysis provides an actor-based perspective to international relations. Hudson argues that what happens between nations is ultimately grounded in decision-making processes among actors that act either individually or in groups (Hudson, 2005). In order to analyze the relations between nations, it is crucial

to understand the material and ideational factors that determine the outcome of actor-specific decisions. In this context, foreign policy analysis is considered as a subfield of international relations that emphasizes the connection between actors and general theory. Therefore, it might be more correlated with the business actors - mainly the firm - as a part of its analysis at multiple levels.

While the actor-focused approach of foreign policy analysis is a major contribution to the discipline of international relations, its scope remains limited when it comes to theoretical development regarding business as an actor. The field has thus far studied various non-state actors as a part of the foreign policy making. Hocking describes this transformation as the replacement of national diplomatic systems by policy networks (Hocking, 2004). Public and private actors exchange information and roles according to issue areas, and diplomats mostly facilitate the flow of information. Business actors have been subject to previous research, but mostly confined to empirical studies. As we will see in chapter 2.3., there are various cases where firms get involved in foreign policy making in different countries, such as the US, the UK, Republic of Korea, Germany, Russia, India, Australia and Turkey (Atli, 2011; Hunter & Storey, 2008; Jacobs & Page, 2005; C. Kim, 2010; Kumar, 2016; Kundnani, 2011; Pleines, 2005; Rotstein, 1984; Stowe, 2001). While the involvement of business is a fact identified by those studies, the extent to which firms exert influence on the policy outcomes vary according to the specific circumstances of these cases.

In sum, while business is a topic of foreign policy analysis that prioritizes actor-based explanations to international relations, previous studies on this topic has remained empirical in scope, providing little guidance for theoretical reasoning. As Hudson claims, the field can provide new approaches to international relations theory

if actors are duly accounted for. The need for theoretical development on business involvement in foreign policy thus becomes an important contribution.

1.4. Structure of the Thesis

This study is organized to pursue the research strategy and demonstrate the contributions as outlined above. The structure aims to discuss the general ideas about the firm and its political environment, as well as implications of their interactions.

For this reason, the second chapter starts with a study on the institutional theory and firms. The study shows that firms operate in institutional environment that have a profound impact on their activities. Such activities (trade, investment, innovation etc.) in turn lead to certain economic and social changes. By comparatively exploring the relations between firms and governments in Turkey and South Korea, the chapter seeks answer to the question of whether the institutional differences have led to the economic divergence that took place between the two countries over the past decades. While this chapter does not concern itself with foreign policy specifically, it provides a perspective on the implications of how firms interact with institutions. Thus, it makes lays the groundwork for the discussion on firms' nonmarket strategy in the broader context. The second section of the second chapter is the analytical literature review on nonmarket strategy, which is the core concept of the thesis's research question. Nonmarket strategy is currently composed of corporate political activity and corporate social responsibility literatures. By reviewing the existing literature in both areas, this section identifies the current state of knowledge in the area and specifies the theoretical gaps. The conceptual contribution of this study - corporate diplomatic activity - aims to become the third pillar of nonmarket strategy research, one that studies how firms are involved in foreign policy making. The extensive review in the second section is

followed by a brief empirical review in the third section that explores the previous case studies in which firms are involved in international political issues. This section proves that the observed phenomenon of business involvement in international relations requires a theoretical framework.

The third chapter is composed of two studies. While they are standalone researches, they are complementary in the sense that each explores a different perspective of the relations between firm and its environment. The first study looks deep into the organizational dynamics of the firm, in relation to its nonmarket environment. This section is about how firms organize and develop capabilities in response to the pressures in their nonmarket environment. As the Chapter 2.1. will demonstrate, firms respond to external circumstances by implementing changes in the organizational structure. In this study, I use the ‘dynamic capabilities’ as the theoretical framework to examine how firms develop nonmarket capabilities to manage political and social environments. By conducting a case study on Turkish energy firm Turcas Petrol A.S., I suggest a model that adjusts “sensing-seizing-transforming” framework developed by Teece, according to nonmarket conditions. While the Turcas case studies the resource-based view (firm-level characteristics) of nonmarket research, the second section concerns itself with the international system. By probing the international sanctions literature, I suggest a firm-centered model to explain how sanctions decisions are made and what makes them effective. By tracing the process in two sanctions regimes and two firms, Siemens in sanctions imposed on Russia and Total in sanctions imposed on Iran, this section looks into how firms behave in response to international sanctions.

The fourth chapter is the core of the thesis and the backbone of the ‘corporate diplomatic activity.’ This chapter reviews the existing theoretical approaches that are relevant to studying the firms’ involvement in foreign policy. Those are resource dependence, public choice, institutional theory and resource-based view. Building on the previous studies in nonmarket research, I suggest to develop a model that studies three levels of firm involvement in international relations: firm, sector and political. Resource-based view concerns itself with firm level, resource dependence and public choice are related with sector level, and institutional theory provides a framework for political level. In this chapter, I introduce the backbone of Corporate Diplomatic Activity Framework.

In the fifth chapter, I analyze the empirical data within the CDA framework. The empirical part consists of energy and defense sectors in Turkey and in the UK. The data is gathered from in-depth interviews with corporate executives and government officials that are involved in these two sectors in both countries. The interview data is also supported by archival research. The chapter provides data to assess the validity of CDA model to study firms’ behavior in foreign policy.

The sixth chapter is an overall discussion and comparative analysis of the findings. Here I suggest that the CDA could provide the groundwork for ‘a business theory of international relations’, which was the main theoretical gap this thesis identified and aimed to fill. I also discuss the implications of CDA on the political and social domains.

In the conclusion chapter, I summarize the main findings, discuss theoretical and practical impact of the study, and suggest future avenues for future research,

2. Theoretical Foundations

2.1. The Broader Context: Institutions, Markets and Firms

The purpose of this section is to introduce the firm as an actor within the broader nonmarket context. I will explore the consequences of firms' interactions with the political dynamics of the institutional environment and its implications on the economic development of countries. Such implications will be discussed in the cases of Turkey and South Korea to demonstrate the differences in difference of economic development. This section is not about firm's political activities specifically, but it discusses how the interactions between firms and their environment (institutions in particular) shape the nonmarket environment. It will lay the groundwork for the discussions on nonmarket research and its relation with foreign policy making in subsequent chapters.

2.1.1. Institutions and Economic Development

Economic differences across countries is a topic of interest in both academic and policy making fields. The main driver of this interest is to find out the causes behind the activities that make some countries more developed than others. While international organizations and policymakers seek prescriptive information to shape their policy preferences in a way that drives economic growth, the research on the topic is more focused on the causal mechanisms. The debate includes the distinctions between explanations based on institutions, geography and international trade.

Previous studies demonstrate that institutions override other explanations of economic development (Rodrik, 2004; Rodrik & Subramanian, 2003). When institutions are controlled for, "integration theory has no direct effect on incomes, while geography has at best weak direct effects (Rodrik, Subramanian, & Trebbi,

2002).” The primacy of institutions in explaining the economic differences economic differences across countries is not unchallenged. One such challenge is about whether institutions are the causes or consequences of economic development. This approach argues that institutions develop and lead to further economic development only in countries where economy is already developed. Nevertheless, research shows that institutions unequivocally matter for economic growth, despite arguments on endogeneity that declare geography determines economic performance by influencing institutional characteristics and institutions (Bruinshoofd, 2016; Klein, 1998; Peter Murrell, 2008; Rodrik, 2000; Sachs, 2003). Even though the existing research empirically substantiates the causal link between institutions and economic development, institutions are not seen as triggers of economic growth, but rather key pillars to sustain it (Engerman & Sokoloff, 2008; Rodrik, 2004). Therefore, establishment of a certain institution is unlikely to spur economic growth immediately and on its own. Moreover, there is no predetermined path to create certain institutional arrangements (Rodrik, 2000). This means that the type of institutions that are found to be associated with economic development come into being as a result of historical contingencies. Additionally, it’s difficult to determine how institutions will evolve once they are established. In terms of transformation, the literature provides neither a definitive recipe for how institutions change, nor clear a tendency towards more inclusive forms (Acemoglu, 2003; Nye, 2008). Thus, despite advancements in the institutional theory research agenda, the exact causal links between institutions and economic development are still subject to debate. The literature indicates that one such subject, namely firms as significant drivers of economic development and their relation to institutional structures, has attracted little attention.

The literature that encompasses the interactions between firms and their political, social and cultural environments is called “nonmarket research”. Driven by the advances in strategic management literature, such studies posit firms as players whose actions aim to increase businesses’ interests within internal and external pressures (Brockman, Rui, & Zou, 2013; Brown, 2016; Guo, Xu, & Jacobs, 2014; Sun, Mellahi, & Wright, 2012). One such pressure is the firm’s institutional environment. The institutional setting has the capacity to affect the behavior of the agents. According to North, ‘institutions are humanly devised constraints that structure political, economic and social interactions (North, 1991).’ Institutional arrangements thus influence interactions among market actors. Such interactions may be economic growth-inducing ones such as investment, productivity, and innovation (Acemoglu & Robinson, 2012). Following this rationale, it can be said that firms’ behavior in response to their institutional environment has decisive effects on macroeconomic performance. If market interactions are driven by the institutional environment, then the institutional characteristics that lead to firms’ growth-inducing actions can be a key explanatory factor for developmental differences across countries.

Institutions set the rules of the game in which actors are in constant interaction with each other (North, 2008). They can be formal such as laws, regulations, constitutions, or informal such as beliefs, culture, and codes of conduct (Menard & Shirley, 2008; Williamson, 2008a). The New Institutional Economics (NIE) literature explores the determinants of institutions and their impact on economic performance (Alston, 2008; Nye, 2008). Institutions provide incentives and place restrictions on economic actors, which in turn determine actors’ behavior based on expected utility (North, 1991; Soysa, 2007). Contrary to the neoclassical tradition, firms cannot be considered as black boxes that merely arrange the production functions, but rather governance

structures that assume the tasks of information and enforcement (Joskow, 2004; North, 1990a; Williamson, 2008b). Coase's seminal article argues that formal and informal institutions are primarily devised to reduce 'the cost of doing business (Coase, 1937)'. Market actors behave with incomplete information and limited cognitive capacity (Menard & Shirley, 2008). Therefore, economic growth occurs to the extent that the institutional environment reduces the costs of uncertainty and complexity (North, 1990b). Institutions support the market economy and incentivize actors to engage in economic activity by decreasing transaction costs and protecting property rights (Platteau, 2008; Shirley, 2008). The firm as the main market actor acts within the institutional constraints and incurs transactions costs such as search and negotiation, monitoring labor effort, coordination of production, monitoring the use of physical and financial capital and enforcing the terms of the contract (Alston, 2008; Coase, 1937). Therefore, actors engage in activities that create economic growth when contract enforceability and property rights are ensured (Knack & Keefer, 1995; Opper, 2008). This is where the causal link between institutions' impact on economic development can be established.

2.1.2. Firms and Economic Activity

The literature on Varieties of Capitalism (VoC) 'brings the firm back into the center of the analysis of comparative capitalism' and posits a direct link between the aggregate behavior of firms and macroeconomic performance (Hall & Soskice, 2001). Firms are relational organizations, and their ability to manage their internal (employees) and external (customers, suppliers, governments) relations is the main determinant of their ability to achieve and sustain competitive advantage. Interactions between institutional arrangements and relational behavior of firms is a differentiating factor across national economies (Dore, Lazonick, & Sullivan, 1999). The central role

of the firm notwithstanding, there are five spheres in which firms face coordination problems with other actors: (1) industrial relations; (2) vocational training and education; (3) corporate governance; (4) inter-firm relations; and (5) employees (Hall & Soskice, 2001). Lacking in the existing literature, however, is the way firms manage their relations with the institutions in their political and social environment, which is the main focus of nonmarket research. Presumably those are strategic interactions that influence both firms' economic activities and their overall economic performance. Therefore, we can infer that the political characteristics of firms' institutional environment is a major driver of their economic activity (Engerman & Sokoloff, 2008).

Despite increasing interest in the field, the institutional aspect of firms' political environment and its impact on economic growth remains to be studied. The corporate political activity and nonmarket strategy literatures have an extensive body of knowledge. However, most research has focused on the impact of firms' political behavior on its performance, how firms develop and implement political capabilities, and the interaction between market and nonmarket activities (Baron, 1995a; Doh, Lawton, Rajwani, & Paroutis, 2014; Hadani, Dahan, & Doh, 2015; Hillman, Keim, & Schuler, 2004; Lawton, McGuire, & Rajwani, 2013; Lawton, Rajwani, & Doh, 2013). Existing literature does not focus on the role of firms' coordination problems with political institutions and how they are related with macroeconomic performance.

The scholarship on firms' political environment has had an increasing focus on institutional perspectives, especially with the growing importance of business-government relations in emerging countries (Doh, Lawton, & Rajwani, 2012). For the institutional approach to strategic management, institutions are considered the main drivers that determine firms' capabilities to leverage nonmarket resources for

competing in the market area (Voinea & van Kranenburg, 2018). Resource-based view asserts that it is the internal capabilities that matter the most. Firms also allocate internal and external capabilities, such as boundary-spanning responsibilities for the public affairs department and building alliances with other stakeholders, to shape ‘the rules of the game’ to improve their competitive advantage (Alston, 2008; North, 2008; Peng, Wang, & Jiang, 2008).

Institutions may also cause systematic differences in how firms’ governance structures are organized, which managerial decisions are made and whose interests are prioritized (Hall & Soskice, 2001; Yoshimori, 1995). Whether firms will prefer market relations or strategic interactions depends on the institutions that shape the political and economic landscape (Hall & Gingerich, 2009). Firms make business decisions to grasp market opportunities according to external constraints and internal resources. In liberal markets firms recur to market relations, in coordinated markets they use strategic interactions to resolve transaction costs. Such decisions have an aggregate effect on economic growth. Therefore, the institutional impact on firms’ strategic decisions not only determines business performance, but also how the economy performs as a whole (Bakir, 2014; Brockman et al., 2013; Rodrik, 2000).

The literature suggests there are three main types of firm activity – namely investment, innovation, and productivity – have an impact on economic development. Investment is a significant business activity that influences long-term macroeconomic performance (Bruinshoofd, 2016). Previous studies have shown that institutional variables have direct effects on inward and outward FDI (Dumludag, 2007; Stoian, 2013). Since investment usually involves sunk costs and the expectation of incremental returns, firms try to gauge the institutional effectiveness to create a predictable

environment in a wider time-span. Innovation is another business area that significantly determines economic growth, but it also involves a significant degree of uncertainty regarding business returns (Özsomer, Calantone, & Di Bonetto, 1997; Teece, Peteraf, & Leih, 2016). Thus, the quality of formal and informal institutions become even more salient in the face of innovative uncertainty (W. C. Lee & Law, 2016). Hall and Soskice claim that a coordinated market economy supports incremental innovation, while Witt and Jackson assert that radical innovation occurs where institutions combine specific liberal and coordinated elements (Witt & Jackson, 2016). The productivity argument asserts that economic differences across countries mainly stem from differences in labor productivity caused by the ‘local social environment’ (Clark, 2009). Previous studies show that firms perform better at certain kinds of activities and increase efficiency in productive processes depending on the institutional environment, which allows them to accumulate capital and social skills.

What kind of institutions affect firm’s growth-inducing activities? Previous studies demonstrate that both formal and informal institutions play a crucial role in determining firms’ activities that lead to macroeconomic performance (Marosevic & Jurkovic, 2013). Informal institutions are the fundamental rules of the game that affect the actions of players, as opposed to formal institutions that set the stage (Chiu, 2015; Weymouth, 2012). Informal institutions structure business activities by defining ‘codes of conduct, norms of behavior and conventions. The existence and strength of informal institutions can lead to higher levels of factor productivity and increase per capita income by encouraging market cooperation and reducing transaction costs. Formal institutions might be considered more stable and predictable. Nevertheless, interactions that take place between organizations are embedded in the social context and require informal institutions (Fafchamps, 2017). Despite the fact that informal

institutions are not as discernible as formal institutions, their impact on cross-country differences can also be identified (Knowles & Weatherston, 2006). Trust-based networks and relational assets, can replace the role of formal institutions and drive firms towards more risk-appetite activities (Salimath & Cullen, 2010). Peng argues that informal institutions facilitate economic exchange and improve firm performance despite weaknesses in formal constraints such as laws and regulations (Guo et al., 2014).

2.1.3. Institutions and Business Activity in Turkey and South Korea

The impact of institutions on business activity and economic development can be studied in the cases of Turkey and South Korea. The two countries have had similar economic development levels in the 1960s. Indeed, Turkey was a more developed country in the mid-1950s in terms of GDP, exports and savings rate (Attar, 2018; Krueger, 1987). However, GDP per capita levels have significantly diverged since then. While South Korea has successfully transformed into a technology-driven economy, Turkey is still at a critical juncture to avoid the middle-income trap (Onis & Kutlay, 2013). The quality and governance of institutions had a significant impact on the conditions that have created the economic imbalance between the two countries (Acemoglu & Ucer, 2015; Erdogdu, 2000). The comparative study shows that activities of firms in response to the different political environments have been one of the major drivers that created the economic divergence between these two countries.

State Autonomy and Business Environment's Predictability

The perceptions of business actors regarding policy and regulatory certainty is a significant driver of market activity (Busse & Hefeker, 2005; N. Williams & Vorley, 2015). Political risks and 'even moderate amounts of uncertainty' are considered as

significant additional costs on investments. Therefore, scholars and managers seek to understand the risks associated with uncertainties in the nonmarket environment, and manage those uncertainties whenever possible (Jha, 2013; G. Jones & Lubinski, 2012). The lack of policy and regulatory predictability is more salient in emerging markets, especially where firms are reliant on government's resource allocation (Cavusgil, Ghauri, & Akcal, 2012; Wells, 1998). This is the case in both South Korea and Turkey.

South Korean *chaebol* - the family owned business groups that are involved in various sectors - emerged in the aftermath of country's liberation from Japanese occupation and have played an important role in Korean economic development (L. P. Jones & Sakong, 1980; Witt, 2012). Being financially dependent on the State's discretion for several decades, *chaebol* have been under strict subordination to centrally imposed public and economic policy making (L. P. Jones & Sakong, 1980; Kuk, 1988). The interdependence between Korean State and *chaebol* have resulted in concerted action from both sides. In the case of Turkey, the creation of a Turkish-Muslim bourgeoisie has been the main pillar of the State's nation-building policy since the beginning of the 20th century (Keyder, 1988). Some groups in the Turkish business class have enjoyed privileged treatment by the State and been empowered as a social and political project (Bugra, 1991; Onis, 1998). Bugra argues that this has created a 'lack of social legitimacy' for the Turkish private sector, since the status of Turkish businesses are not seen self-reliant (Bugra, 1994b). Given businesses' heavy reliance on state decision-making during the developmental period in both countries, it becomes more important to explore what causes firms' perception of policy and regulatory predictability (Bugra, 1994a; Im, 1987; Park, 1987).

The argument asserted here is that ‘state autonomy’ is the main reason why firms in South Korea undertook activities that are conducive to economic development while Turkish firms have mostly relied on state-driven economic incentives. State autonomy refers to the bureaucratic ability to make decisions independent from the interests of various social classes (Levi-Faur, 1998). The concept of state autonomy is therefore the fundamental informal political institution that causes different perceptions by firms. The Korean bureaucratic elite had been empowered with decision-making capacity by the political regime and were insulated from external pressures (Kuk, 1988). The high degree of autonomy reinforced by General Park Chung Hee’s regime (1961-1979) allowed Korean elites to intervene in private sector activities (Minns, 2001). This type of relationship is defined as ‘embedded autonomy’ by Evans, which indicates a dense network of public and private actors exchange information and negotiate policies which results in the allocation of resources to incentivize business activity in line with the goals of the developmental state (Evans, 1995; Haggard, Kim, & Moon, 1990; Johnson, 1987; Maman, 2002). The embedded autonomy of the Korean bureaucracy thus came into being as a part of President Park’s policy of legitimizing its non-electoral rule with achievements in economic development (Heo, Jeon, Kim, & Kim, 2008; Scitovsky, 1985; Thurbon & Weiss, 2006). Government’s policy making in Turkey, on the other hand, has been considered the main source of uncertainty for businesses, despite the establishment of formal institutions such as the State Planning Organization and National Development Plan in the early 1960s (Bugra, 1994b; Onis, 1992; Yilmaz, 2002). Unlike South Korea, the Turkish bureaucracy has become subordinated to constantly changing policy preferences shaped by electoral concerns of the elected governments (Bugra & Savaskan, 2014). State autonomy has been eroded by political changes in the government and even under military dominance the Turkish state failed to create a top-down hierarchy (I.

Oh & Varcin, 2002). This shaky ground undermined ‘state cohesiveness’, described as state elites’ ability to create collective action for development (Ozel, 2015). The policy-induced uncertainty has been the root cause of private sector’s lack of mobilization.

Institutional Alignment

Formal and informal institutions can complement or contradict each other (Fafchamps, 2017). The difference in time and effort required to establish formal institutions and informal institutions can create misalignment (Steer & Sen, 2010). Such misalignment, described as ‘institutional asymmetry’ is found to be detrimental to growth-inducing business activity, especially in emerging markets (N. Williams & Vorley, 2015). Therefore, the argument asserted here is that the complementarity of formal and informal institutions during transitions is a key determinant of aggregate firm impact on economic development.

South Korea and Turkey have gone through various stages of economic development. Both experienced a transition from import substituting industrialization (ISI) to liberalization throughout the 1980s (Aydin, 1997; Haggard et al., 1990; Thurbon & Weiss, 2006). Each stage of economic transition means a restructuring of the institutional environment, including those that arrange the relations between state elites and the business class. Changes in the institutional environment have decisive effects on firm activities, especially in regulated sectors, as well as macroeconomic performance (Bonardi, Holburn, & Bergh, 2006; Ozcan & Gündüz, 2015a; Rajwani & Liedong, 2015). It is thus important to explore the differences in institutional complementarity between the two countries during the transition periods.

The Korean institutional transformation was based on using the state's power to impose a transition from labor-intensive to technology-intensive production. Siegel asserts that this state-instituted process never aimed to loosen the state's control on regulations or budget allocation (Siegel, 2007). Despite economic integration efforts with international markets, the government has maintained regulatory tools to coordinate the markets (Ha & Lee, 2007). The developmental alliance between the state and *chaebol* has thus transformed into a regulatory regime (E. M. Kim, 2011). President-centered decision-making continued even during the gradual integration of Korean business with international actors, but *chaebol* have also become a part of that process (Rodrik, 1994; Witt, 2012). The Korean government has begun allowing *chaebol* to own limited shares of financial institutions, a major prerogative of the Korean state to control their business activities (Schneider, 2009). Despite changes in the financial domain, however, corporate governance and labor market reforms have not been successfully implemented, even after the post-crisis reforms in Korea (Ha & Lee, 2007; S. Kim, 2000).

Turkey experienced an abrupt transition from ISI to liberalization in 1980 when the government introduced a major economic transformation program with the aim of speeding up privatization (Ercan & Onis, 2001; Senses, 2001). The new policy meant opening some parts of Turkish industry to competition through reduction of import tariffs. However, the privatization agenda had been slow in implementation until 2001, when the legal and institutional balance shifted toward a 'pro-privatization' alliance (Onis, 2011). The widening gap between institutions, most notably between the bureaucracy and coalition governments, was the biggest obstacle to bringing about economic change (Cetin, 2010). This gap indicated an institutional asymmetry. The cultural resistance of the bureaucratic elite has led to a rent-seeking society as a result

of the increasing influence of business elite who are close to policy making circles (Cicen, 2015). Governments that were formed in the following years preferred to implement ad-hoc policies that produced ‘vested political and economic interests’ (Sonmez, 2011). Independent regulatory agencies (IRAs) established in the late 1990s aimed to provide credible commitment (Cetin, Sobaci, & Nargelecekenler, 2016; Zenginobuz, 2008). However, Turkey’s informal institutions (e.g., cultural codes of the political elite) have resisted the shift to delegating authority to those institutions and independence of the IRAs has been increasingly undermined as a result of legal and institutional changes since 2001.

Developmental State and Firm Behavior

The literature on the ‘developmental state’ suggests that nations can achieve economic progress as a result of state-supported industrial growth through ‘careful policy interventions’ in private sector dynamics (Walden Bello, 2009). That said, an institutional environment that allows state intervention does not mean displacing market reforms completely (Unay, 2011). While there is no single developmental path defined in existing literature, the argument asserted here is that the mutual commitment by both public institutions and firms towards national goals is the underlying driver of economic development.

The South Korean state had a robust institutional mechanism to ensure the alignment of business activity with its development goals. The country owes a great deal of its economic development to the close working relationship between government and business around the same goals (L. P. Jones & Sakong, 1980). Two peculiar features make the Korean case particularly important. The first is the unwavering commitment to and clear declaration of goals by the centralized state (Lim, 1998). This also meant

predictability for the business environment. The political and bureaucratic elite had a developmental ideology which enabled them to make strategic decisions based on the expected impact on national development (Karsan & Atay, 2013). The decision-making capability refers to the 'state autonomy' argument explained above. The second dynamic was the state's attitude towards private enterprise. Private firms in South Korea have never been dismissed, but were rather considered as instruments of the developmental state. Korean institutions had clear performance criteria for private firms, in terms of exports and employment, which were the main criteria to allocate resources to private sector (Erdogdu, 2000; Koo & Kiser, 2001). The state has supported the development of big business and played a critical role in determining their daily activities (Erdogdu, 1999; Maman, 2002; Mody, 1990; Rodrik, 1994). Such decisions included access to finance and the ability to do business internationally. Even though particularism has been prevalent, recipients of state support were associated with the developmental purpose (Haggard et al., 1990).

It is not the extent but the 'form' of state interventions that makes the difference between Turkey and South Korea. Turkey's institutional structure did not allow pursuit of a coherent developmental strategy. Deep-seated suspicion regarding private enterprise and business activity have existed since the early days of the Republic. Many Turkish businesses opted for diversification to hedge the risks of becoming too dependent on the state for wealth creation (Colpan & Jones, 2015; Gundem, 2012). Party politics, weakness of bureaucratic autonomy and changes in political preferences were the main reasons why the developmental ideology did not achieve its purpose. The lack of private enterprise's self-confidence has been fostered by the rent-seeking attitude of various governments and businesses (Bugra, 1994b). The Turkish business class has not considered the government's industrial strategy reliable or fully

committed. In return, Turkish state have not considered private enterprise as the main driver of economic progress. The mutual distrust undermined efforts toward alignment during export-led growth in the 1980s (Ozel, 2003). Therefore, business-government relations in Turkey have not been complementary, but rather confrontational where the state has always held the upper-hand.

2.1.4. Conclusion

This section demonstrated that firm is a political and economic actor, whose actions have implications beyond its own business performance. The literature demonstrates that institutional determinants influence countries' economic performance by mainly decreasing transaction costs and ensuring property rights for market actors. One such market actor is the firm, whose aggregate business activities such as investment, productivity, and innovation have determining effects on macroeconomic performance. The institutional structures are significant determinants of market activities. Nonmarket strategy research shows the political environment of firms is a major component of their strategic managerial choices.

The subject was explored in the illustrative cases of Turkey and South Korea, due to the divergent economic paths that two countries have experienced. The research on both countries demonstrated that differences in political and institutional environment had a major impact on firms' growth-inducing activities and resulted in different levels of economic development.

2.2. Nonmarket Strategy

2.2.1. What is Nonmarket Strategy

Non-market environment indicates the political, social and cultural area that firms operate in (Baron, 1995b). Since the major concern of strategic management is to achieve and sustain competitive advantage, the research on the subject asserts that nonmarket is as effective as market environment in determining how firms behave in the face of competition (Dobson, Starkey, & Richards, 2004). Market forces are composed of customers, employees, suppliers and other commercial players that voluntarily exchange goods, services and capital. Nonmarket forces, on the other hand, involve governments, the public at large and non-governmental organizations that do not compete in the market but nevertheless affect market dynamics. Despite the broad definition of the term, the nonmarket environment is understood as the area that “encompasses those interactions between the firm and individuals, interest groups, government entities, and the public that are intermediated not by markets but by public and private institutions (Baron, 2013, p. 2).”

A firm’s nonmarket strategy refers to the set of actions that helps firms manage their political, social and cultural environment in order to extract economic benefits. In this sense, activities that take place within firm’s non-market sphere are a part of its corporate strategy that serves to achieve certain business objectives. Therefore, non-market research is not only an academic field but also a managerial imperative which has implications that go beyond the scholarly debate. As this review will demonstrate, firms use non-market activities for various reasons, such as shaping their competitive environment, preventing rivals from entering the market, attracting customers with certain social and political preference or gaining trust and reputation among stakeholders (Lawton & Rajwani, 2015). Thus, nonmarket research opens the “black-box” of the firm and provides a deeper understanding of why firms behave in the way that they do.

The interest on nonmarket strategy - both as an academic field and a managerial practice - has emerged as a result of the changes in the business environment. Firms have developed responses to the transformations in the macro political and economic levels. Regulatory forces that gained power in the 1970s and deregulations that followed in the subsequent decades have increased the firms' interest to deal with those changes. From the perspective of the 'self-regulating market,' the dominant management paradigm assumes that the success of firms solely depends on the effectiveness of how they deal with market forces, such as meeting customer demands, decreasing labor costs, optimizing supply chains, and so forth. However, scholars and managers have realized over time that nonmarket forces are equally influential on business results and need to be managed as effectively as market forces (Bach & Allen, 2010). Indeed, top managers have progressively come to the understanding that political, social, cultural and legal factors have an increasing impact on their business. For example, a minor change in regulatory framework can significantly weaken or strengthen a firm's market position, the perception of the public about the firm can increase or decrease its sales or the position of local NGOs can prevent significant investment by organizing local protests.

The current nonmarket research agenda seems to have two fundamental questions. The first is related to the antecedents of nonmarket strategy. Why do firms engage in nonmarket actions? The broader context relates to the concept of "embeddedness," which asserts that markets are not self-regulating institutions (Block & Somers, 2014; Polanyi, 1944). Rather, they are embedded in society, politics, law, institutions and culture. State is the main institution of socially embedded markets for resource allocation, while firm is considered as a relational network (Hancke, 2010; Pitelis,

2010). Therefore, firms as primary market actors operate in politically and socially embedded environments, which unavoidably influence their actions (Coase, 1937; Micklethwait & Wooldridge, 2005). There are different typologies of nonmarket strategies and corporate political activities, forming a subset of nonmarket research. Nevertheless, the literature on nonmarket research can be broadly categorized as based on firms (resource-based view), institutions, industry and national political structures and policy levels (Hillman et al., 2004; Lawton, McGuire, et al., 2013).

The second pillar is the outcome of nonmarket strategy, which can be defined as the business impact on firm performance. From a managerial perspective, the ultimate goal of all business activities, including nonmarket activities, is to achieve commercial objectives. This can be attained by achieving and sustaining competitive advantage. Therefore, the nonmarket strategy is an integral part of the overall business strategy and needs to be correlated with the augmentation of firm performance. For this reason, Hillman suggests that “firm performance” should be the common dependent variable of nonmarket research (Hillman, 2002). Research on the topic provides important insight regarding the causal mechanism: previous studies demonstrate a positive association between effective nonmarket management and firm performance (Bonardi et al., 2006; Ozcan & Gündüz, 2015a). However, Mellahi and colleagues claim that the link between nonmarket activity and firm performance remains inconsistent and there is still limited theoretical knowledge regarding the moderating effects of nonmarket strategies (Mellahi, Frynas, Sun, & Siegel, 2016). For instance, the value of political connections depends on the reliability of the institutional environment, since an existing valuable connection can turn into a liability in cases of regime change (Alimadadi & Pahlberg, 2014). Similarly, corporate social activities and stakeholder management lead to greater shareholder value only if they are directly tied to a firm’s

primary stakeholders (Hillman & Keim, 2001). In brief, a nonmarket strategy has the potential to help firms gain competitive advantage only when developed and executed properly.

The nonmarket scholarship is by its very nature interdisciplinary. It encompasses various paradigmatic approaches from political science, sociology, strategic management and international business disciplines (Boddeyn, 2003). Since nonmarket research considers firms as social and political beings, rather than economic agents that merely seek to maximize profits, the literature is composed of two main sub-fields: corporate political activity (CPA) and corporate social responsibility (CSR) (Bach & Allen, 2010; Baron, 2001). While the first is directed towards the actors that are legally empowered to shape the nonmarket environment, such as policymakers and independent regulatory institutions, the latter's aim is to strategically engage the social stakeholders in efforts to garner support and mitigate any harmful implications (Baron, 2001; M. B. Meznar & Nigh, 1995). Though both fields are separately well-established in the extant literature, there is a tendency to integrate them within a firm's nonmarket strategy (Amaeshi, Adegbite, & Rajwani, 2016; Getz, 1997, 2002; Lawton, McGuire, et al., 2013; Liedong, Ghobadian, Rajwani, & O'Regan, 2014). The reason behind the integration of social and political activities derives from the complexity of the nonmarket environment. Depending on its interests, a firm may choose to directly lobby policymakers as a political activity or to burnish its public reputation via a corporate social activity. Since the nonmarket environment is analyzed through the lenses of institutions and interests, political and social activities of firms should be aligned to increase the effectiveness of the nonmarket management (Doh et al., 2014).

According to Liedong et.al., there are two premises that nonmarket strategies are built upon. “First, actors beyond the market have a significant influence on firms’ competitive position. Second, the relationship with nonmarket actors can be managed just as strategically as conventional ‘core business’ activities within markets (Liedong et al., 2014, p. 418).” CSR and CPA are the founding pillars of nonmarket strategy. As noted earlier, this thesis contributes to the nonmarket research by conceptualizing CDA as the third pillar of the literature. Therefore, it is in order to critically review the two pillars of the nonmarket strategy and to explore the gap that could be addressed by CDA in subsequent chapters.

2.2.2. CSR as a Nonmarket Activity

CSR has an extant literature that varies in terms of definitions and applications. Besides, it’s a managerial practice and its differential impact on firm performance - both financial and reputational - has long been debated in the growing body of literature. While CSR has been termed as a nonmarket strategy in the sense that it enables firms to extract certain benefits that go beyond market activities, the research on its role in complementing political efforts remained relatively limited (Rehbein & Schuler, 2015). Nonetheless, CSR can be studied as a part of the broader nonmarket strategy, especially for the purpose of this thesis. While discussing CSR and its practical applications is beyond the scope of this thesis, CSR’s implications for the political arena and effectiveness of firm’s political strategies that is determined by CSR activities is a critical component of the debate.

CSR as a corporate practice has emerged as a result of crucial changes in the social and political environment of the firms. As discussed in the beginning of this chapter, fundamental changes in firm’s nonmarket environment has direct influence on its

competitive position in the market. CSR is a tool to develop and implement strategies to respond to the social factors that can be linked to the business performance, mainly the changing preferences of customers and employees. Therefore, the pressures from citizens and non-state institutional actors had an inevitable impact on the way in which firms act in response to the external factors, either via direct interaction or as a result of the government regulation that are driven by such social and environmental factors in the 1970s and 1980s. The firm-level responses can take many forms, ranging from philanthropy to imposing ethical rules or cooperating with certain non-government stakeholders (Doh & Littell, 2015). Such responses would for the most part depend on the requirements in the external conditions and resources that the firms possess.

While social responsiveness has been the founding principle of CSR, scholars and managers have also realized that proactively engaging with non-governmental stakeholders has strategic benefits. “Strategic CSR”, a term coined by David Baron, described that firm’s socially responsible behavior could be a part of its sales strategy, as a result of the impact on consumers (Baron, 2001). Even in weak institutionalized contexts, firms can employ CSR activities due to a private morality and sense of fairness towards stakeholders, as well as looking to obtain social legitimacy (Amaeshi et al., 2016). Frynas asserted that strategic CSR goes beyond image-building effort to manage the perception of the consumers and employees, and become a part of firm’s strategy of differentiation and achieving competitive advantage (Frynas, 2015). Therefore, CSR has moved from being a public relations tool to addressing the social and environmental impact of firm’s business activities, and finally to becoming an inherent component of strategic management.

The strategic value of CSR has become subject to two different arguments. Freeman developed the “stakeholder theory” that questioned the fundamental assumptions of the traditional capitalism narratives, such as competition over scarce resources (Freeman, Margin, & Parmar, 2007). His theory asserted that “value creation” via joint stakeholder cooperation can replace the “value capture” that forms the core of competition. The extant debate on strategic management, while still considers competition as the main driver of business activity, integrates the stakeholder approach to make competitive advantage sustainable. Strategic CSR and its impact on the firm performance are therefore closely related with the interaction of elements that shape the competitive environment. Hillman and Keim assert that engagement with direct stakeholders of the firm (such as employees, customers, suppliers and communities) have a positive impact on shareholder value, while allocating resources for non-primary stakeholders may not be valuable (Hillman & Keim, 2001). Porter and Kramer, on the other hand, in their seminal article on the topic “Strategy & Society” deals with this question. Why would CSR be a one of the choices of the strategy? The authors identify two main reasons of why CSR has not created as much value for firms as the effort and resources allocated. First, the needs of business and society are inherently interdependent. Therefore, firms should not use CSR as a unilateral activity. Second, CSR should be a part of the firm’s strategy and address the issues related to its value chain:

“Successful corporations need a healthy society. Education, health care, and equal opportunity are essential to a productive workforce. Safe products and working conditions not only attract customers but lower the internal costs of accidents. Efficient utilization of land, water, energy, and other natural resources makes business more productive. Good government, the rule of law, and property rights are essential for efficiency and innovation. Strong regulatory standards protect both consumers and

competitive companies from exploitation. Ultimately, a healthy society creates expanding demand for business, as more human needs are met and aspirations grow. Any business that pursues its ends at the expense of the society in which it operates will find its success to be illusory and ultimately temporary (Porter & Kramer, 2006, p. 83).”

The relation between CSR and the political environment has also become a subject in the literature, though the scholar and managerial focus has remained limited. The idea that the strategic use of social activities can increase firm’s political effectiveness is an interesting promise that falls into the main purpose of strategic management. Rehbein in his review on the discussion about the interaction between CSR and political activity for internal and external purposes (Rehbein & Schuler, 2015). In this sense, the research shows that CSR can be beneficial for firm’s political effectiveness, especially when its impact can help firms develop information and constituency building strategies. The complementarity between CSR and CPA is thus an important factor to increase the impact of firm’s nonmarket strategy. Liedong et.al. argue that it’s the notion of trust that plays the mediating role in firm’s policy influence (Liedong et al., 2014). While CSR itself cannot create the policy impact that firms are seeking, integrating CSR with CPA can create the required level of trust that each cannot build alone. Therefore, firms need to allocate and mobilize CPA resources for political effectiveness.

2.2.3. CPA as a Strategic Management Capability

CPA is a main pillar of nonmarket research and deals with the questions such as why do firms take political actions, how they engage with policymakers and what actions they take towards this end. CPA is based on the assumption that business is a key actor of policy shaping (Coen, Grant, & Wilson, 2010). The growing literature on CPA can

therefore lay the groundwork for the conceptualization of Corporate Diplomatic Activity, the central contribution of this thesis. The CPA literature is reviewed under four categories below: benefits of CPA on firm value and performance, the types of CPA, resource-based view, and CPA's relation with the institutional environment.

The benefits of CPA to firms has long been debated in the literature. There are different findings regarding the contribution of CPA to the bottom-line of the firm, especially in terms of performance and market value. While CPA literature for the most part demonstrates the positive effects of CPA on business, this link still needs to be empirically substantiated and measured, especially in the field of international business (John, Rajwani, & Lawton, 2015; Rajwani & Liedong, 2015). Holburn and Bergh argue that firms combine market and nonmarket strategies to create shareholder value, and providing financial incentive to policy-makers is a major tool to this end (Holburn & Vanden Bergh, 2014). They suggest that firms heavily invest in political effectiveness when the viability of their market actions get dependent on public examination, such as regulatory review by government agencies. By examining electric utility companies, the authors find that firms significantly increase their political campaign contributions 12 months ahead of corporate merger proposal, a market action that requires government scrutiny.

A significant contribution to the argument is the research on S&P 500 Index firms between 1998-2004. The study finds that CPA has positive and significant effect on firms' equity returns (J. Kim, 2008). The relationship between lobbying expenditure and equity returns is stronger relative to the market and less so relative to the industry. However, how such lobbying is done is also one of the decisive factors. Hillman et.al. agree with the argument that a variety of benefits accrue to firms via corporate political

actions, but they argue that it is difficult to observe and evaluate what direct benefits are (Hillman, Zardkoohi, & Bierman, 1999). Their study is about one specific political strategy that firms employ: having a firm representative serve in a political capacity, which the authors find to be positively affecting firm value. CPA's expected contribution to firm value is more salient in developing countries, "where social capital underlies political and economic exchange (Rajwani & Liedong, 2015, p. 273)." Such value is exponentially increased when the firm's strategy and structure on business - government relations are fit (Martin B. Meznar & Johnson, 2005).

Since firms have to survive in a highly competitive international environment, their position relative to the competitors is critical for success. For this reason, increasing rivals' costs can give firms competitive advantage which they can capitalize on (McWilliams, Fleet, & Cory, 2002). Frynas et.al. discuss that first movers in a country are always in a better position to use non-market strategies (Frynas, Mellahi, & Pigman, 2006). They build relations via lobbying and gain a political sense as a result of acting earlier than their competitors. Late movers can face market entry barriers that are caused by first mover's political resources. This concept also sheds light on why multinational corporations take the risk of entering highly unstable countries (such as Iran) with the goal of transforming their early presence into well-established political capital at a later stage.

The explicit assumption of these studies is that corporate political activities ultimately increase the financial performance of firms. This is can be done by shaping the regulatory environment in firm's advantage or decreasing uncertainties stemming from dependence on government actions (Yeung, 2012). In any case, the goal is the expected benefit to the firm's performance. However, there are studies that are more

cautious about CPA's benefits. Hadani and Schuler examine two types of CPA: cumulative political investments and human capital specific CPA (Dahan, Hadani, & Schuler, 2013). The first one is having accumulated investments that bear favorable relations with public officials. The second one is employing a former public official (member of US congress, ambassador, secretary of state etc.) as a director of the firm. Data demonstrates that both types of CPA are negatively associated with market value and accounting performance indicators. Research also shows that corporate political donations to political candidates for federal offices are not positively related with financial returns (Aggarwal, Meschke, & Wang, 2012). Moreover, Aggarwal et.al. find that donations represent an agency problem within firms, especially those with weak corporate governance, whose executives might be prioritizing their personal political preferences over firm's political strategies.

Since the contribution of CPA to firm's value and performance is a core topic in the literature, the question of "how" those benefits can be accrued is also widely debated. Firms get involved in political activities under certain circumstances. While they try to "purchase" policy choices from governments and "create" the external environment they operate in, these circumstances determine effectiveness of their corporate political strategies. Lawton, McGuire and Rajwani review the corporate political activity literature and classify these factors under three groups (Lawton, McGuire, et al., 2013). The first one is resources and capabilities focus, which is about firms' own characteristics. The second group is institutional focus, which suggests that the institutional theory can help us explain how firms interact with the institutional settings of the nonmarket area. The third group is on country level attributes and examines how macro level economic and political conditions affect firms' political activities. The CPA methods reviewed below are thus instruments of these three levels of analysis.

Getz categorizes seven strategies that firms use to directly engage governmental institutions and policymakers: lobbying, reporting research results, testifying at government hearings, legal actions, personal service and constituency building (Getz, 1997). Some of the strategies Getz suggests as effective means of government engagement, such as testifying at government hearings, are obviously valid for the American political system. But as we will see throughout this section, most of other activities are commonly accepted tactics that firms employ.

Information strategy is firms' attempt to gather relevant information through research, survey and other means on the issue that affects their business. Firms provide valuable information to governments to raise awareness about possible consequences of policy preferences and push them towards a position that is more favorable to firms' goals. Firms are thus motivated to gather and provide information that favors their business interests. This means, firms are likely to withhold or even distort information that could lead to a policy option at their expense. Bennedsen & Feldman describe this situation as information externality, a situation in which the firm incurs the cost of gathering information but decides not to transmit it to the decision-maker (Bennedsen & Feldmann, 2006). In this case, decision-maker is indirectly affected by firm's behavior and has a negative perception of the information provider. Previous studies demonstrate that those who do not prefer information channels use direct political campaign financing or other financial tools when possible. Constituency building is a similar strategy, but it aims to inform the society and raise awareness public opinion on a particular issue. The issue might be related to an investment, environment, local employment or public safety. Since policymakers are obliged heed voters' demands to

get reelected, firms attempt to benefit from public opinion pressure to assure a specific policy outcome supplied by the governments.

The way that corporate leaders respond to national and international policymakers has attracted attention in the field. Research has mostly focused on how firms and governments bargain and what kind of changes takes place at various stages of bargaining. According to the obsolescing bargaining model, the power shifts from multinational firms to host countries once the initial investment is made. The main assumption behind this argument is that it would be difficult for firms to withdraw from a country after investing huge resources for expected benefit in the future. Even though the obsolescing bargaining model advanced the understanding in the field, some scholars argue that it is not valid anymore (Vivoda, 2011). Therefore, researchers sought new paradigms to explain how state – firm bargaining occurs. As a result of revision of the obsolescing bargaining model, Ramamurti developed the “political bargaining model (Ramamurti, 2001).” The most important contribution of Ramamurti’s theory is the argument that bargaining occurs at two tiers. The first tier of negotiations is between home and host country governments. It includes macro-economic and political issues. The second tier is between the firm and the host country government, which includes microeconomic circumstances, such as tax, incentive and regulations. On the one hand, firms possess technology, money and products that governments need for investment and employment. On the other hand, governments maintain their control over natural resources, access to home market and labor regulations that are critical for firms. Bakir suggest that through bilateral negotiations and multilateral agreements, governments of developed countries provide their multinational firms additional leverage by bargaining with developing country governments (Bakir, 2014).

The two-tier bargaining model, however, does not mean that home countries become powerless. Nebus and Rufin suggest extending the bargaining model and conceptualizing its outcome in a different way (Nebus & Rufin, 2010). They propose network bargaining power model to analyze actors (both alone and in coalitions) at multiple levels. The main argument is that the ultimate goal of bargaining is power, which actors use to influence the outcome of bargaining in their favor. The bases of their power are economic, political, legal and knowledge. Bell, however, argues that business enjoys “structural power” in international system (Bell, 2013). Bell’s suggestion is that it is not possible to understand the relation between business and government through either on the argument that capital mobility has reduced policy discretion of governments, or governments still have considerable control over the environment in which business operate. Structural power argument points out to an agent – structure relationship, in the sense that structural power is an outcome of their interaction and not something to be imposed from above.

As firms compete to “purchase” policy outcomes from governments by using these methods, they use firm-level resources for mobilization. The resource-based view (RBV) in CPA analyzes how the assets are allocated by firms for political purposes. The resource-based view refers to the variables, such as firm size, ownership, international exposure, relational assets and country of origin that determine the content and effectiveness of a nonmarket strategy at the firm level (Bonardi et al., 2006; Frynas et al., 2006; Ozer & Alakent, 2012). For instance, they may prefer to act alone, in coordination with other firms or through business organizations. Fuchs claims that there is a growing asymmetry within the business community, as the big players prefer to conduct political activities through informal clubs and via private means, and

not at official business organizations (Fuchs, 2005). Indeed, most big corporations find it unnecessary to engage the policy-makers via business organizations, because they already have their own established relations. Jia examines the circumstance under which firms prefer to engage in collective or private activities (Jia, 2013). Jia argues that firms focus on political actions where “markets and market-supporting institutions are less developed.” By examining the Chinese firms, he finds that firms pursue private political actions by becoming members of collective political action institutions. Taylor conducts a similar research among African countries, but reaches different conclusions (S. D. Taylor, 2012). Taylor argues that business organization’s in Africa do not assume a significant role in state – business relations as their counterparts in other countries do, and firms get direct benefits from governments, which paradoxically may benefit other firms whose interests are represented in powerless business organizations. Jia’s argument that there is a positive relationship between the level of institutional development and firms’ intention to become a part of social networks is supported by another research. Findings of Danis, Clercq and Petricevic demonstrate that social networks play a crucial role in new business activity in emerging rather than in developed economies (Danis, De Clercq, & Petricevic, 2011). Being a part of such networks provide firms with political and social capital to be used in their dealings with governments. An important suggestion of the authors is that the benefit of social networks would diminish as the institutional structures mature in developing countries. This is a key point that needs to be further elaborated, as multinational corporations mostly deal with policymakers emerging markets.

RBV studies examine how firm-specific features affect the way they create and implement political strategies. Scholars working in this field recognize the significance of firm-level characteristics comprised of unique capabilities and governance

structures (Lawton & Rajwani, 2011; Sun et al., 2012) (Frynas, Mellahi & Pigman, 2012; Lawton Rajwani 2011). There are two determinants of firms' nonmarket performance. The first one is firm's regulatory and political environment (more on this below). The second one is its internal capabilities. The stronger a firm's internal capabilities, the more it is able to mitigate political transaction costs.

The first and obvious question is about the firm size. Does firm size matter? Nownes and Aitalieva argue that bigger firms are politically more active than small and medium size firms (Nownes & Aitalieva, 2013). This argument sounds intuitive. Bigger firms supposedly have more diverse and complex issues that require political relations to sort out. Furthermore, they possess necessary tools and resources to devote in order to create and implement political strategies. This argument, however, is not fully supported by other studies. Drope and Hansen question the lack of causal inference between firm size and political involvement (Drope & Hansen, 2006). By studying big-size firms and a random sample of firms, they come to the conclusion that the differences between the two groups exist, though to a lesser extent than expected.

Firm capability is determined according to both existence of physical, human and financial resources, as well as how these resources are managed. A special and function to integrate such capabilities in a boundary spanning role can improve firm's political effectiveness (Doh et al., 2014). Dahan suggests a detailed classification of firm's power sources: firms' expertise and financial resources are its main resources, while relational, organizational, recreational and political-administrative expertise is among supporting resources (Dahan, 2005). Dahan argues that political reputation and stakeholder support are complementary. Thus, the overall capability of a firm depends on how these various power sources are managed and whether they create a firm value

for political dealings. Oliver and Holzinger argue that effectiveness of these sources is ultimately a political management skill of the firm (Oliver & Holzinger, 2016). Moreover, firms can develop 'dynamic capabilities' by deploying internal competencies as a result of the changing requirements of their environment. However, as Shaffer and Hillman suggest, the firm needs to be internally coherent to develop such capabilities (Shaffer & Hillman, 2000). Conflict among various departments about policy formulation, reaction and representational issues decreases firm's effectiveness in political activities.

Wang, Hong, Kafouros and Wright study the impact of RBV in firm's international expansion (Wang, Hong, Kafouros, & Wright, 2012). Their results show that the level of government involvement in firms operations (state ownership or firm affiliation) is a key factor of its internationalization. Difference in internationalization between firms with equal internal capabilities is explained by strong government support. This view is empirically examined in the case of American-firms operations in China (Sanyal & Guvenli, 2000). The conclusion is that even though having good relations with state bureaucracy is in firms favor, host country intervention in subsidiary is minimal and becomes only notable when the firm is a joint venture. This refers back to the argument of Wang et.al. about the relation between the degree of government involvement and the ownership.

When it comes to firm activities in the political environment, resource-based view is not the only framework of analysis. The external factors of the firm are also a major determinants of how they respond to nonmarket pressures. A major determinant of firm's political activity is the institutional – political setting in which it operates. Firms make decisions according to the institutional strength of a country, political and

economic development, robustness of checks and balances and regime type. According to institutional theory, organizations act in response or in compliance with their institutional environment (Getz, 2002). The theory emphasizes that rules, laws and regulations determine firm's behavior more than competitive market forces. By complying with institutional rules and procedures, firms expect to receive rewards and benefits. The institutional environment also influences the CPA methods that firms can employ. A previous study find that while financial and informational strategies can be impacted by the level of institutional development, relational strategies are usually context-independent (Rajwani & Liedong, 2015). In short, institutional context influence political strategies, their implementation and outcomes.

All these factors affect how firms approach the policymakers and try to influence their decisions. An analysis at institutional – political level also demonstrates policy risks and opportunities for firms. The political and institutional environments, and differences between developed and developing countries in this regard, is therefore a factor to be reckoned with. Even though scholars of international business field realize that institutions matter in various aspects, there seems to be very limited research on the subject. Peng, Wang and Jiang underline the importance of institutions in international business research (Peng et al., 2008). They argue that without institutional focus, IB research (especially in emerging countries) would be incomplete. Despite this, Henisz and Swaminathan claim that we have little scientific knowledge on institutional structure is linked to firm performance in nonmarket area, and how firms cope with institutions or try to change them (Henisz & Swaminathan, 2008).

Institutional antecedents indicate the role of institutions in shaping the ecosystem of firms and how it correlates with firm-level strategies in different environments (Acemoglu, Johnson, Kermani, Kwak, & Mitton, 2013; Lawton, McGuire, et al., 2013; Zhilong Tian, Hafsi, & Wei Wu, 2009). Industry antecedents refer to variables related to the impact of industry competition, regulation and concentration of market share on CPA in the industries where firms compete (Hillman, 2003; Hillman, Withers, & Collins, 2009). At the national political structure and risk levels, differences between political marketplaces in different political regimes, as well as how firms behave in accordance with various political variables, is the central theme of the field (Al Khattab, Anchor, & Davies, 2008; Bakir, 2014; Bayulgen, 2005; Hashmi & Guvenli, 1992; Mazaheri, 2013).

Puck, Rogers and Mohr argue that three types of political strategies that Hillman and Hitt describe are effective for decreasing political risk exposure of firms in emerging markets in particular: financial incentive, information providing and constituency building (Hillman & Hitt, 1999; Puck, Rogers, & Mohr, 2013). All three methods aim to provide policy supplier with more power. Thus, they are expected to be effective influencing tools. As the importance of public opinion increases in emerging and developed countries, it has become crucial for private sector players to engage with societies to maintain their social legitimacy and reputation. As previously noted, the social capital is firms' arsenal that can provide a wide range of benefits. Firms may prefer to garner that capital by partnering with NGOs or interest groups (Marano & Tashman, 2012). However, it depends on the specific legitimacy need of the firm and the nature of interest group to decide on the partnership strategy (Kanol, 2015). NGOs are also at the center of how firms' legitimacy is distributed among various actors. Teegen, Doh and Vachani argue that non-for-profit organizations' advocacy efforts

influence the mission of multinational firms (Teegen, Doh, & Vachani, 2004). Hence, it would be a misperception to consider NGOs just as an instrument of private sector's interests. NGOs are seen as critical stakeholders to be engaged in particularly regulated areas. One such area is mining. Henisz, Dorobantu and Nartey undertake an analysis on 26 gold mines owned by 19 publicly traded firms (Henisz, Dorobantu, & Nartey, 2014). Their results show that cooperation between firms and stakeholders increase the financial valuation of a firm.

Firms' political actions may also take place at international level and may include more than one government, firm, NGO and international institution. Such complex settings bear coalitions that need to be examined according to national culture, organization specific factors and individual characteristics. As noted before, firms do not only react to political environment, but they also attempt to "create" it. This argument is further studied by Levy and Prakash at the international level. The main assumption behind their study is that firms bargain with states, NGOs and international organizations "over the form and structure of particular international regimes and agreements (Levy & Prakash, 2003, p. 147)." Their interests vary according to the position of others. Lucea and Doh explain firms' international strategy for the nonmarket context (Lucea & Doh, 2012). According Lucea and Doh, firms either choose a global political strategy that managers try to fit in each country, or they prefer a wide range of disconnected strategies that local conditions require. The authors suggest a four-criteria approach to combine these two types of strategies: firms need to take into account stakeholders, issues networks and geography when formulating their nonmarket strategies. However, as a general principle, Levy and Prakash suggest that multinational firms tend to support market-enabling international regimes and prefer other regulations, such as social and environment, remain under national

jurisdiction. Hence, institutions of international governance become an outcome of multi-level negotiations between states, firms and NGOs. Elms examines the same argument in the case of Trans-Pacific Partnership negotiations (Elms, 2013). Her conclusion, however, challenges the assumption that firms get involved in international negotiations to influence governments. On the contrary, Elms finds that nine governments involved in TPP negotiations have reached out to businesses to receive their feedback but have received little input. Therefore, the extent to which businesses are involved in international negotiations remains debated. However, this does not reduce the importance of institutions' impact on private sector.

Tian, Hafsi and Wu report that a survey among 233 top managers of Chinese firms demonstrates that strong institutional environment forces firms toward accommodation (Zhilong Tian et al., 2009). Going back to the RBV analysis, the authors claim that only firms with bigger size and better reputation can adopt defying strategies to challenge the existing institutional setting. Thus, one can argue that the institutional setting is an integral part of business decision-making, because firms will naturally be intended to benefit from their external conditions either by complying or defying. Institutions especially matter in host countries because they create incentives and barriers for multinational firms' investment decisions (Jackson & Deeg, 2008). A natural extension of this argument would be that institutions do not only matter for business, but also for individuals who manage business. Henisz and Swaminathan argue that how senior managers' response to the existing and prospect international institutional environment is a key determinant of their success and failure (Henisz & Swaminathan, 2008).

How does institutional structure affect relations between multinational firms and governments? A specific area that this causal relationship can be observed is FDI bargaining. Bakir argues that there is a direct link between institutional structure and the FDI decision by firms (Bakir, 2014). Administrative capacity and institutional capacity are two critical components of state capacity. If the state capacity is weak, firms are more likely to decide not to invest. Bakir supports this argument by studying the case of Hyundai Motors Corporation's decision to choose Czech Republic as the investment target. A similar argument appears to be valid in oil sector as well. Bayulgen claims that authoritarian states (Russia and Azerbaijan in this study) are more capable of providing investors with guarantees on the stability of political and regulatory regime (Bayulgen, 2005). This is particularly critical in oil sector, because investors are looking for long-term benefits - as defined in production sharing agreement - in exchange of huge amounts of investments and knowledge sharing. Thus, lack of checks and balances (or veto power) becomes an advantage in rent-seeking economies. Therefore, countries in transition appear riskier for international investors. An exception is Saudi Arabia (Mazaheri, 2013). The Kingdom appears to be reforming the regulatory and financial structures, though it will not reach a point that challenges the authority of the King. Indeed, what the existence of "economic familism" means for business elites is that their interests will be protected, even though formal institutions are weak. State capacity provides credible commitment.

State capacity alone, however, does not indicate that policy risks are minimized. Businesses are vulnerable to risks that political systems expose at national and international levels. For instance, following the oil sector case, Click and Weiner demonstrate that political risk (resource nationalism in the oil sector) increases per barrel value of petroleum reserves (Click & Weiner, 2009). In a similar vein, data

analysis of Bekaert, Harvey, Lundblad and Siegel demonstrates that one percent point reduction in the political risk spread is associated with a 12 percent increase in net-inflows of foreign direct investment (Bekaert, Harvey, Lundblad, & Siegel, 2014). Therefore, host country risk is an additional cost for international firms. This is an important insight in the sense that it shows the linkage between market and nonmarket indicators. Jimenez and Delgado-Garcia study this argument in the case of Spanish multinational firms' internationalization strategy (Jimenez & Delgado-Garcia, 2012). They find the level of political risk assumed in Spanish multinational firms is positively associated with firm performance. Firms assume greater risks when the firm's overall performance is expected to increase. In line with the political activity argument, it is especially in these situations where political capabilities of firms matter the most, because politically skilled firms are better in navigating and minimizing political risks and seizing the opportunities. One reason for this, according to Holburn and Zelner is that firms from home countries that have weak institutional structure seek out riskier host countries for international investments, because they are inherently more capable of leveraging their political capabilities (Holburn & Zelner, 2010). In other words, firms that are used to deal with risky political structures at home have more possibility of transferring and utilizing their political knowledge abroad. This argument is empirically supported by another study. The authors survey 665 Japanese firms that expanded internationally and find that firms possess the ability of experiential learning: "firms that gathered relevant types of international experience are less sensitive to the deterring effect of uncertain policy environments on investment (Delios & Henisz, 2003, p. 1153)." One can argue that if political experience is such a valuable asset for a firm, it has to be a part of the firm's learning process and should not be left to individual managers' discretion. Khattab, Antor and Davies study which firms choose to institutionalize political risk assessment capabilities within their

departments (Al Khattab et al., 2008). In a survey among Jordanian multinational firms, the authors find that the number of operating countries is the most important variable that has a statistically significant positive effect on the institutionalization of political risk assessment units within firms. Firms that operate in more countries are likely to face more and diverse policy risks, so they need to institutionalize their political capabilities. Beaulieu, Cosset and Essaddam study how variations in political risk affect the volatility of stock returns of Quebec-based firms (Marie-Claude Beaulieu, 2005). The results demonstrate that investors choose to diversify political risk and do not require risk premium in most cases.

A similar argument goes for interstate disputes. The relationship between dyadic or civil conflict and economic interactions has long been studied. However, the study on the relationship between business decisions, most notably FDI, and conflict zones shows that among 2509 firms that chose to invest in countries with weak institutional structures, over 540 have invested in conflict countries (Driffield, Jones, & Crotty, 2013). They do so with the expectation of increasing performance in their countries. The most concrete sign of security relations between two countries is the existence of a military conflict or a security alliance. By studying this perspective, Li and Vashchilko find that both security variables (military conflict and security alliances) have statistically significant effects in the high-income/low-income dyads, but they are insignificant in the high-income/high-income dyads (Li & Vashchilko, 2010).

Having reviewed the two main pillars of nonmarket strategy, corporate social responsibility and corporate political activity, we can now turn to the question of how nonmarket strategies can be integrated with market strategies of firms.

2.2.4. Integrating Market and Nonmarket Strategies

Market actions are by definition arbitrary. Actors can decide whether or not to take an action based on their perceived economic interests. Nonmarket interactions are determined by the political, social, legal and institutional structures that remain outside of the market system. However, they have a profound impact on it. This makes it necessary to study the business environment in an integrated manner. The inherent interrelatedness of market and nonmarket forces has resulted in the emergence of integrated strategy scholarship, which aims to advance the understanding of interactions between the two.

By suggesting that the alignment between market and nonmarket strategies is an effective business management approach, an integrated strategy refers to the interactions between the two components of a firm's business environment (Baron, 1995a). In most cases, firms realize that their market actions are constrained by factors that do not exist within the market system. The nonmarket environment has, therefore, a profound impact on business outcomes (Baron, 1995b). Such an impact can emerge formally from government and public institutions via regulation and other legal mechanisms, or informally from NGOs, activists and the general public via social activities. To manage the nonmarket environment, businesses need to gain knowledge of the forces that shape it and develop the capabilities to influence those forces in accordance with their business interests (Xie, Li, & Xie, 2014). It can also be the case a firm's market activities can create advantages or disadvantages by leading to changes in the nonmarket environment (Funk & Hirschman, 2017). Therefore, for firms that aim to thrive in complex business environments, the ability to integrate market and nonmarket strategies under the corporate strategy becomes a strategic management competence. There are striking examples where the ability to develop and execute an

integrated strategy (or lack thereof) has resulted in significant business consequences for firms (Baron, 1997). From the management point of view, it is important to understand the business as a whole, which comprises both market and nonmarket environments, as well as the circumstances under which integrated strategies are most effective. Arguably, this fact becomes more salient in regulated markets and developing countries, where nonmarket factors have a more powerful influence on business results (Cavusgil et al., 2012).

2.3. Business and International Relations

This section provides empirical examples of the interactions between business and governments within the realm of international relations. It follows a two-pronged approach. First, I provide an overview of the literature that deals with the interplay between business and foreign policy, as well as how firms might get involved in decision-making in this area. The overview demonstrates that there is an increasing recognition of the middle ground between the two fields; however there is no theoretical suggestion that can establish the causal mechanism. Rather, the research has been limited to empirical studies thus far, providing limited understanding on why and how firms get involved in foreign policy. Second, I provide some exemplary case studies that indicate business and international relations nexus. The cases show that firms get involved in foreign policy making in different nonmarket environments. The differences are caused by institutional settings, sectorial dynamics and resource-based characteristics. The cases are indicative and do not involve theoretical explanations. The goal of this part is not to prove the causal links between the events that imply business involvement in international politics, but rather make the case that they should be studied in a theoretical manner.

The quick overview below suggests that while there are studies on interaction between business interests and foreign policy, their scope remained mostly empirical, with little attempt to create a theoretical construct to explain the causal link between the two factors. Nevertheless, those publications underline the academic interest in the subject matter and demonstrate the need for theory development.

The events in international politics demonstrate the interrelatedness between firms' commercial interests and political relations between governments. Noticing the theoretical gap, some scholars pointed out the need to develop a theory to specifically study the business interaction with international relations. Stopford, Strange and Henley suggested the concept of 'triangular diplomacy' in 1991 to expand diplomacy beyond its traditional government-to-government framework (Stopford et al., 1991). According to this concept, while states have the power to determine the market dynamics, but multinational firms have also considerable influence on how economies perform. Consequently, the triangular diplomacy now involves negotiations between governments and governments, firms and firms, as well as firms and governments. The complexity of world economy therefore calls for a new approach to diplomacy, one in which firms and governments have different assets. In addition to this, Bell suggests that it is not possible to understand the relations between business and government through either on the argument that capital mobility has reduced policy discretion of governments, or governments still have considerable control over the environment in which business operate (Bell, 2013). He argues that business enjoys "structural power" in the international system, driven by the interaction between the two. While these studies suggested to include the firm as an actor that the governments have to deal with, they did not adopt a firm-centered explanation to international relations. Firm has remained as a stakeholder in the policy-making process of the government.

Similar to the academic interest, the first discussions in the literature about the impact of business in international relations emerged in the early 1990s. Jeffrey Garten, then US undersecretary of commerce for international trade (1993 - 1995), suggested that the US foreign policy and American businesses abroad are becoming highly interdependent and that “business drives a good deal of US foreign policy (Garten, 1997, p. 69).” A natural consequence of this statement was that business-driven foreign policy has inevitably changed the traditional forms of diplomacy. This is why unconventional diplomacy requires unconventional channels and tools. Policymakers depend on firms for economic growth, driven by trade and investment. Businesses need the political endorsement to deal with complex political, social, economic and security issues in international markets, especially when operating in ‘high risk - high return’ emerging markets (Cavusgil et al., 2012). Such an increasing interdependency requires an evolution of institutional structures and decision-making procedures by the government and firm. The diversity in stakeholder landscape and complexity of issues cannot be handled in one-way communication only. One-to-one diplomatic communication between policymakers needs to be replaced by the complex network of interactions between public and private sector actors. Similarly, market actions of firms are complemented by nonmarket actions with regards to international relations. Therefore, the foreign policy outcome becomes a product of a combination of policy and business inputs.

The changes in foreign-policy making processes affect policy outcomes in several countries. One study on the US foreign policy shows that it is “most heavily and consistently influenced by internationally oriented business leaders (Jacobs & Page, 2005, p. 107).” Individuals acting on behalf of their firms’ business interests are

becoming foreign policy actors in the US foreign policy network, with the aim of pursuing their business objectives in international markets. Responding to the need to become a part of foreign policy apparatus, most firms “create internal ‘foreign policy’ units which develop diplomatic strategies, analyze emerging global issues that affect the company’s interests, and manage relationships with external stakeholders (Muldoon, 2005, p. 354).” Not only the American firms that aim to influence American foreign policy conduct nonmarket activities. Foreign companies that do business in the US also need to take various political dynamics into account. Rotstein argues that the Canadian business is hypersensitive to Canadian government’s relations with the US because the Canadian firms rely heavily on the American market as well as the opinion of American investors (Rotstein, 1984). To this end, firms actively participate in Canadian foreign policy making to ensure that American – Canadian political relations remain in a way that favors their business interests. As the literature on nonmarket strategy has demonstrated, leaders of firms play an important role regarding firms’ involvement.

When it comes to firms’ influence on foreign policy, similar patterns can be observed in countries with different political regimes. While each country has a certain policy making path, the involvement of business interests seems to be independent from specific institutional characteristics. For instance, Russian business leaders hold tremendous power over foreign policy as a result of the country’s political system (Stowe, 2001). The oligarchic system allows individuals commit themselves to a particular sector and act as the foreign policy leader in that area, regardless of whether they have an official position in foreign policy making institutions. This does not mean that they are the sole decision-makers. Rather, such business leaders use the structural power of their industries, as well as political connections with policymakers to create

an impact. The oil and gas industries have powerful lobbies in Moscow and influence Russia's relations with various countries, including the European Union (Pleines, 2005). Thus, the commonly held view that Russian business leaders influence Russia's foreign policy towards members of Commonwealth of Independent States only, but fall short in other areas is not a valid argument. Pleines' research demonstrates that among several sectors that depend on EU's trade regime including steel, car, and agriculture; oil and gas are the only ones with a meaningful impact on Russian foreign policy. Consequently, one can assert that there is a need to study the interests and strategies of Russian oil and gas firms to understand Russian foreign policy, as well as the issues of international political relations that relate to their business interests.

What explains Russian businesses' influence in foreign policy? A common assumption would be based on the assumption that Russia's rent-seeking economic and political system incentivizes firms to become a part of the country's international political relations to extract commercial benefits. However, the case of Australia shows that the characteristics of the political regime cannot be the only explanatory variable. Australia's relations with East Timor had a profound change when the Australian firm Woodside Energy asked for concrete policy changes from the East Timor government, including giving up on some of its maritime rights. According to the firm's interests, the request aimed to secure a stable regulatory framework (Hunter & Storey, 2008). The firm's interests were promoted by the host-country government against East Timor government. This is an example of a private firm's getting directly involved in a bilateral political issue that has significant consequences on the sector it operates in. Therefore, even though differences in political regimes might make a difference in some cases, what appears to be common in both Russian and Australian cases is the strategic impact of the firms operating in the energy sector.

Firms can also exert their influence on a particular foreign policy area, leveraged by the significance of their sector to the overall economic development or national security. While such actions do not change the overall political relations between countries, they nevertheless influence a certain policy area that would take a different form without business involvement. Oh argues that American and Chinese firms play a critical role in bilateral and multilateral climate politics as a result of their ability to force stricter rules on green energy (J. S. Oh, 2012). Their influence comes from the fact that alternative energy resources create employment. There seems to be a correlation between the socio-economic impact of a business and its influence in foreign policy making. Indeed, Busch argues that all executives need to have a good understanding of the international trade deals and develop nonmarket strategies to make their firms benefit from those deals, as well as have the assets to become a part of their content (Busch, 2016). As a result of Republic of Korea's democratization process since 1986, Korean business has begun to enter into the once strictly closed Korean foreign policy making process (C. Kim, 2010). The outcome was "strengthening domestic support" for the free trade agreement between Korea and the US (KORUS FTA) by building advocacy networks (E. M. Kim, 2011). Since the free trade agreement is an essential component of bilateral relations between the two countries, it has played a significant role in transforming the overall Korean – American alliance as well. Turkey experienced a less remarkable transition since the liberalization of the Turkish economy in the 1980s, which created a window of opportunity for businesses to take active roles in policy making (Atli, 2011). By studying Turkish business organizations' involvement in foreign policy making, however, Atli concludes that the Turkish business associations still do not assume an "autonomous" role in shaping foreign policy, and are rather in a supportive position of

government's international strategy. The two cases show that businesses' respond differently to the changing institutional environment.

The empirical cases reviewed above demonstrate that firms - either as legal entities or through their managers - can have considerable impact in shaping foreign policies of governments or they can adapt themselves by building certain capabilities. Their impact vary according to the sector, with oil and gas sector seems to be most critical, and according to the structure of the political system. Some businesses have their say in a specific issue area that affects the broader agenda of a bilateral relation. In any case, private sector's involvement in foreign policy making is a fact that needs to be systematically studied. However, there still seems to be a need for theoretical development regarding the causes, means, and implications of business involvement in international relations.

2.4. Concluding Remarks

The second chapter reviewed the existing knowledge in the nonmarket area. The review demonstrated that interactions between firms and their nonmarket environment has implications on managerial issues, yet the specific area of international relations is yet to be studied from a theoretical perspective.

The review in the first sub-chapter clearly indicated that the institutions have considerable impact on firm behavior. The institutional theory, new institutional economics and varieties of capitalism literatures demonstrated that market organizations (such as firms) respond to nonmarket pressures, which in turn lead to broader implications, including macro economic development. While this sub-chapter did not explore the foreign policy as an issue area, the divergence in economic

development between Turkey and South Korea has been studied to position firm as an actor of nonmarket environment. The second sub-chapter was the core of literature review and deals with the concept of nonmarket strategy. The existing literature indicates that nonmarket strategy is composed of two concepts related with firms' ability to manage their environment: corporate political activity and corporate social responsibility. While these concepts were theoretically and empirically discussed in the previous studies, the foreign policy area has been curiously missing. The existing literature mostly deals with the antecedents and outcomes of CPA and CSR in terms of firm performance and public policy. Thus, this sub-chapter clarifies the objective of the thesis that was indicated in the introduction chapter as integrating the corporate diplomatic activity concept as the third pillar of nonmarket strategy. The third sub-chapter revealed that there are indeed cases where firms get involved in foreign policy making. However, none of these cases have a theoretical explanation on how firms do so. Therefore, this sub-chapter indicated the need to develop the corporate diplomatic activity concept by pinpointing the theoretical gap.

At this stage, we are able to identify where the research should focus on in order to provide the theoretical contribution as stated in the introduction. However, developing the concept for firm's involvement in foreign policy requires more groundwork. For this reason, the next chapter will provide two studies that deals with firm-level and international-level nonmarket environments.

3. Firms' Responses to National and International Nonmarket Environments

3.1. Organizational Capability Building at National Level: The Turcas Case

This section will demonstrate the way that firms respond to the nonmarket environment by studying how they build and reconfigure nonmarket capabilities. According to the strategic management literature, such capabilities aim to create and sustain competitive advantage in rapidly changing environments. Firms operate in complex environments where the market and nonmarket forces are at a confluence. Therefore, firms are also under pressure to manage their nonmarket environment to get ahead of the competition. As discussed in the nonmarket strategy review chapter (Ch. 2.2.), nonmarket forces are significant factors that determine overall business success, which deserve the attention of scholars and managers. This chapter will suggest a dynamic capability model and apply it to a single study in the case of Turkish energy firm Turcas Petrol A.S.

Dynamic capabilities refer to a firm's ability to integrate, build, and reconfigure internal and external competences to address changing business environments (Teece, Pisano, & Shuen, 1997, p. 516). Dynamic capabilities theory suggests a solution to the distinction between the industry-based view and resource-based view (Porter, 1985).

The approach asserted by Porter argues that industrial forces – entry barriers, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among firms – are the main determinants of a firm’s competitive strategy. Resource-based view, on the other hand, emphasizes firm-specific competences and resources as the source of competitive advantage. Those competences are supposed to be distinctive to avoid competition from other actors and described as valuable, rare, inimitable and non-substitutable. However, both approaches are found to be somewhat static. They can help design strategic roadmaps in predictable and stable environments, whereas the business environment is far from being so due to various factors, such as technological change (Dobson et al., 2004). Dynamic capabilities has its roots in resource-based view, but provides a new perspective to make it evolutionary in line with the requirements of the external environment (Teece, 2017; Teece et al., 2016). The theory arguably gives the firm the possibility to be responsive to its environment, either by adapting or shaping.

3.1.1. Dynamic Capabilities and Nonmarket Environment

The dynamic capabilities theory is particularly interesting for the nonmarket environment. Despite the fact that the theory emphasizes the technological change as the main reason for building, integrating or reconfiguring capabilities, a major cause of ‘rapidly changing environments’ is the abrupt or even gradual transformations of policy and regulatory landscape. policymakers’ choices often create uncertain and unpredictable market conditions that require a specific set of skills on behalf of the firms. Thus, firms need to use dynamic capabilities for nonmarket purposes as well. Indeed, nonmarket actors such as government and regulatory bodies are a part of the business ecosystem defined within the dynamic capabilities literature (Teece, 2011).

However, the theoretical and empirical link between the two concepts are not sufficiently established.

Dynamic capabilities aims to expand the knowledge on firms' effectiveness in high-velocity markets (K. M. Eisenhardt & Martin, 2000; Teece, 2007). The theory puts particular emphasis on the relational and knowledge assets of the firm, as well as firm's strategic capabilities to generate new resources or reconfigure existing ones. Nonmarket strategy is closely related with this relational and intangible view of the firm (Hall & Soskice, 2001). The quality of relationships with internal and external stakeholders of the firm thus becomes a crucial dynamic capability to survive in changing environments. Therefore, it is argued that the close link between dynamic capabilities and nonmarket strategy can bring about new perspectives on how firms are organized and how they behave in the face of external pressures.

Previous studies that aimed to conjoin nonmarket research and dynamic capabilities literatures provided initial findings on two dimensions. The first one is the types of nonmarket strategy that a firm can pursue. Based on the resource-based view of the firm, Oliver and Holzinger suggest four political management strategies that are reactive, anticipatory, defensive and proactive (Oliver & Holzinger, 2016). Those strategies are driven by various firm-specific factors, such as knowledge management, process reconfiguration and social capital. The study argues that firms develop and implement one of the four nonmarket strategies by assessing their capabilities and their effectiveness in the external environment. Lawton and Rajwani examined the design and genesis lobbying capabilities within European flag carrier airlines in the post 9/11 period and found that policy environment and ownership effects play an important role in how lobbying capabilities are developed. The core purpose of their research is to fill

the gap in “how managers in specific industry and policy context sense and seize external opportunities so as to design dynamic capabilities (Lawton & Rajwani, 2011, p. 182).”

While this chapter pursues a similar goal with that of Lawton and Rajwani, it has a narrower yet deeper scope in studying how external factors have determining effects on designing dynamic capabilities in lobbying.

3.1.2. Nonmarket Strategy and Dynamic Capabilities in Organizational Development

The purpose of this section is to highlight the main findings in nonmarket research literature on organizational capabilities. The review demonstrates that while there are various approaches to the structuring of firms in this realm, our knowledge of how organizations evolve in response to nonmarket pressures remains limited.

How firms structure their management skills in political and social issues has attracted scholarly attention, though to a limited extent compared with other aspects of nonmarket research. In this review, I will divide the question into three parts to study the nexus between nonmarket strategy and organizational capabilities: (a) why do organizational capabilities matter for nonmarket management; (b) what are the variables that affect the formation and effectiveness organizational capabilities; and (c) What are the main typologies in nonmarket organizational capabilities of firms?

(a) Organizational capabilities that matter for nonmarket management: a core reason for scholarly attention on nonmarket organizational capabilities derives from

its possible impact on firm performance. As discussed in the previous chapter, effective nonmarket management is positively associated with better business results, though there is still need for empirical substance. Therefore, the organizational mechanisms by which firms can gain a competitive advantage by developing political capabilities is a central topic of the existing literature (Brown, 2016). Consequently, how firms translate nonmarket strategies into internal capabilities is an area of scholarly interest. According to Mellahi and his colleagues, this understudied aspect of nonmarket strategy is key to grasping the causes of organizational performance (Mellahi et al., 2016). If we can get a better understanding of how performance is related to the organizational capabilities that are related with nonmarket area, the scientific and managerial implications would be significant. There are other studies that prove the link between corporate governance and non-market effectiveness, as well as its impact on firm value (Mathur, Singh, Thompson, & Nejadmalayeri, 2013; Unsal, Hassan, & Zirek, 2016).

A possible explanation for the significance of organizational capabilities is that regulators and policymakers have a tendency to cooperate with the firms that have political skills and reliable organizational capabilities (Coen & Willman, 1998). The perceived level of external power is not the only deciding factor, however. The extent to which the organizational function tasked with influencing the firm's political and social environments are capable of shaping the circumstances in its favor is also dependent on how that function is positioned and empowered within the organization (Doh et al., 2014). Functional capabilities are thus critical nonmarket assets. However, there are also cases where a direct link between a firm's political structures and performance cannot be established, even though such structures are determined by corporate political strategies in the first place (Martin B. Meznar & Johnson, 2005).

Such contradictory results call for further research on how firms overcome the organizational limits to explore and influence their political environments.

(b) The variables that affect the formation and effectiveness organizational capabilities: Factors that determine the establishment and effectiveness of nonmarket organizational capabilities can be internal or external. For internal factors, a significant dynamic is how the decisions are made within the firm. Previous studies show that the effectiveness of nonmarket organizational capabilities is positively associated with centralization in decision-making and elevating nonmarket decisions to the strategic level. Such an internal positioning of nonmarket function increases the quality and speed of managing political and social issues, as well as empowering nonmarket managers to make strategic decisions by being a part of the leadership team. Leadership commitment thus becomes a determining factor of the structuring and resource allocation of organizational capability (Griffin & Dunn, 2004). In addition to the importance of centralized leadership support and long-term strategic planning, the influence of such units also derives from the short-term benefits it provides to the line managers (Post, Dickie, Murray Jr., & Mahon, 1983). Therefore, the way that the firm is organized for nonmarket environment is highly critical for the effectiveness of its strategy.

When we look at the capacity needed in order to provide those benefits, the individual skills that matter the most are a high-level awareness of the political and social environment of the firm, a good understanding of the firm's core business interests and the ability to coordinate activities among internal stakeholders (Coen & Willman, 1998; Lawton & Rajwani, 2011). The individuals have a significant impact on non-market capabilities, especially the orientation of managers have a determining

effect on the allocation of corporate resources to this end. The decision to institutionalize or outsource such skills indicates a critical management approach and depends on various factors such as a firm's international exposure, requirements of a nonmarket strategy and specific needs such as political risk assessment (Al Khattab et al., 2008; Hashmi & Guvenli, 1992; Vining, Daniel, & Bernhard, 2005). The last and arguably the most decisive factor in the formation and effectiveness of nonmarket organizational capabilities is the interaction between corporate governance and corporate strategy. The role of ownership and involvement of firm leadership in nonmarket management is decisive factor. For instance, CEO duality (in cases where the CEO is both the top management professional and chairman of the board) and corporate ownership effects have a moderating impact on political activities and firm performance (Hadani et al., 2015; Lawton & Rajwani, 2011; Lawton, Rajwani, et al., 2013). Another study finds that institutional ownership and insider ownership are negatively associated with resource allocation to nonmarket assets since shareholder value is not perceived as guaranteed despite increased awareness of the effects on firm performance (Ozer & Alakent, 2012). If the governance is about how the decisions are made, then the decisions on nonmarket strategy is mostly dependent on firm's governing structures.

(c) The main typologies in organizational nonmarket capabilities: Previous research has mostly dealt with how the nonmarket function should be structured and what kinds of responsibilities - both within and outside of the organization - it should have to effectively manage the nonmarket environment. Though the related department can assume different names, such as public affairs, external and legislative affairs, public relations, corporate communications and government relations, the idea of establishing and empowering an organizational function to handle the firm's

political and social interactions remains the core purpose. Based on the findings in a wide range of cases, a handful of general principles emerge.

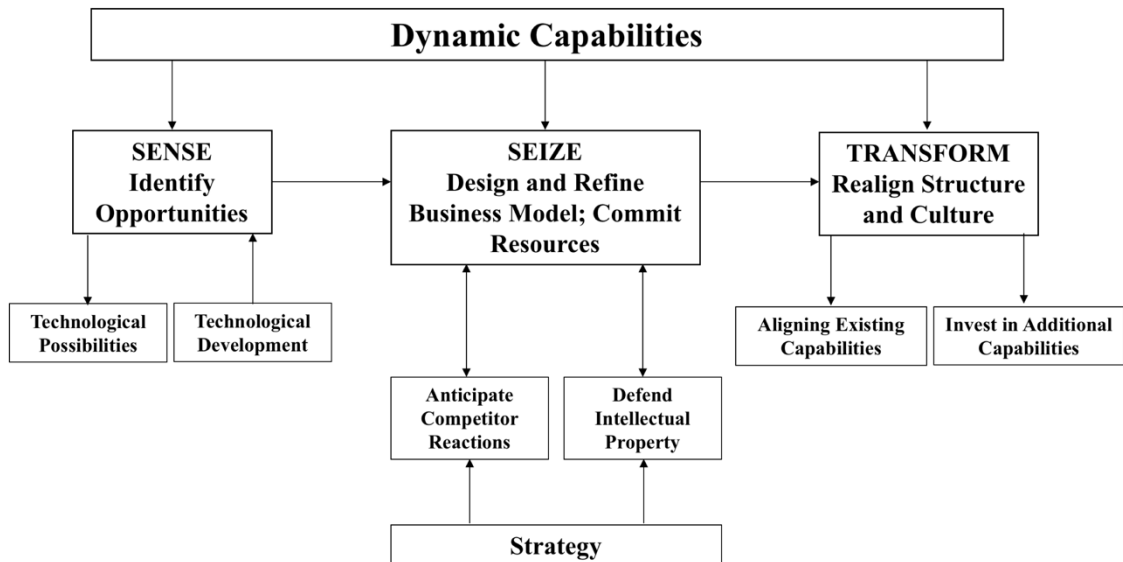
The primary responsibilities of the nonmarket function depend on the division of labor within the firm. There is a traditional distinction between considering the nonmarket capability as a specialist function that is tasked with government relations only or embedding it into the broader nonmarket environment that includes public and community relations (Moss, Mcgrath, Tonge, & Harris, 2012). Collaboration with other stakeholders, including business organizations and interest groups is also a part of its duties (Griffin & Dunn, 2004). Thus, the current state of literature has a tendency to consider the nonmarket function as a coherent unit. Previous findings demonstrate that a failure to act as a coherent unit impairs intra-organizational synergies and impedes effective nonmarket management (Oliver & Holzinger, 2016). Therefore, some scholars suggest alignment between political and social functions, not only at the strategic but also at the organizational level, as well as elevating its position within the corporate hierarchy. There are also examples where the government affairs function is positioned as a subset of the public relations department, either permanently or as a result of its emergence as an ad hoc unit.

3.1.3. Development and Application of Dynamic Capability Model for Nonmarket Organizational Development

Since the purpose of this study is to apply the dynamic capabilities framework to the development of nonmarket organizational capabilities, the analytical model that will help us observe the empirical findings is provided by the existing literature. Dynamic capabilities suggest a three-pronged approach – sensing, seizing and transforming –

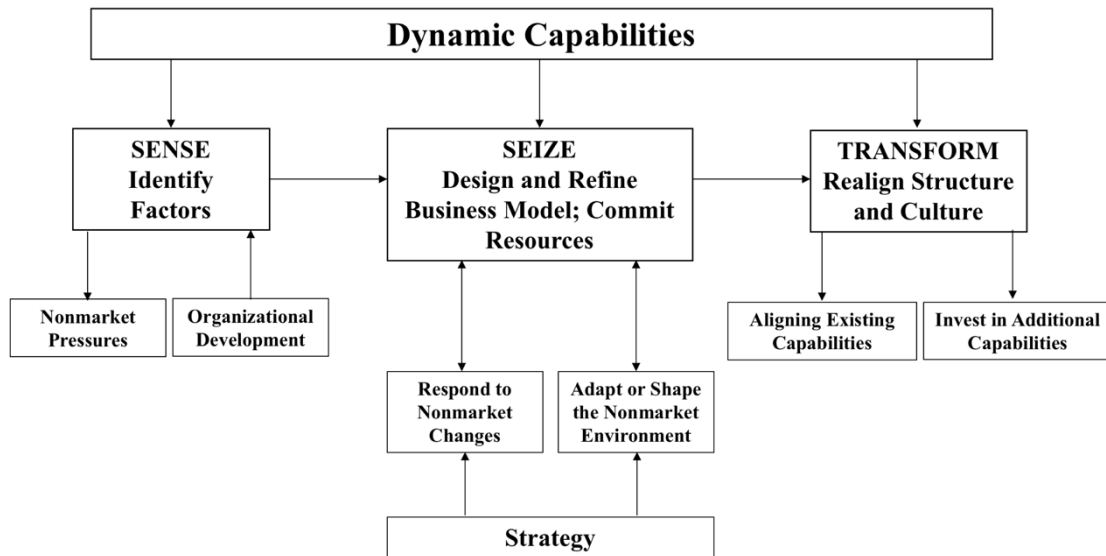
that can be used for process tracing in the case of Turcas. The model suggested by Teece in a recent publication *Business Models and Dynamic Capabilities* gives an overview of how the model works (Teece, 2017, p. 5). Figure 1.a. demonstrates the model of dynamic capabilities in response to technological development.

Figure 1.a.



The model that will be used in this research refines the model demonstrated above in accordance with the requirements of nonmarket research. The main idea behind this refinement is that the business environment can also change as a result of nonmarket forces. If the dynamic capabilities aim to respond to rapidly changing environments, then the organizational capability building should be framed according to its requirements.

Figure 1.b.



The main dimensions demonstrated above are “the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise’s intangible and tangible assets (Teece, 2007, p. 1319).” Thus, the model is adjusted to make it pertinent to study dynamic capability for nonmarket organizations.

According to this model, the “sense” capability allows the higher management to observe and make strategic decisions to respond the changing nonmarket environment. This capability involves an accurate diagnosis of the situation, including the political and economic institutions that play a significant role in economic activity (Acemoglu & Robinson, 2012). As a result, the management makes the decision to develop certain organizational capabilities – processes or routines – that can adequately match the requirements of the changing nonmarket environment. This the diagnosis phase that help managers identify the emerging trends and anomalies.

“Seize” capability involves transformation of the business model and reallocation of the resources that will be in line with the outcomes of “sense” phase, but also in line with the corporate strategy. Business model’s successful implementation is closely related with the management’s choices regarding architectural design. Without deployment of the seizing capability, the firm would be reactive to the developments in its external environment and incapable of taking an appropriate action. The research on strategic management demonstrates that most firms are facing challenges in this phase, because it requires decisions that would reallocate resources and restructure the established relations.

“Transform” capability leads to orchestrating the existing assets and reconfiguring them in line with the nonmarket requirements. Both tangible and intangible assets, such as production facilities and cultural values are important to maintain core competences for short-term gains, but also evolve them for long-term competitiveness. Transforming is where the action takes place and firm moves towards a certain direction to respond nonmarket pressures.

For the purpose of this study, Turcas Petrol A.S. has been chosen for two main reasons. First, there are several characteristics of the firm that helps us investigate the research question and the model explained above. The firm’s nonmarket strategies and corporate structure have evolved over the years, which allows me to trace the causal link between external environment (Turkey’s energy sector) and internal capability building (organizational transformation). The second reason is my previous knowledge of the role of the government relations and corporate communications department within the firm, which has been elevated to an executive function, which is an unusual

managerial decision for most Turkish firms. Therefore, the selection of Turcas aimed to study various aspects of the firm’s organizational capability building.

The empirical part of the study aimed to test the refined dynamic capabilities model. The main goal is to trace the causal mechanism between the developments in Turkey’s energy sector and the organizational development of the firm as predicted by the sense-seize-transform model. The data collection process included semi-structured in-depth interviews with the managers of the firm that are involved in strategic decision-making, as well as external interviewee to gain alternative perspectives about the subject. Interviewees were informed about the purpose of the research and content of the study.

Interviewee Position	Number of Interviews
Chairman of the Board of Directors	1
Chief Executive Officer	1
Chief Operating Officer	1
Chief Financial Officer	1
Advisor to the CEO (Former manager of Coordination and Regulatory Affairs)	1
Manager of Corporate Communications and Government Relations	2
Advisor at the Energy Ministry	1

3.1.4. Setting the Stage: Turkey, Energy Sector and Turcas

The purpose of this section is to provide a resource-based view of Turcas Petrol A.S. to lay the groundwork for a complete study of its dynamic capability building in the

next section. This section includes descriptive information about the firm's corporate history, international partnerships and governance structure. Those are the core competences and path dependencies that can explain the use of dynamic capabilities for nonmarket purposes.

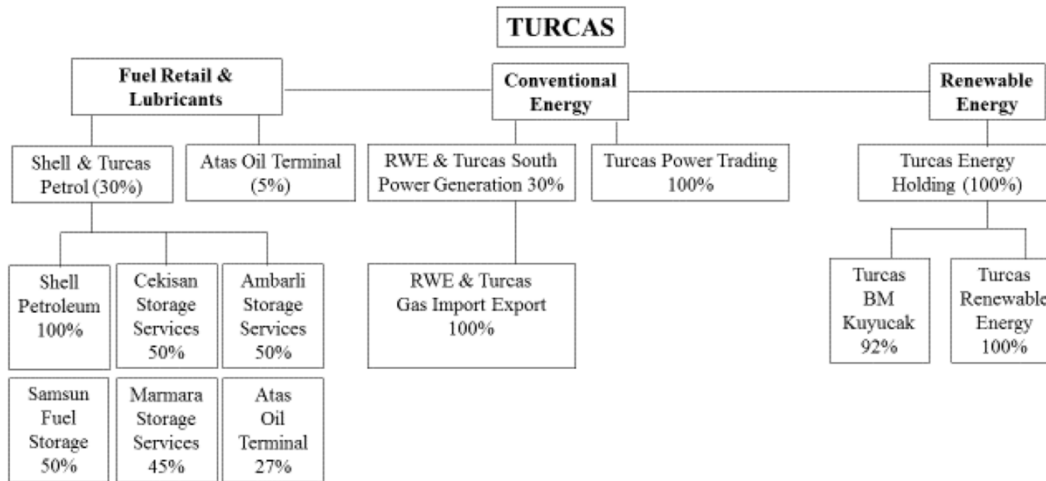
Turcas Petrol A.S. has its origins in Turcpetrol, Turkey's first energy company founded by foreign-origin Turkish citizens in 1931. After several investments and partnerships, the company merged with Burmah Castrol in 1988 and turned into Turcas Petrolculuk A.S. After the merger with Tabas Petrolculuk A.S. in 1999, the company took its current name of Turcas Petrol A.S. The company has continued to make new investments and establish foreign partnerships since then. Since the founding years, Turcas seems to have pursued the strategy of becoming the Turkish energy firm with the widest international exposure. Throughout its history, it went through several mergers and acquisitions with foreign entities, including E.ON, RWE, Socar and Shell. International energy companies have been interested in partnering with Turcas to expand into the Turkish market, while Turcas aimed to transfer the 'established know-how' of international firms.

The commercial trajectory of Turcas is a testament to the trends in Turkey's institutional development and the evolution of the energy sector. The firm seems to have closely analyzed its nonmarket environment and determined its both market and nonmarket strategy accordingly. For instance, Turcas Petrol went public in 1992, a major step to raise capital but also bind itself with certain corporate governance principles. Another factor was the trends in the government's industrial policies that aimed to create a more liberal energy market. Partnerships with the Shell Company of Turkey Ltd. on fuel retail business and the state-owned Azeri firm SOCAR on the

STAR Refinery came into being during this time. In the meantime, the firm consistently improved its corporate governance ratings to meet the expectations of domestic and international institutional investors. In situations where such partnerships did not achieve the desired business objectives, the firm management adopted a flexible approach and sold its stakes in investments.

Today, Turcas Petrol A.S. has two main business lines: oil and energy. The oil group is led by Shell & Turcas Petrol, a joint venture established in 2005, in which Turcas and The Shell Company of Turkey Ltd. have 30% and 70% shares respectively. The company is the market leader in gasoline and lubricants sales in Turkey and is the 10th largest company by turnover in Fortune 500 ranking, with net sales of TL 15.4 billion in 2015. The company also has a minor share in Atas Refinery, in partnership with BP and Shell. The energy group is led by Turcas Energy Holding, which encompasses various power generation utilities and trading companies under the same roof. It includes a joint venture with German Utility REW AG called RWE & Turcas South Power Generation, Turcas BM Kuyucak Geothermal Power Generation, Turcas Renewable Energy and Turcas Power Trading.

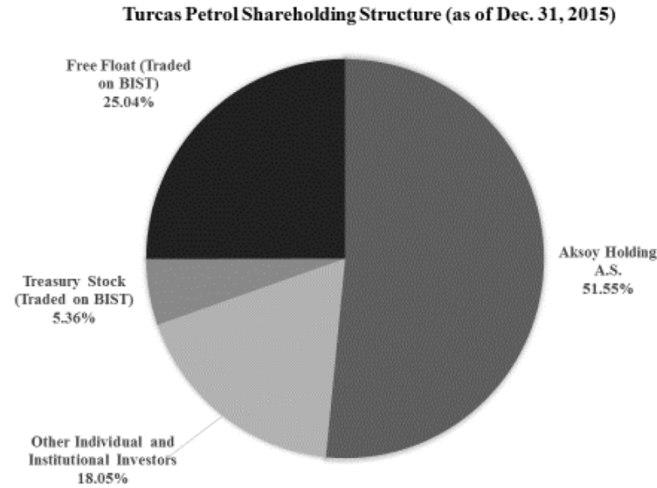
Figure - 2 Business Diagram of Turcas Petrol A.S.



- Atas appears twice in Group Structure due to both direct and indirect shareholdings, which make Turcas total ownership of ATAS 13.1%
- The structures under Conventional Energy and Renewable Energy are the anticipated target structures as a result of the restructuring process announced by Turcas at the Public Disclosure Platform (subject to the approval of regulatory bodies and financial institutions).

Corporate governance is a major determinant of a firm’s internal capacity. Current shareholder structure creates a balance in governance between the Aksoy Family and institutional and private investors. The initial public offering (IPO) took place in 1992 and current free-float rate stands at around 25%. As a publicly listed company, Turcas management is obliged to comply with the regulations of Capital Markets Board. Aksoy Holding acquired Conoco's stake in Turcas in 2005, which resulted in rapid growth of the company in the subsequent years. While the shareholding structure is not scattered as in the Western companies, it nevertheless requires a certain level commitment to national and international regulations.

Figure - 3 Shareholding Structure



3.1.5. Applying Dynamic Capabilities to the Organizational Development of Turcas

The purpose of this section is to analyze the data gathered during the empirical research according to the suggested analytical model that has its roots in dynamic capabilities. Thus, interview outcomes and archival insight will be discussed based on the three principal components – sensing, seizing and transforming – to demonstrate how nonmarket strategy translates into organizational capabilities of Turcas Petrol A.S.

Sensing

The sensing of the firm’s business environment determines nonmarket dynamics at various levels. Decision-makers are especially interested in political context and industry-specific factors. Turcas, too, operates under certain nonmarket circumstances that affect its commercial outcomes. Consequently, the sensing capability is mainly driven by the desire to identify which of these factors may have the most impact and how the firm can best respond to them to sustain its competitive advantage.

Findings regarding Turcas’ sensing of the overall political environment in Turkey are, for the most part, in line with the main findings in the literature. The relationship

between firms and the government is determined by the desire to have the most influence on market dynamics. The predictability and reliability of governmental policies are often questioned by the private sector, whereas the government perceives firms as mere economic agents that seek short-term pecuniary gains, rather than contributing to Turkey's social and economic development. One respondent believes that "the roots of mutual distrust go back to the last periods of the Ottoman Empire, where the government supports private sector's development only when it needs [it] for social and political purposes." This confrontational stance seems to have defined the relational characteristics between both sides (Bugra & Savaskan, 2014). Being aware of the cultural characteristics in Turkey's political environment, Turcas has a certain vision to manage the emanating risks.

There are various degrees of private sector dependence on the government, which constitutes "the source of wealth" for most businesses. One respondent points out that the main difference between firms regarding their political strategies is caused by their financial robustness, or lack thereof. As the interviewee asserts, "Turkish firms normally has a high-level of commercial risk appetite, mainly driven by the growth of economy. However, they depend on public banks due to shortage of capital." This means reliance on government for financial access and also implies political vulnerability. Another respondent adds that "lack of skilled human capital is also a major obstacle for private sector's self-reliance." From the government's perspective, the private sector seeks a free market economy but is not ready to incur the burden that accompanies it." These factors translate into political constraints for firms (Yeh, Shu, & Chiu, 2013).

As the literature indicates, regulatory agencies have enormous power over business processes, especially in the energy sector. According to one respondent, “a typical energy investment requires 110 signatures.” Therefore, a central feature that firms demand is institutional capacity and good governance in public institutions, because good governance in public institutions would lead to predictability for business. In addition to that, differences within institutions increase the risk of unpredictability in bureaucratic decision-making procedures. Even though IRAs originally emerged as key institutions to regulate and maintain market competition, they have evolved into tools of political discretion instead of responding to market demands. The same argument can be asserted for EMRA, which according to one respondent has “enormous power on energy business” but is also under the authority of the MENR. One interviewee claims that the regulatory environment in Turkey has evolved towards being more exclusive, which indicates that views of the external stakeholders are not properly integrated into policy-making. This is why firms ask the government to make the regulation-making process more inclusive through the exchange of mutual interests and to ensure long-term predictability.

According to the research findings, what energy firms expect from the Turkish government is to regulate the market in order to establish a level playing field. The free and fair competition is seen as the prerequisite for the sustainable growth of the energy sector. As one respondent puts it, “energy is nowhere left only to the hands of businessmen.” This argument implies that a certain level regulation is required for the markets to function properly. Nevertheless, Turkish energy sector has never reached that level of regulatory maturity. One interviewee argues that this is caused by one single fact: the government is not only the regulator of the sector, but also one of the market players. It has a stake in all parts of the value chain, from production to

transmission. This creates market inefficiency because the private sector is not able to compete with a political power that is also entitled to set the rules of the competition. This is a critical concern for the highly regulated energy sector and requires a long-term vision for domestic and foreign investments.

Turcas sensed the emerging trend of the energy sector in late 2011. According to its evaluation, nonmarket factors would become as important as market conditions, mostly driven by the changes in government's attitude towards market dynamics. As one respondent puts it, "the firm had realized that the decision-making power of energy sector would fundamentally shift to Ankara." What this meant was that the political and bureaucratic power was going to become more centralized, which in turn, would require greater effort on behalf of the firm to keep pace with the changes in the nonmarket environment. This paradigm shift led to the decision of establishing a "government relations and corporate communications" function based in Ankara, employing staff who has sectorial expertise and relational assets in the sector. Moreover, firm management made the decision to elevate this function to the strategic level and integrate it with other departments to align market and nonmarket activities. As one respondent asserts, the "nonmarket environment has direct consequences for the firm's financial results. There is no other viable way than aligning our market strategy with firm's nonmarket strategy." This statement is in line with the findings of the integrated strategy literature (Baron, 1995a, 1997).

Seizing

Based on the evaluations of the sensing capability, the management of Turcas made certain decisions to develop nonmarket organizational capabilities. The goal was to invest in a new capability to manage the nonmarket environment, and then align

market and nonmarket activities to achieve the business objectives of the firm. I will categorize such decisions in relation to organizational capabilities.

Regarding the content of its nonmarket strategy, Turcas has decided to adopt an approach that would represent the common interests of the sector, rather than its particular requests. As one respondent says, “the government institutions are aware that Turcas’ nonmarket strategy favors development of the energy sector in general, and consider our activities as representing the demands of the majority of market players.” This puts the firm in an advantageous position in the nonmarket competition against other firms, because it provides greater relational and knowledge assets. In addition to this, Turcas conducts high-level and bureaucratic-level nonmarket activities simultaneously. Unlike other firms that rely solely on the political ties of the firm’s top management, Turcas also utilizes a bottom-up bureaucratic approach. Since the firm’s management perceives most business organizations as incapable of representing the sector, it prefers to act on its own rather than allying with non-governmental organizations.

The other side of the nonmarket capability is making market decisions in accordance with the nonmarket strategy. This line of argument is well studied in the integrated strategy literature (Funk & Hirschman, 2017). In this respect, “diversification” of firm’s business portfolio is the preferred method. One respondent claims that the “business diversification strategy serves the purpose of hedging nonmarket risks.” Because of the lack of knowledge regarding a predictable and long-term public strategy on energy industry, the firm focuses on the factors that are within its control. Having a stake in multiple business areas and thereby diversifying its business portfolio is such a measure. By doing that, if a business line stops generating revenue

due to a regulatory change, the firm can still create value by continuing its other operations. Diversification in market area is in part caused by the risks in nonmarket area.

Another market action that creates a significant nonmarket consequence is forming partnerships with foreign firms. Having a foreign business partner provides two nonmarket assets for Turcas. First, it provides the firm with the ability to bring in a “foreign perspective” and showcase benchmarks for the policymakers. Since the energy industry crosses national boundaries, especially for emerging economies that lack natural resources like Turkey, the need for greater international trade and investment inevitably urges the government to take the perspective of foreign firms into consideration. The second benefit is the ability of the foreign partner to introduce political connections. Partnering with a foreign firm might also indicate the possibility of containing regulatory discretion.

The last market activity with nonmarket consequences is the source of financing. Turcas went public in 1992, which makes the firm bound by the rules of the Capital Markets Board (SPK). The evolution of the SPK’s regulations demonstrates that public companies are increasingly obliged to obey stricter standards regarding corporate governance, transparency and compliance. One respondent says that “while such obligations may create commercial disadvantages against competitors that are not bound by those rules, it also comes with nonmarket advantages including reputation, credibility and solid relations.” Therefore, the seizing capability of the firm was focused on making strategic trade-offs.

In this section, I will discuss how the strategic decisions laid out above translate into the execution of Turcas' nonmarket organizational capabilities.

The establishment of a nonmarket function in 2013 was a direct outcome of top managements' decision to become more pro-active in government relations. This decision was a consequence of its sensing capability that decision-making in Turkey's energy sector would be increasingly centralized. For this reason, the function was located in Ankara to build and maintain relations with relevant governmental institutions. A person with previous knowledge and relational assets in the sector was appointed as the head of the department, which confirms the view that individual abilities play an important role in organizational capability development (Vining et al., 2005). One interviewee states that "the firm leadership went through a period of careful examinations of international benchmarks in nonmarket departments in similar firms."

The firm has ensured integration at two levels: integration of responsibilities within the department and integration of the department within the organization. The first level means that government relations, corporate social responsibility and public relations tasks have been assigned to the same department, named "government relations and corporate communications (GRCC)." Nonmarket strategy encompasses these main activities and aims to create the most appropriate combination to achieve the business objectives of the firm. The second level of integration, which is the interrelatedness of the nonmarket department within the governance of the firm, is arguably more critical. Turcas aims to achieve that by integrating the function with the committees that take the strategic decisions. The manager of GRCC is a part of the executive committee (the only non-C-level member), the corporate governance committee and, most importantly, the strategy committee. The GRCC manager takes

part in the highest decision-making processes and thus coordinates its activities with other operations within the firm. Committee structure is a key mechanism by which the overlapping responsibilities of various departments are integrated. A respondent asserts that “such a structure is key to aligning daily activities.” The manager also directly reports to the CEO, which demonstrates the significance of GRCCs input for the integrated business strategy of Turcas. A respondent clearly indicates that “doing otherwise would not be possible because each regulation or remark matter for the direction of the company.”

Figure - 4: Management Orinagram

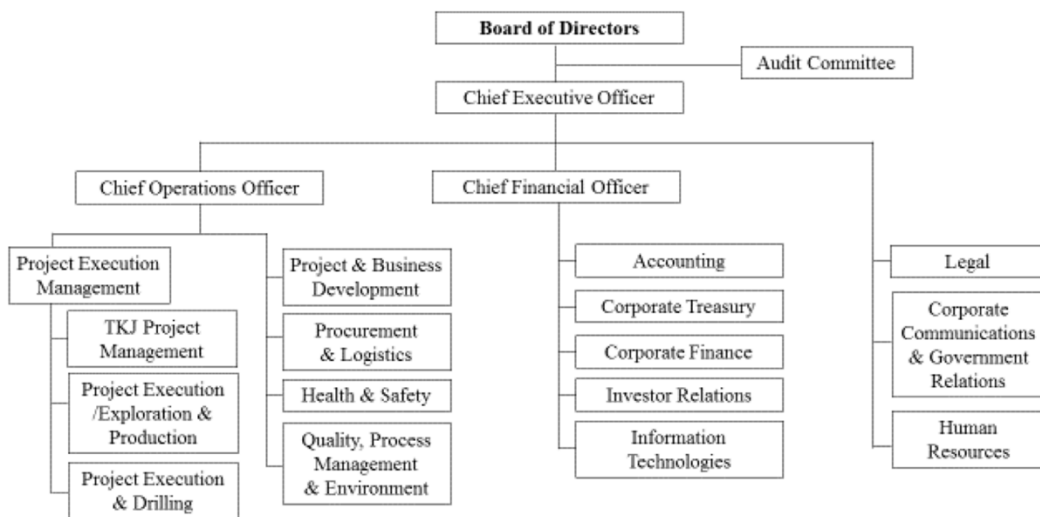
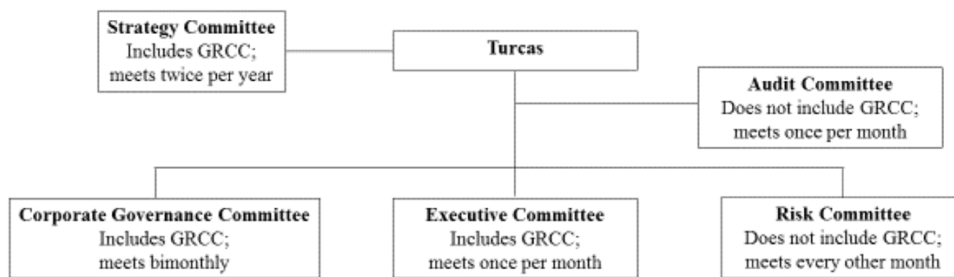


Figure - 5: Committee Structure



One way in which the GRCC has deployed the decision on the nonmarket strategy is by creating content for policymakers. As one respondent points out “Turcas has positioned itself as a contributor to regulatory process by providing valuable content and technical expertise. In that sense, each department of the firm is somewhat responsible for nonmarket activities.” An important argument that the firm emphasizes in nonmarket actions is that the efficiency of the sector is in the interest of all, and always takes into consideration the “public good.” In this way, the firm gains the possibility of forming joint working groups with bureaucrats to exchange views of common interest, though one respondent claims that “such consultation mechanisms have more room to improve.” When the GRCC needs higher-level involvement in matters that require greater political commitment, the CEO or a member of the board of directors can directly be called upon. A respondent says that “the full integration of market and nonmarket strategies is more of a management culture than a simple procedure.”

When it comes to the deployment of market actions in the nonmarket environment, one respondent claims that “having investments in different chains of the energy supply is a key operation for the firm.” In a similar vein, having foreign partners has always been a keystone of the business strategy of Turcas. Currently, Turcas has two

partners – RWE and Shell – in major energy investments. One respondent says that “even though these partnerships might be commercially costly, they provide long-term vision and benefits in nonmarket area.” A statement on the company’s official website indicates that one purpose of establishing successful international partnerships is “to minimize the emerging country risks for the investors.”

Deployment of the last market activity in the nonmarket area is related to the corporate governance goals of the firm. As stated in the section above, Turcas has made the clear decision to become a good governance benchmark in the energy sector, in part driven by having been a listed company since 1992. This resulted in having independent members on the board, gradually increasing its corporate governance rating and getting the “women empowerment prize” for supporting gender diversity. Therefore, the firm is bound by the governance regulations in Turkey, in addition to the obligations that derive from having international partners. Though such principles may lead to commercial constraints that its competitors do not have, one respondent claims that “its impact on Turcas’ credibility is vastly helpful in nonmarket activities.”

3.1.6. Conclusion

Both nonmarket strategy and dynamic capabilities are recently new research areas that provide new paradigmatic approaches to strategic management. While dynamic capabilities mostly concerns itself with the evolution of core competences of the firm in rapidly changing environments, nonmarket strategy deals with the questions of why and how firms manage their political, social, cultural and legal environments, as well as the impact of those activities on their performance. Despite previous attempts by the scholars, the intersections of the two theories needs to be elaborated to theoretically

and empirically clarify the processes by which firms can build, integrate or reconfigure their capabilities for nonmarket purposes.

Turcas case demonstrated that sensing, seizing and transforming capabilities of the firm had a profound impact on its organizational abilities for nonmarket purposes. The findings demonstrate that while the firm invests in capabilities as the dynamic capabilities framework suggests, it currently pursues a managerial decision to align the existing capabilities rather than developing new ones. There are two possible explanations for this situation. First, it could be that there is no critical change in the nonmarket environment since the point when the firm senses and seized back in early 2010s. Second, the firm has not further developed its dynamic capabilities to sense the changes that are currently happening, yet may not be visible in the absence of the required abilities.

3.2. Nonmarket Strategy Adaptation at International Level: Firms and Sanctions

Sanctions is a specific issue area that has a significant impact on the firms that operate internationally. Since the firms by law are under the obligation to comply with certain provisions of sanctions, those provisions constitute a major input in the strategic decision-making at corporate level. The scope and applicability of sanctions, in terms of geographical and commercial boundaries, can create significant difference across firms that have different host countries and business lines. Such differences can have determining effects on the competitive environment, putting firms with certain characteristics at an advantageous position. Therefore, firms find themselves in a position where they have to develop and execute certain strategies in response to international sanctions regimes. The main purpose of this chapter is to explore the

sanctions literature with regards to the nonmarket strategies of international firms and identify certain nonmarket actions that they take in order to achieve and sustain competitive advantage.

The literature review demonstrates that firms' responses to sanctions is an area that has not been developed within the overall sanctions literature. Since sanctions are considered as a coercive tool to produce certain behavioral change on behalf of the target state, the unit of analysis in the literature has remained on state as the primary actor. Interestingly, the nonmarket research has not fully captured the effects of sanctions and its implications on firm strategies either. Therefore, strategic management literature can also benefit from the analysis at the intersection of firms and sanctions. If the firm is to be studied as an actor of foreign policy - which is the core of this thesis -, then its relation with sanctions is an integral part of this research. Because while firms may not be the primary actors of sanctions, their response can provide with valuable insight regarding the conceptual development of corporate diplomatic activity.

3.2.1. Sanctions and International Relations

Sanctions are foreign policy tools that aim to create a certain type of policy preference by the target country. Normally, such preference would indicate a change of current foreign policy. In some situations, sanctions can also aim to lead to the change in regime type by causing internal dissent via economic hardship. In the post-World War I era, sanctions have become even more salient foreign policy tools. Even though sanctions were used by rival political forces since centuries, the use of sanctions by foreign policymakers as a systematic coercive measure as of early 20th century (Hufbauer, Schott, Elliott, & Oegg, 2014). Causes and consequences of

sanctions have been documented since then, providing scholars and policymakers with the empirical data to evaluate whether and how sanctions work for the purpose. I will first briefly review the main topics in sanctions literature and then discuss how the sanctions literature relates to the main question of this thesis, namely how firms respond to sanctions regimes and what role they play in international relations within the realm of sanctions.

The literature covers a variety of topics in terms of goals, means and outcomes of sanctions. In most cases, the authors argue that “submission to coercive state’s demands” is the ultimate goal of sanctions (D. A. Baldwin & Pape, 1998). This is a valid argument, but it requires clarification since those demands may involve various combinations of economic and political ends. In most cases, political and economic ends are difficult to distinguish, because economic woes caused by sanctions are supposed to lead to political consequences in favor of sender country’s goals. For instance, by trying to weaken a target country’s currency, coercive state could aim to constrain the target country’s geopolitical outreach and foreign policy options as well. This is why it is important to look into the underlying reasons of sanctions and how they are structured.

Allen provides some clarification by arguing that the change in target country’s behavior can take place as a result of economic hardship and internal conflict (Allen, 2008). In other words, the goal of the sanctions is to create internal dissent within target country’s ruling coalition and force the decision-makers to determine their policy choices in line with coercive country’s political objectives. Such objectives include, according to Hufbauer et.al., “change target-country policies in a relatively modest and limited way, change the target country’s regime, disrupt a military adventure, impair

the target country's military potential and change target-country policies in another major way (Hufbauer et al., 2014, p. 65).” The different levels of change in policy preference can be explained by the fact that the scope of sanctions and their implications can vary according to both imposer and target country.

In terms of means, Hufbauer et.al.'s study demonstrates that there are three major types of actions. The authors argue that in most cases, trade bans such as limiting exports and restricting imports are used as coercive economic measures. Sometimes those trade restrictions are combined with impediments to international financial flow, including freezing or seizing target-country assets within the sender's control. Though this last type of sanctions was seen as a rare measure at the time of book's writing, individual asset freezes and travel bans seem to be becoming more frequent in more recent sanctions regimes. Those sanctions are imposed either unilaterally or multilaterally, and sometimes under the auspices of an international institution (Bapat & Clifton Morgan, 2009). Whatever means are used, coercers would like to achieve the desired outcomes effectively and with minimum cost on their part.

This brings us to the discussion on how the outcomes of sanctions are evaluated. Hufbauer et.al. define success based on the degree to which sanctions regime contribute to the achievement of sender country's policy objectives. In other words, if the target country makes certain policy change over the course of sanctions, the sender country would have achieved its objective. The authors find that the ultimate goal of 80 out of 204 documented observations since World War I was “the change of the target country's regime.” However, this finding is challenged by other researchers. Drezner claims that it is misleading to look at the cases where the sanctions are imposed, because the threat of sanctions itself is an effective foreign policy tool as well

(Drezner, 1999, 2000). Therefore, the lack of data for the cases where the sanctions are not in place can change the outcome. Threat of sanctions is considered effective when the proposed sanctions regime is perceived as credible by the target country decision-makers. This is possible only if the sender country (or group of countries in case of multilateral sanctions) decides that the expected benefits of sanctions will be greater than the costs. Thus, it is a matter of expected utility based on political gains versus self-imposed economic suffering. If the potential gains are estimated to be greater than the costs that will be incurred as a part of imposing sanctions, then the effectiveness of the threat can be deemed more credible.

What is important in this effectiveness argument is that the decision to impose sanction is not a zero-cost action on sender's part. It demonstrates a willingness to forgo certain benefits that the country can extract should the sanctions do not exist. In most cases, sender country government comes under pressure by certain domestic actors due to loss of business relations with the target country. Arguably, the longer it takes for the sanctions to demonstrate their impact on economic and political areas, the greater the pressure on policymakers becomes to consider alternative options that are less costly and more efficient. This is why Baldwin and Pape argue that the undertaking of imposing sanctions is a success itself. Pursuing the strategy to make sure that those actions are indeed implemented is even more challenging. In the cases where there are multiple actors (states, international organizations, firms and so forth), ensuring credible commitment requires significant political investment. In particular, imposing multilateral sanctions demonstrates a strong willingness to change the course of the target country, since it is harder to ensure the coherence of sanctions strategy and avoid free-riding by participants. In those cases, even if the sanctions fail to make the desired impact on the target country, reputation of coercers may still improve as it

shows their resoluteness as influential international actors (Lacy & Niou, 2004). In other cases, it can decrease the impact of future sanctions, since the target countries may consider it as not credible.

The topics above are the main discussion points in the existing sanctions literature, mainly considered as an issue that is confined to interstate relations. Keeping the main research question of the thesis in mind, the next section will discuss sanctions within the framework of business-to-government relations, exploring how firms behave in sanctions regimes and how they become actors in policy making on sanctions.

3.2.2. Firms and International Sanctions

The decision to impose sanctions is primarily a foreign policy outcome. It is thus an appropriate exercise to study the role of firms in determining this outcome and how they become a part of the decision-making. While such an examination provides new perspectives for the strategic management approach to nonmarket research, it can also contribute to the sanctions literature by bringing the firm into the center of analysis. The developments in international politics also support the idea of studying business as an actor of international sanctions. Sanctions imposed by the United States and the European Union on Russia in the aftermath of Crimea annexation in 2014, as well as the ongoing controversy around the US-led sanctions on the Iranian regime clearly demonstrates the increasing importance of business.

As we will discuss more in detail, firms can either get involved in decision-making procedure or become targets of sanctions. The response of firms to sanctions decisions depends on their economic and political position in host and target country's ruling coalition, as well as their overall corporate strategy. The argument about how business

affects decision making in sender and target countries is related to public choice approach (Kaempfer & Lowenberg, 1988, 1999). The effectiveness of various pressure groups in generating policy outcomes on both sides of the sanctions regime determine the extent to which the firms – as being parts of those pressure groups – are capable of affecting intergovernmental relations. A firm can pursue a strategy to maintain its foothold in a target country to benefit from the early mover's advantage, seek exceptions from the sender country to continue its operations, reconfigure its business model to remain unaffected by the sanctions or fully comply with the sanctions provisions. The response of the firm thus depends on how the higher management evaluates the risks and opportunities caused by the sanctions regime and how they seek to align the nonmarket environment shaped by sanction provisions with the overall business strategy of the firm (Lawton, Doh, & Rajwani, 2014).

In order to understand different aspects of firms' response to sanctions needs to be studied. The first question to be explored is what role, if any, firms play when it comes to making sanctions decision by the sender country. The literature demonstrates that firms actively take part in decision-making on sanctions towards other countries, in so far as they are a part of the ruling coalition in the sender country. Most major firms constitute the main pressure groups in a country. Therefore, they make part of, or at least possess significant influence over the ruling coalition that decides on the sanctions policy. Sanctions need to be considered in the view of serving interests of pressure groups within the imposing country (Kaempfer & Lowenberg, 1988). In the light of public choice perspective, the authors argue that pressure groups play an important role when it comes to preferring sanctions policy to other coercive measures at first place. This argument leads to the conclusion that the sanctions decision is made

with the involvement of all key members of the ruling coalition, including politically influential firms.

The decision-making procedure brings the goal of the sanctions into question. If the ultimate policy outcome is based on the inputs by various parts of the ruling coalition, it will consequently favor their interests. In other words, sanctions may serve the interests of influential groups in the coercer country, rather than aiming to achieve certain political goals. However, the degree to which those pressure groups hold influence and thus, benefit from the sanctions decision is questionable. Assert that the ability to determine the existence and form of a sanctions decision is closely linked with the pressure group's ability to organize its members for collective action. Thus, the more a pressure group (e.g., a business organization) is able to avoid free riding among its members, the more politically effective it will be. The aggregated impact of nonmarket actions by the firms that have political capability can therefore have determining

A similar argument goes for the investors. Lektzian and Biglaiser find that investors could have significant impact on the economic coercion attempts (Lektzian & Biglaiser, 2013). In their study about the relation between sanctions imposed by the United States and investor behavior, Lektzian and Biglaiser come to the conclusion that cumulative actions of investors can increase or decrease coercive capability of the US government. This provides business players a certain amount of autonomy when it comes to complying with sanctions policies. Multinational companies can hardly be instructed about a sanctions decision, especially if they are operating overseas (Rodman, 1995). However, this does not mean that the policymakers have lost all the ability to determine the behavior of business players. By increasing the cost of non-

compliance with sanctions regime (such as asset freeze), governments can change the calculations of private players.

In summing up the first question, one can argue that firms have the ability to affect policy making on sanctions. Policymakers in sender country do not only calculate the possible implications on the target country. They also evaluate the reactions from within their own ruling coalition, normally include politically influential firms. This creates the need to establish a balance of incentives and deterrents to get those firms on board with the sanctions policy, so that the policies will achieve desired political objectives.

When it comes to the second question regarding the role of business in collective sanctions, issues and institutions that are at stake become the main focus of interest. How do firms respond to the collective sanctions decisions? The literature indicates that firms' responses depend on the issues and institutions that they shape their business environment. Diversity of issues makes it difficult for multilateral sanctions regimes to maintain a coherent strategy. Bapat & Morgan argue that multilateral sanctions are imposed only for critical issues (Bapat & Clifton Morgan, 2009). This can be explained by the fact that the significance of the issue can justify the transaction costs that the governments should incur in order to create and maintain a coherent collective sanctions regime. In addition to the significance, variety of issues also matters when it comes to creating a coalition for sanctions. But there appears the problem of free-riding. Asymmetry of interests and strength of sanctioners lead to the differing levels of commitment to the particular outcome of the sanctions. Bapat and Morgan argue that involvement of international institutions changes the 'public good' effect and the motivation of free-riding. Even if free-riding is prevented, the country

that leads the collective sanctions regime will have to demonstrate a certain level of commitment, and be able to urge other governments and non-government actors to join the sanctions regime by using deterrents and incentives. As the recent examples in US-imposed Iranian and Russian sanctions show, such tools usually include prevention to financial and high-tech business assets.

The effectiveness of the tools utilized by the sender country is critical to the success of the sanctions regime. In case sanctions coalition fails to enforce cooperation among its members, firms in these countries find the opportunity to appropriate rents that emerge as a result of sanctions regime. In such cases, sanction could have the perverse effect of weakening the firms and interest groups that object to the existing policies of their government. On the contrary, such a situation would empower other firms that support government policies and become subject to international sanctions. Consequently, whether firms choose to become a part of government decisions and which outcome they aim for depends on how they are affected from the sanctions regime. By pursuing an expected utility approach, firms' response to collective sanctions decisions in most part depend on the cohesiveness of the participating countries and effectiveness of the tools they use.

The third question that needs to be discussed to understand the intersection between nonmarket strategy of firms and sanctions is the relations between the firms that are subject to sanctions and the target country. The discussion in the literature seems to be concentrated on two points. First point is about how much regime type and institutional structure of the sanctioned country matters. Leaders make decisions to remain in office and take actions according to the expected utility. The size of winning coalition determines the outcome of expected utility calculation. If those specifically targeted

business players are influential within the target state's decision-making structure, the chances of complying with the provisions of sender state become higher (Brooks, 2002). Because targeted business players will be expected to try and affect the policies of target country to make it more compliant with the provisions of sanctions. This is why Allen argues that there is a strong correlation between the regime type of the target state and the effect of sanctions (Allen, 2008). Depending on the degree to which the target country's institutions are open, sanctions could have diverse effects in terms of harming the target country's ruling coalition. As discussed at the beginning of this chapter, since the main purpose of the sanctions is to create policy behavior by the target country, it is very likely that sanctions would aim to inflict damage on the business actors that constitute the core of the ruling coalition.

Second point is about whether firms affected by sanctions are critical to the political endurance of the ruling coalition. In this case, persistence of the ruling coalition determines 'application and duration of sanctions' (McGillivray & Stam, 2004). Designing a sanctions regime that selectively affect specific target groups within the ruling coalition appears even more important than the overall impact on the target country. Even if the general public of the target country is not severely impacted by the sanctions, it can still lead to change in behavior depending on how much the interests of decision-makers are harmed. Therefore, it would be misleading to consider the target as a unitary actor (Kirshner, 1997). Disaggregating the power structure provides the coercer with a more precise policy outcome. Kirshner argues that such an approach will also prevent the debate about whether sanctions work. Rather, policymakers will focus on which target groups will be affected under what circumstances to tailor the sanctions regime accordingly. If their decision is accurate regarding the expected impact on the certain components of the ruling coalition in the

target country, then the outcome can serve to the interests of the sender country's government, even if the target country is not affected as a whole. The cases where the firms that are politically connected to the target country's regime seek ways to avoid sanctions by direct lobbying in the sender country's decision-making institutions⁴ provide evidence for this argument.

If the specific target groups matter so much to the success of sanctions, there should be a conceptual framework to study this causal relationship. Lektzian and Souva argue that though there is a building consensus in sanctions literature about the importance of the core support group, there is no appropriate theoretical framework on the subject (Lektzian & Sprecher, 2013). For the purpose of this thesis, the conceptual development will be related to 'firms as constituents of ruling coalitions.' That is to say, if a firm is considered as an influential component of the target country's ruling coalition, it will likely be selectively targeted within the sanctions regime. As Brooks puts it, "trade or social sanctions that target export competitive sectors and social groups critical to the political coalition provoke lobbying against the target government and therefore create pressure for policy change (Brooks, 2002, p. 49)." In other words, the more a firm that is critical to the endurance of the ruling coalition is harmed, the greater the impact of the sanctions will be. One notable exception is arms firms. According to Brooks, arms firms in the target country benefit from sanctions, because policymakers make greater investment into defense industry to increase self-sufficiency in national security.

⁴ Russian Firms Hire Lobbyists to Fight Senate Sanctions, *Wall Street Journal*, 30 November 2014, <https://www.wsj.com/articles/russian-firms-hire-lobbyists-to-fight-senate-sanctions-1417393657>

Regarding the discussion on the third question, one can argue that if the critical components of the ruling coalition are selectively targeted, the success of sanctions will be more than its overall impact. For the purpose of this study, the conclusion of this part is that firms and individual business leaders that are specifically sanctioned due to being part of the ruling coalition play an important role on how target country will react to sanctions.

In summary, the sanctions literature provide insight on business-to-government relations on three points: firms involvement in making policy decision in sender country, impact on sanctioned firms and how they affect decision making in target country, and the role that firms play between sender and target countries. As this section demonstrates, firms (and interest groups they belong to) could provide valuable input as to understand how governments make decisions when it comes to sanctions. Firms either get involved in imposing sanctions, oppose or support target government's policies or become target of sanctions themselves according to their activities. Recent developments demonstrate that firms increasingly assume greater roles in shaping sanctions regimes. Therefore, theorizing the impact of firms as an independent variable of sanctions decision gains importance. Thus, we can

Sanctions are critical components of foreign policy and businesses hold a certain degree of influence over policy-making of sender and receiver countries. Involvement of firms in the imposition of sanctions affects their effectiveness (sender), whether they are specifically sanctioned due to being part of the ruling coalition affects state reaction (target) and coherence of sanctions affects firms' rent-seeking behavior (multilateral).

3.2.3. *The Siemens Case on Foreign Policy Involvement*

On March 26, 2014, the chief executive of Siemens Joe Kaeser met with the Russian President Vladimir Putin in Moscow and announced his company's "commitment to the long-term development of Russia."⁵ Given the international political context, Kaeser's visit was not considered as a usual business trip. The meeting took place at a time when the Western sanctions on Russia were imposed in the aftermath of its annexation of Crimea. Thus, a private firm's move to maintain business ties with the target country of a multilateral sanctions campaign was a high-risk international nonmarket action. The nonmarket strategy of Siemens was obviously aimed to maintain its business ties with Russia despite increasing tension in intergovernmental relations. While Mr. Kaeser pursued the strategy maintain the 'business as usual' with Russia to protect his firm's shareholder value, the firm got involved in a controversial matter of international relations. Thus, the corporate political activity of this case was in fact seen as an attempt to prioritize private gains over the security of Europe. It was not known whether the political context was permissible to take such steps. Reactions from Germany and the US followed shortly after Kaeser's meeting. The US State Department spokesperson said in a press conference on March 27, 2014, that "if individual companies are looking to do business in Russia, they need to take a very serious look right now at the sanctions we have in place, they need to think about what sanctions might be coming."⁶ German Economy and Energy Minister Sigmar Gabriel, the deputy of Chancellor Angela Merkel, also commented on Kaeser's visit to Russia by saying that "German companies shouldn't sell out European values to protect

⁵ "Siemens CEO meets Putin and commits company to Russia", *Financial Times*, 26 March 2014, <http://www.ft.com/intl/cms/s/0/6d774238-b506-11e3-a746-00144feabdc0.html>

⁶ US Department of State Daily Briefing, 27 March 2014, <http://www.state.gov/r/pa/prs/dpb/2014/03/224055.htm>

business with Russia.”⁷ Such political reactions shown by the political authorities against the assertive nonmarket strategy of Siemens has significant implications. First, the organization is considered not only as a private firm but also an actor of international politics, whose actions are to be reckoned with in so far as political relations between governments are concerned. Second, it has the impact to potentially shape the political context within which governments are interacting. This is why Siemens can be studied as a unit of analysis in this domain.

Given the economic interdependency between the two countries and business interests at stake, it could be expected that German businesses would be tempted to respond to the German foreign policy towards Russia. What would be interesting to watch was to determine whether German firms - such as Siemens - would develop and implement a nonmarket strategy that aims to shape the international political environment (which is affected by sanctions regime in this case), or adapt themselves to the changing circumstances by developing required skills. The trade dependency amounts to €70 billion Euro per year. Germany provides machinery equipment, automobile and electrical engineering to Russia, while Russian export to Germany is mostly composed of oil and natural gas trade.⁸ Therefore, the assumption that German businesses will be hit hard if the inter-governmental relations take a negative turn as a result of sanctions is grounded in the existing business relations. Additionally, it naturally follows that German private sector players (especially those doing business with Russia such as Siemens, Volkswagen, Henkel, Allianz, Eon, Metro etc.) would lobby the German government to adopt a more accommodating foreign policy

⁷ “Siemens CEO Rebuked as German Business Defends Putin Partnership”, *Bloomberg*, 31 March 2014, <http://www.bloomberg.com/news/2014-03-30/siemens-ceo-rebuked-as-german-business-defends-putin-partnership.html>

⁸ German – Russian Relations, Der Spiegel info-graphic derived from German Statistical Office Destatis, <http://www.spiegel.de/international/europe/bild-959019-671719.html>

approach towards Russia that would not hurt business interests. In other words, given the interdependency between German and Russian businesses, one should look for information whether German business players aim to change German government's policy towards Russia and whether such efforts have any impact.

Such an indicator was made public in mid-May 2014, when the German-Russian Chamber of Foreign Trade, in a letter to the German government that was leaked to Reuters News Agency, warned the German policymakers that "Deeper economic sanctions would lead to a situation where contracts would increasingly be given to domestic firms, projects would be suspended or delayed by the Russian side, and Russian industry and politicians would turn to Asia, in particular China."⁹ It's admittedly difficult to prove the exact consequences of this leakage on foreign policy output. Nevertheless, shortly after the declaration of German – Russian Chamber of Foreign Trade, German Foreign Minister Frank-Walter Steinmeier's made remarks that cooperation should be preferred rather than confrontation with Russia "[Germany] must avoid falling into an automatic [sanctions] mode, which leads only to a dead end and leaves no more policy options." While it is not known whether such remarks were motivated by the collective stance of the German businesses regarding the Russian sanctions, it nevertheless demonstrates that foreign policy-makers take into account the interests and demands business actors.¹⁰ Steinmeier's comments led to a fissure within the German government, as the Chancellor Angela Merkel adopted a tougher public position against Russia. However, there emerged also indicators that the sanctions on Russia bite German economy and create political considerations for the

⁹ German Lobbyists warn against harsher sanctions, *Moscow Times*, 18 May 2014, <http://www.themoscowtimes.com/article/500340.html>

¹⁰ 'It's a dead end': German FM joins chorus of discontent over Russia sanctions rhetoric, *RT*, 18 May 2014, <http://rt.com/news/159716-germany-sanctions-russia-criticism/>

head of German government. According to the Destatis, German exports to Russia between January and August 2014 fell by 26.3% compared with the same period in 2013.¹¹ Machinery exports fell by 17.2% and chemical products exports fell by 5.9%, adding fuel to the fire for German exporters. The interdependency between the two countries strengthens Russia's diplomatic position, as President Putin repeatedly points out that there are 6,200 German companies doing business with Russia and 300,000 jobs are dependent on the stability of bilateral relations. Supposedly, Chancellor Angela Merkel had those business complaints in mind, when she floated the idea of fixing trade relations between the European Union and Russia-led economic bloc Eurasia Economic Union, on the condition that Russia help ease the tension in eastern Ukraine.¹² The German Government's position on Russian sanctions showed signs of change in tandem with the nonmarket actions taken by the German businesses.

The observed process on German - Russian relations and involvement of German business above shows that such incidents are worthy of attention in the scholarly literature. Kundnani argues that export-oriented growth of German economy, especially during the rule of Schröder during which he focused on making the business interests the priority of international agenda, increased the influence of business on foreign policy making: "Business then has exerted significant influence on key elements of German foreign policy: energy companies like E.ON Ruhrgas have influenced policy towards Russia; automakers such as BMW have influenced policy towards China; and manufacturers of technology and machinery such as Siemens have influenced policy towards Iran (Kundnani, 2011, p. 36)." The case reviewed above

¹¹ August 2014: Rückgang der deutschen Exporte nach Russland um 26,3%, Destatis - Pressemitteilung Nr. 375 vom 29.10.2014, https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2014/10/PD14_375_51.html

¹² Merkel offers Russia trade talks olive branch, *Financial Times*, 26 November 2014, <http://www.ft.com/intl/cms/s/0/93e5e066-757a-11e4-b1bf-00144feabdc0.html>

indicates Siemens' involvement on German foreign policy towards Russia, based on the three propositions suggested in the beginning of this chapter.

3.2.4. The Total Case on Adjusting the Business Strategy to Foreign Policy

The French oil giant Total's strategy towards Iran is an illustrative case of how international firms have to manage the international nonmarket environment for business purposes. Even though Total is not a state-owned firm, it is reasonable to assume that its management execute political strategies to reduce the uncertainties caused by the international sanctions regime on Iran. However, unlike the Siemens case reviewed above, Total has minimal involvement in the foreign policy decisions of the United States and France. Rather, it has pursued a market strategy that involves decisions to invest and divest in Iran's energy sector, which has been fully aligned with its nonmarket strategy of assessing the political risks. In other words, instead of implementing a shaping strategy that aims to influence the foreign policy outcome on sanctions, Total has chosen to adjust its business strategy according to the circumstances in the international nonmarket environment.

Despite being one of the major sources of hydrocarbon resources in the world, Iran has struggled for decades to improve its energy sector that has been crippled by sanctions. The country has world's largest proven gas reserves. Yet, according to Iranian officials, the energy sector needs at least \$200 billion of investments to grasp the economic benefits provided by its natural resources. Lack of appropriate technology and limited trade relations with the buyers keep the current hydrocarbon potential untapped. This is why the strategies of international energy firms are critical to the economic development of Iran, because they provide the ability to make

investments in technology that is required to extract the resources and connect the country with international markets.

International sanctions led by the United States aim to prevent Iran from obtaining nuclear weapons, which many countries in the region see as a threat. The first unilateral sanctions imposed by the United States dates back to 1979, following the Iranian Islamic revolution. The United States prohibited American firms from both investing in Iran's energy sector and trading with it in 1995, and the US Congress passed a law in 1996 that penalize the foreign firms that invests more than \$20 million. However, the decision of the UN Security Council in 2006 to impose sanctions on Iran's trade in nuclear-related materials and technology and to freeze the assets of individuals and companies was a turning point. This was followed by even tighter economic and trade sanctions by the United States. In 2009, the European Union declared that it would prohibit new investments in Iran's energy sector. Such decisions led to the devaluation of Iranian real, as the sanctions on Iranian Central Bank and European Union's boycott of Iranian oil exports came into effect in 2012. Iranian regime has agreed to cooperate with the Western countries to make its nuclear enrichment activities more transparent in 2013. After a series of talks, the P5+1 (Permanent members of the UN Security Council and Germany) have reached an agreement with Iran to partially lift the sanctions in return of limiting its nuclear activity. Most recently, the Trump Administration indicated that it would revoke the sanctions agreement, known as Joint Comprehensive Plan of Action. In October 2017, President Trump decertified the agreement but did not announce a withdrawal.

While the Iranian economic outlook was promising back in the 1990s, the economic development has shown no sign of progress as of 2006, when the UN Security Council

sanctions started to have an impact on the firms' business strategy towards Iran. The French energy firm Total has pursued an aggressive, yet pragmatic strategy during this period. While the company has defied the US sanctions in 1997 by signing a \$2 billion contract with Iran to develop South Pars natural gas field, it left the country in 2006 to avoid being the target of collective sanctions. So, the business strategy of Total that aims to benefit from the 'first mover's advantage' in Iranian energy sector indicates a careful balancing between market and nonmarket considerations. On the one hand, the company would like to get the favorable commercial terms that the crippled Iranian natural gas sector can provide. On the other hand, Total faces significant nonmarket risks (such as freeze of assets, financial penalties or being blacklisted) due to the sanctions regime. It should be noted that France has been the toughest opponents of the Iranian negotiations, which weakens the company's host country advantage.

Total's nonmarket strategy vis-a-vis the sanctions regime against Iran is thus an illustrative case that demonstrates how firms can adapt their business strategy according to the international nonmarket environment. While the company has been in Iran since 1950s, it has started facing pressure from the United States in 2006 due to bribery allegations¹³, as well as financial challenges that are actually seen as geopolitical offensive by the United States to stop the development of Iran's South Pars gas field¹⁴. In 2008, the French government took a clear stance against encouraging the French investments in Iran, when the French Foreign Minister Bernard Kouchner declared the government officially asked the French companies

¹³ Total faces Iran bribery probe, *Financial Times*, 20 December 2006, <https://www.ft.com/content/0c99d8d0-8f99-11db-9ba3-0000779e2340>

¹⁴ Is it really 'business as usual' at Total? *Financial Times*, 4 April 2007, <https://www.ft.com/content/8a208a94-e2e9-11db-a1c9-000b5df10621>

“not to respond to Iranian tenders¹⁵.” The call from the French government had a direct impact on the nonmarket assessment of Total, which announced in July 2008 that doing business in Iran would involve too much political risk¹⁶. Consequently, Total’s chief executive officer announced the cancellation of investments in the country, followed by the Royal Dutch Shell and Norwegian Statoil¹⁷.

The period between the Total’s decision to stop operations in Iran and the nuclear agreement between P5+1 and Iran in 2015 demonstrates the nonmarket strategy of the company, as well as French government’s role in the business negotiations. The process indicates that while Total has committed itself to comply with the sanctions regime imposed by both the United States and European Union, it has nevertheless attempted not to lose the country overall. At the governmental level, the French President has also assumed the role to make way for French business in Iran¹⁸. In the meantime, Total has warned the negative consequences of imposing harsh sanctions on Iran¹⁹, by openly criticizing the US policy. The French business lobbying group Medef, which includes Total and other major French companies, warned the French government in 2015 that the French businesses will be weak in Iran due to the tough stance of the French government.²⁰ After the nuclear accord between Iran and Western powers, the French government led by François Hollande made greater efforts to mend

¹⁵ France calls for Iran investment boycott, *Financial Times*, 17 September 2007,

<https://www.ft.com/content/d3c96598-64a4-11dc-90ea-0000779fd2ac>

¹⁶ Total steps back from investing in Iran, *Financial Times*, 10 July 2008,

<https://www.ft.com/content/26088244-4ded-11dd-820e-000077b07658>

¹⁷ Oil group ends Iran investments, *Financial Times*, 1 August 2008,

<https://www.ft.com/content/841a7cde-5f40-11dd-91c0-000077b07658>

¹⁸ Sarkozy and Obama to discuss Iran, *Financial Times*, 5 June 2009,

<https://www.ft.com/content/66ded9ce-51ef-11de-b986-00144feabdc0>

¹⁹ Total’s Mr Middle East turns to the US, *Financial Times*, 6 January 2010,

<https://www.ft.com/content/2e245bec-fa2b-11de-beed-00144feab49a>

²⁰ French companies fear losing Iran trade, *Financial Times*, 20 September 2015,

<https://www.ft.com/content/c02fec28-5c58-11e5-a28b-50226830d644>

ties to facilitate the business deals, during a historical visit by Iranian President Hassan Rouhani to Élysée Palace in 2016.²¹

In line with its business strategy, Total has become the first Western energy firm to sign a landmark deal to develop the South Pars field in July 2017.²² According to the deal, Total become the operator of the Phase 11 of South Pars with more than 50 percent of a consortium that also includes China's CNPC and Iran's Petropars for the investment that will amount to \$4.8 billion²³. While the investment by Total is not a financially significant amount, it has a political meaning that goes beyond developing the natural gas field. The CEO of the company said that while Total is not “a political organization” the agreement would build peace via economic development²⁴, while Iran's deputy oil minister for international affairs Amir-Hossein Zamaninia told that the Total deal “is an icebreaker for further multi-billion dollar investments²⁵.”

That said, recent developments by the US regarding the nuclear deal creates nonmarket risks for Total, as the CEO indicates once again that while the company is willing to implement its strategy in Iran, it also carefully considers the business implications of the political developments in the US²⁶. In the meantime, Total pursues an integrated strategy to determine and mitigate the risks caused by the US

²¹ Rouhani and Hollande shift from ‘old bitterness’ to new business, *Financial Times*, 28 January 2016, <https://www.ft.com/content/a5d65a68-c5a5-11e5-808f-8231cd71622e>

²² Total Signs Deal With Iran, Exposing It to Big Risks and Rewards, *The New York Times*, 3 July 2017, <https://www.nytimes.com/2017/07/03/business/energy-environment/iran-total-france-gas-energy.html>

²³ Total-led consortium signs \$4.8bn South Pars gas deal with Iran, *Financial Times*, 3 July 2017, <https://www.ft.com/content/6d8ddb89-cdd8-3c4c-94a5-ca4de6f5160b>

²⁴ Total signs major Iran gas deal, defies US pressure, *France24*, 2 July 2017, <http://www.france24.com/en/20170702-iran-total-oil-deal-sanction>

²⁵ Iran aims for more foreign oil and gas investment after Total deal, *Financial Times*, 8 November 2016, <https://www.ft.com/content/9db5e152-a5a9-11e6-8b69-02899e8bd9d1>

²⁶ Total chief says would have to review Iran gas deal if new sanctions, *Reuters*, 14 November 2017, <https://www.reuters.com/article/iran-nuclear-total/total-chief-says-would-have-to-review-iran-gas-deal-if-new-sanctions-arose-idUSL8N1NK3TN>

government. The company has become an operator of oil and gas production and refining that employs 6,000 people in the United States, and also opened a Washington office to manage the political relations, a nonmarket action that the CEO Patrick Pouyanne describes as the company “should have done a long time ago²⁷.”

3.2.5. *Comparative Summary*

Sanctions regimes are foreign policy tools that sender country or group of countries aim to change the foreign policy behavior of the target country. Firms play an important role in sanctions regimes because they can either be effective tools for implementation or they can become the target due to their role in the ruling coalition. Either way, nonmarket strategies of firms are crucial for the effectiveness of sanctions regimes.

The two cases reviewed above indicate the differences between the characteristics of the two sanctions regimes, as well as differences in nonmarket strategies of Siemens and Total. While Siemens has become involved in the sanctions decisions against Russia, Total has adapted itself to the sanctions regime against Iran. The theoretical proposition suggested in the first part of this chapter explains the divergence. Russian sanctions are not seen as collective as Iran sanctions, due to the lack of UN Security Council resolution. Moreover, the established economic relations between Russia and Germany make it hard for European countries to determine a collective stance, which is not the case in Iran. At firm level, while Total tried to keep its presence in Iran during the period when collective sanctions were implemented effectively, it did not have vested interests comparable to those of Siemens in Russia. Thus, the two firms have

²⁷ France's Total opens Washington office as Iran risks loom, *Reuters*, 3 November 2017, <https://www.reuters.com/article/us-total-usa/frances-total-opens-washington-office-as-iran-risks-loom-idUSKBN1D31H2>

developed and implemented different nonmarket strategies in the face of international sanctions.

3.3. Concluding Remarks

The third chapter's focus was to uncover the firm as a the political actor at national and international levels, as well as to demonstrate its ability to respond to the nonmarket pressures. The case on Turcas Petrol A.S. showed that organizational change in response to nonmarket environment is a dynamic capability that firms need to develop to thrive in emerging markets. The structural changes within the firm is caused by the nonmarket developments to gain and sustain competitive advantage in a sector that is being increasingly regulated in a centralized manner. The theoretical review on sanctions regime and firm responses aimed to show the divergent behavior of non-state actors and possible reasons behind them. While Siemens got involved in Germany's position regarding the sanctions against Russia, Total adapted its business strategy to the sanctions imposed on Iran.

The two studies highlight the fact that firms adopt either shaping or adapting strategies to manage the nonmarket environment. Shaping strategy indicates actions that aim to influence the outcome of policy-making, in our case in the foreign policy area. Adapting strategy means that when the conditions are not available to affect the policies, firms can adapt themselves, either by making organizational changes or adjusting their business plans. Therefore, the theoretical lenses that can explain how firms respond to foreign policy can be extended based on these two cases. This is the core of the next chapter.

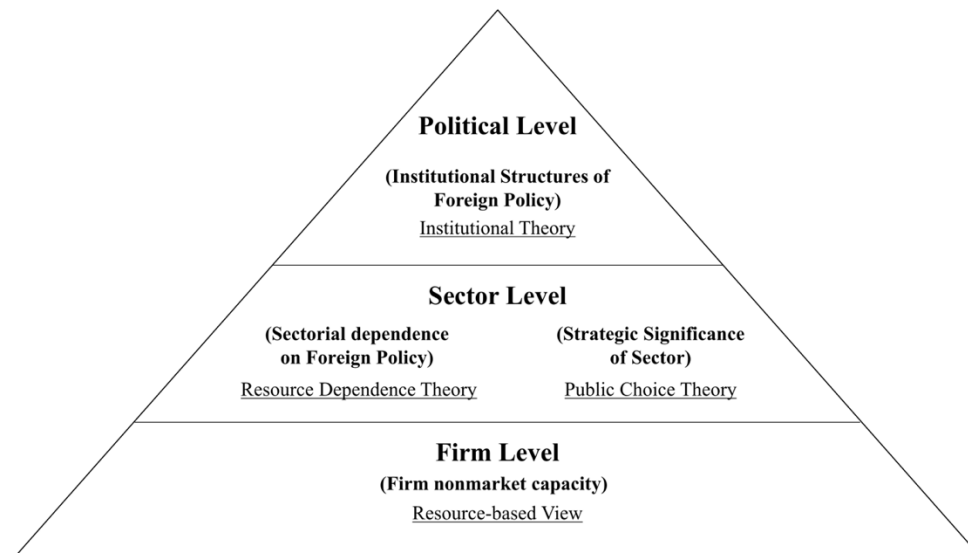
4. Corporate Diplomatic Activity: Extending the Nonmarket Theory into International Relations

The purpose of this chapter is to introduce the theoretical construct that will help us study the main research question of this study that is centered on firms' involvement in international relations as an agent of foreign policy making. While seeking possible explanations to this main question thus far, we have reviewed the existing literature to understand how firms are studied in areas other than foreign policy making. The review showed that certain concepts are more prevalent in explaining the various aspects of firm behavior and its implications on the nonmarket environment. Since the core purpose of this thesis is to extend the nonmarket environment into international relations, it follows logically that we build upon the those concepts in a deductive manner. Thus, the content of this chapter is structured in line with the existing knowledge in the realms of social sciences that are related with the subject matter, and discusses them with regards to the firm's agency foreign policy making area. It explores the existing literatures in certain fields and eclectically examines concepts that can presumably lay the foundations of CDA.

The theoretical framework is based on three-level analysis: firm, sector and political. As we have seen in the literature review chapter, this layered approach helps us categorize the different factors that are required to analyze the concept. Sector level is also divided into two pillars to make a distinction between sectorial dependence on foreign policy and foreign policy dependence on the sector. What is important here is that each level corresponds to an existing theory of social sciences to shed light on the research question. In line with the guiding principles of the interdisciplinary research we have discussed in the first chapter, the theories that are included here (institutional,

resource dependence, public choice and resource-based) are deduced from strategic management and political science fields.

Figure - 6



The analytical process behind the suggested framework is as follows. The discipline of strategy is based on understanding and making the best use of the interactions between the agent on the one hand and its environment on the other. The agents are expected to take coherent actions in a way that serves their goal. The debate in strategic management literature, as well as managerial practice, is centered on exploring whether it's the agent's internal capabilities or the structure of its environment that is the determining factor of agent's behavior. The firm behavior is therefore motivated by internal and external pressures, which in turn may shape certain parts of its external environment. While such interactions have implications on both sides, the scope of this study is limited with the agent's involvement in the variance of structures of its environment, which is the field of international relations. In other words, we aim to understand when the firm becomes an agent of foreign policy area (e.g., it becomes a transformative actor) and what actions it takes to that end.

We can thus deduce certain concepts to study the topic. The framework suggested here is based on four main pillars that can be helpful to explain the research question. The first pillar aims to explore why the firm would become a foreign policy agent at first place. As the literature review has shown, firms are motivated by the urge to avoid potential risks and maximize the opportunities. In order for the foreign policy become an issue for the firm to deal with, it has to have a certain impact on firm's risk - opportunity calculation. This leads to the conclusion that firm's interests must be dependent on foreign policy to a certain extent. Therefore, we can use the resource dependency theory in the area of firm's dependence on foreign policy to advance its business interests. Resource dependency is thus appropriate for the analytical framework.

Second pillar is about how the environmental structures determine firm's involvement. Here we make use of the institutional theory (reviewed in detail in chapter 2.1.) to understand the firm's response to its institutional environment. Since we already discussed the institutions impact on agent's behavior, it is appropriate to apply the institutional theory into the field of foreign policy making and discuss how that makes firm an agent of that process. We know from the strategic management literature that firms respond to the environmental factors determined by the institutional structures. Therefore, the institutions of foreign policy making is a critical component of corporate diplomatic activity conceptualization.

Third pillar is about the effectiveness of firm's behavior in terms of foreign policy outcome. If the dependence of firm on foreign policy is the main driver of its involvement, then the dependence of government on firm behavior must be the main cause of its effectiveness in creating variance policy outcome. Since the main

motivator of policy maker is the urge to appeal to the electorate, the public choice theory is pertinent to study this relationship. The underlying assumption in the application of public choice theory to the firm's involvement in foreign policy is that business plays an important role in the economic activity and therefore on the electoral behavior. This is why policy makers take firm perspective into account.

As the fourth pillar, the general conditions in nonmarket environment and firm capabilities can be studied as the determinants of firm behavior. While the existing literature does not specifically relate to the foreign policy area, the resource-based view theory can be readily applied to study how firms become foreign policy agents. The resource-based view provides a detailed account of the unique capabilities that make firms competitive. Based on the previous research in nonmarket research, the suggested framework in this thesis adjusts the firm-level capabilities in the foreign policy area.

The rest of this chapter provides a detailed account of each pillar and how they can help study the research question. Each pillar provides a rationale of why the concept is appropriate to study the research question and a proposition to apply the concept in foreign policy area.

4.1. Resource dependence theory and firm's dependence on international relations

The first reason that firms conduct nonmarket activities to get involved in foreign policy is related to the direct impact of policy outcomes on their business results. The literature review chapter has demonstrated that public policy choices of government

affect firm performance, by regulating the activities it can conduct or changing its market environment. However, we have not seen any theoretical attempt to inquire the same dynamic in the foreign policy area. In other words, the question boils down to the following: could foreign policy outcomes determine firm's involvement in international politics due to the dependence of business interests? As the empirical studies have shown, in every case where a firm is involved in international politics there is a commercial interest at stake. Therefore, firms' dependence on international political relations to build and maintain their competitive advantage is a central driver of corporate diplomatic activity.

The resource dependence theory suggests an appropriate framework to study the reliance of firms on international relations. The theory asserts that organizations are not self-sufficient and are normally dependent on the contingencies in their external environment (Pfeffer & Salancik, 1978). As actors are operating in a certain context, the circumstances and their relationships matter when determining the behavioral outcomes. As such, resource dependency has applications in several business areas, including direct investments, mergers & acquisitions, joint ventures, executive succession and so forth. The dependency can take many forms depending on firms' actions to manage the uncertainties that take place in their external environment. Therefore, resource dependency has deeply rooted in business decision making, including the foreign policy area.

Even though resource dependency has emerged as an intra-organizational concept, "the theory is found to be readily applicable to relationships between firms and government institutions (Frynas et al., 2006, p. 325)." Decisions of government institutions create dependencies for firms. We have seen in the previous chapters that

firms are significantly dependent on the market environment shaped by the regulatory and policy decisions. Business executives are responsible for managing the dependencies in a way that benefit their organizations (Griffin & Dunn, 2004). Such Corporate political activity aims to manage the dependencies that emanate from the political factors. Firms naturally need to reduce the extent of uncertainty, because economic performance is most likely to increase under stable and predictable conditions. Consequently, there is a tendency by organizations to develop strategies and take actions with the aim of reducing contextual uncertainty. Therefore, firms are likely to try and shape the policy outcomes in a way that favor their business interests. However, the theory implies that the primary goal of firms is not to reduce their dependence on governments, rather it is to decrease uncertainties caused by governmental policies (Getz, 2002). In other words, firms do not strive to become completely self-reliant, which is considered as an unrealistic goal anyway, but increase their capacity to manage reliance on policy-makers.

One can argue that this is especially true for nascent organizations, as they are more vulnerable to the fluctuations in business environment. For this reason, emerging multinational enterprises seek to control greater resources by mergers & acquisitions and joint ventures (Gaffney, Kedia, & Clampit, 2013). Such business strategies help them increase the management capacity and deal with uncertainties. As the firms become more mature, they develop the skills to handle resource dependency. Firms may also take a rather conforming attitude regarding the environment within which their operations are embedded. As institutions evolve with the changing economic conditions, firms co-evolve with them to be responsive at local and international level (Cantwell, Dunning, & Lundan, 2010). The isomorphic nature of institutions and firms is a result of dependency management.

The most effective way is to adopt a proactive approach. An important debate about resource dependency theory is whether the conditions under which the firms operate should be considered as exogenous and given, or whether they can be constructed in a way that works in the interest of businesses. Scholars cite the original dependence theory to justify the argument that firms do not only depend on external contingencies in their environment, but they also actively seek to “create” it to reduce uncertainties. Frynas and Mellahi argue that international business scholars conceptualize the business environment as given, and have little understanding of how it can be shaped via political means (Frynas & Mellahi, 2003). However, Pfeffer and Salancik note “the organization, through political mechanisms, attempts to create for itself an environment that is better for its interest” and that “organizations may use political means to alter the condition of the external economic environment (Pfeffer & Salancik, 1978, pp. 189–190).” Thus, the first proposition is deduced from the ‘resource dependency’ theory:

The more a firm’s business interests are dependent on political relations between governments, the more it will try to be involved in their foreign policies.

The proposition above aims to test and apply the resource dependency theory into the theoretical framework that this study suggests for the firms’ involvement in foreign policy making.

4.2. Institutional Theory and the Institutional Structures of Foreign Policy

As we have reviewed in detail in Chapter 2.1., firms undertake nonmarket activities within certain institutional structures. According to the institutional theory,

organizations act in response or in compliance with their institutional environment (Getz, 2002; Zhilong Tian et al., 2009). They do so in order to benefit the most from the external factors in the market and nonmarket area. While firm's unique capabilities matter in determining such responses, institutions shape the environment in which firms operate within their capacity. It is the continuous interaction between the firm and the institutional environment that determine how nonmarket field will evolve.

Peng et.al. argue that the institutional link is missing when trying to understand the international business strategies of firms, and therefore institutional environment needs to be integrated into the dichotomy between industry-based view and firm-specific differences (Peng et al., 2008). The distinction between market and nonmarket environments is also the outcome of the different types of institutions. It can be argued that the rules, laws, and regulations in the nonmarket environment determine firm's behavior more than competitive factors in the market. In addition to the firms' behavior, policymakers' incentives to respond to business interests are also shaped by the institutional structures (Weymouth, 2012). In other words, policymakers also act within the boundaries of the institutions in their environment and respond to business demands accordingly. Nevertheless, since organizations and individuals are seen as limited by the institutional pressures, institutional theory's impact on firm behavior is criticized due its assumption of passivity (Williamson, 1994).

Despite the significance of institutional characteristics to nonmarket strategies, Henisz and Swaminathan claim that the knowledge on the causal link between institutional structure and firm performance is limited (Henisz & Swaminathan, 2008). They also argue that the way senior managers respond to the existing international institutional environment is a key determinant of their success. Therefore, firm

behaviors in nonmarket environment, which vary according to the institutional settings, have an impact on firm performance as well. For instance, previous studies found that the strength of the institutional environment and political connectedness of the firm has a significant influence on the merger and acquisition activities (Brockman et al., 2013). The environmental uncertainty caused by the institutional context makes firms more dependent on managerial ties with policymakers (Peng, 2000). While such political links are found to be valuable for firm performance, their impact is also contingent on institutional factors, such as institutional arrangements, stability of political regimes social stakeholder engagement (Sun et al., 2012). As institutions evolve with the changing economic conditions, firms co-evolve with them to be responsive at local and international levels (Cantwell et al., 2010).

The main characteristics of institutional theory can be applied to the field of international relations. Since foreign policy is an institutional output, institutional analysis needs to be a part of the involvement of firms in foreign policy making. It can determine both the way that firms respond to foreign policy outcomes (whether the firm will become an agent of foreign policy-making) and how foreign policy institutions will react to firm actions. Therefore, there is a two-way relation between the agent and the structure. Thus, the following proposition is deduced from the institutional theory to discuss the firm's involvement in foreign policy:

Firms' involvement in foreign policy making is determined by its institutional structures.

This proposition asserts that there is a causal link between the institutional processes in the area of foreign policy and the extent to which firms can be involved in decision-

making. The underlying assumption is that firms would be more inclined to become a part of the decision-making when the institutional structures permit.

4.3. Public Choice and Significance of Strategic Sectors in Policy-making

The non-market decision making involves actors that exchange information and policy outcomes. Just like in the market environment where suppliers and demanders exchange goods and services in return of financial assets, firms and governments exchange information and policy in the nonmarket environment. In other words, there are also suppliers and demanders, but the goods and services are replaced by decisions, while financial assets are replaced by information.

Even though the relations between firms and governments are subject of the nonmarket research, some rules of that relationship can be explained by the fundamental principles of economics. One such principle is the rational choice. According to Getz, the exchange between public sector and private actors indicate a market-like exchange, based on the drive to meet the self-interests of each. In this sense, there is no clear distinction between what motivates an individual to engage in market actions, and a firm in non-market actions. All actors seek to maximize their gains by pursuing rational goals.

“Bureaucratic man pursues power. Economic man pursues profit (Mueller, 2003, p. 362).” It is in this context that both sides are trying to obtain benefits from each other. Therefore, public choice theory is based on the same assumptions of economic approach to human behavior regarding the political actions of public and private actors. Butler argues that the “public choice theory applies the methods of economics

to the theory and practice of politics and government (Butler, 2012, p. 21).” It can be argued that public officials (whether elected or appointed) act not only on the need to provide public good, but also satisfy special interests such as getting re-elected. This means being motivated by special interests make policy-makers or regulators prone to the demands of private sector. The so-called ‘political market place’, in which demand and supply of policies are exchanged, is where that transaction takes place. Private actors demand certain political actions from the government. Policy-makers supply policy outputs if deemed necessary. In a way, such necessity is “purchased by firms” through various means. The decision-makers in public institutions seek to meet their own interests which is to attain and sustain power. Firms are able to earn those decisions by serving the purposes of policy makers, usually by creating economic benefits.

The main assumption of public choice theory can be applied to the field of foreign policy. In order for the firms to become an actor of foreign policy making, they should have the power to ‘purchase’ certain policy outcomes in the political market place. It can be argued that their ability to do so depends on the sectorial dynamics. Some sectors have more significance in economic development and national security than others. Their significance may derive from the contribution to the economic growth, number of employment, the role in national security or the extent of innovation. Each of these factors have an impact on policy-making. Due to their political implications, such sectors are usually highly regulated and have cross-border consequences. Empirical studies have shown that firms operating in such sectors tend to have more interest in foreign policy making. The public choice theory provides insight into this reasoning. Policy-makers are motivated by self-interest and heed to the demands of those who can give them the greater possibility to be re-elected. In this sense, economic

development and national security are the two main issues that arguably determine the chances of re-election. This is why governments are expected to take the demands that come from such sectors into consideration when deciding on foreign policy outcomes. Thus, the proposition deduced from public choice theory applies this interaction into the field of international relations:

Firms operating in sectors that are strategic to economic development and national security have greater likelihood of getting involved foreign policy making.

The underlying logic of this proposition is that economic development and national security incentives provided by the firms will be driving the foreign policy outcomes that will also benefit the firms.

4.4. Resource-based View and Internal Capabilities

The last dynamic to be explored about the business impact on international relations is the firm-specific capabilities. Driven by the strategic management literature, this approach suggests that understanding firm behavior is dependent on identifying its unique capabilities (Kiechel, 2010, p. 235). The uniqueness of those capabilities is determined by the so-called VRIN (valuable, rare, inimitable and non-substitutable) factors. The resource-based view stands in contrast to the industry-based explanation that constitutes the base of the previous section on public choice theory. Thus, the firm-specific capabilities need to be studied to explore their impact on foreign policy making.

Some firms have greater political influence, caused by the strength of their market and nonmarket strengths (Weymouth, 2012). Corporate Political Activity (CPA) theory

provides insight into the topic of resource-based view. Big firms are usually politically more active, cause by the fact that they might have more interest at stake and more resources to deploy in order to defend those interests. But the causal link between firm size and political involvement is not undisputed (Drope & Hansen, 2006; Nownes & Aitalieva, 2013). While firms can make the use of their operational scope, it is not clear whether that translates into unique capabilities that can be influential over policy-making process. Therefore, firm capacity in nonmarket area needs to be explored. Dahan suggests a detailed classification of firm capacity: firms' business expertise and financial resources are its main resources, while relational, organizational, recreational and political-administrative capability is among supporting resources (Dahan, 2005).

Nonmarket capabilities such as firm's organizational functions and their assets (i.e., relational) might be more influential than size (Doh et al., 2014). Firm-level attributes such as CEO commitment, stakeholder management, integration of market and nonmarket strategies are driving factors (Baron, 1995a). The impact of managerial ties, especially the capability and influence of the CEO in determining the political activities of the firm, is a critical asset (Hadani et al., 2015). The more the top managers are politically, engaged the more influence they might have over the policy issues.

Moreover, ensuring internal coherence of such capabilities and using them effectively are strategic management skills determine firms' political influence (Oliver & Holzinger, 2016; Shaffer & Hillman, 2000). According to Lawton et.al., resource-based view emerged as the primary explanatory framework for firm's pursuit of competitive advantage, but it is found to be helpful to study firm's nonmarket impact as well (Lawton, Rajwani, et al., 2013). By extending the resource-based theory of the firm into corporate political strategies, it is argued that firms can ahead in the

competition, for instance by creating entry barriers via a regulation. Thus, the firm-level hypothesis deduced from the resource-based view literature's corporate political activity concept is as follows:

Firms with the greater market and nonmarket capabilities have greater involvement in foreign policy making.

This chapter has suggested four propositions to develop a theoretical framework on how firms can become agents of foreign policy making. Studying these propositions empirically will help develop the conceptual framework of this study, which is "corporate diplomatic activity." The next chapter will discuss each proposition in the cases of energy and defense sectors in Turkey and the UK, as suggested in Chapter 1.2.

5. Empirical Evidence: Energy and Defense Sectors in Turkey and in the UK

5.1. Sectorial Dependence on International Political Relations

The purpose of this section is to discuss the first proposition that is based on the resource dependence theory in the cases of energy and defense sectors in Turkey and in the UK. By looking into the causal links between the sectorial dependence on international relations, this section aims to uncover the mechanisms by which firms can become an agent of foreign policy making. According to IV9, “oil and defense sectors are very similar to each other in the sense that they both require government support and are highly regulated both domestically and internationally.” The topic is discussed in an empirical context, based on the insight obtained from interviews and publicly available information.

5.1.1. Dependence of energy firms on foreign policy in Turkey and in the UK

Turkish energy sector has always oscillated between encouraging competition and maintaining political control on market actors. On the one hand, the government tries to improve market efficiency to match the increasing energy demands of the country’s growing economy and population. On the other hand, policymakers never intend to loosen their grip on the sector due to its strategic importance. Turkey’s energy sector follows the general path of the evolution of regulatory policies and institutional structures. The need for regulatory control appeared at the international level throughout the 1980s because “most industries retained their natural monopoly characteristics at the time of privatization,” especially in network utilities such as energy and telecommunications (Yeung, 2012, p. 234). Consequently, most industries have been gradually regulated to avoid market failure, an analytical construct termed as “the rise of the regulatory state (Cetin & Yilmaz, 2010, p. 393).” Turkey went through a similar journey. Even though few regulator institutions were established

during the 1990s, they were not effective in bringing about a transparent and legal framework (Sonmez, 2011). The end of the 1990s and the financial crisis in 2001 were the turning points in Turkey's transition towards the regulatory environment. Independent regulatory agencies (IRA), including the Energy Market Regulatory Agency in 2000, were established as an outcome of bargaining both between the coalition parties and with international organizations.

Institution building has thus become a major pillar of Turkey's new economic policy. Delegating regulatory power to IRAs aimed to ensure "credible commitment" by the government and reduce transaction costs for the firms (Cetin, Sobaci, et al., 2016). However, the degree of institutional autonomy has always been questioned as a result of the unwillingness of policymakers to relinquish political control. Thus, bureaucratic decision-making has gradually become subordinated to policy preferences, which has caused greater uncertainty for business (Bugra, 1994a; Bugra & Savaskan, 2014). The legal framework of Turkey's IRAs is an important indicator in this regard. Except for the Banking Regulation and Supervision Agency (BSRA), no IRA is accountable to Parliament's supervision (Sosay, 2009). Moreover, decree-laws nr. 643 and 649 enacted in 2011 brought agencies, which were previously described as "affiliated," under the full authority of related ministries (Cetin, Sobaci, et al., 2016).

The dependence of Turkish energy sector on foreign policy is based on two main factors. The first one is the regulatory environment that makes the sector highly dependent on government policies. The Ministry of Energy and Natural Resources has the ultimate authority to determine the market conditions via regulations issued by the Energy Market Regulatory Agency (Cetin & Yilmaz, 2010). Despite the initial objective to provide "credible commitment" to market players in early 2000s, EMRA

as an independent regulatory agency has become subject to the increasing political discretion of the government (Cetin, Sobaci, et al., 2016). The overwhelming control of the government thus urges private firms to coordinate their commercial activities with the policy-makers via nonmarket strategies, both at home or abroad. IV9 explains the significance of this situation as follows:

“In energy business, when you make an investment, you’d like to see the end of the pipeline. That means having a market demand that justifies the multi-billion dollar investments. In other words, credibility and clarity are key to investment decisions. For Turkey, having an independent judiciary is a key factor of transparency. Because foreign investors would like to have assurances that they will be treated fairly if there is a legal dispute.”

The second factor is the decisive role of the government in shaping the international political system in which firms operate (Celikpala, 2012; Celikpala & Basdemir, 2010). According IV1, it is absolutely necessary for a Turkish firm to get government's support before investing abroad in critical sectors, including energy. Energy projects are very costly and political relations matter in making business decisions. “For instance, after the Mavi Marmara flotilla dispute between Turkey and Israel, a Turkish energy firm who had business plans for Israel had to get the approval of the Turkish government before moving ahead.”

Turkey’s geopolitical position between the energy suppliers and consumer markets makes its energy policies a strategic leverage for political relations (Mert Bilgin, 2010; *Strategic Plan 2015-2019*, 2015; Yılmaz & Sever-Mehmetoğlu, 2016). One central policy of the Turkish government is ensuring energy security, that is to ensure “the

uninterrupted availability of energy sources at an affordable price” (IEA definition), via diversification of energy resources and decreasing dependence on external resources²⁸(Celikpala, 2009). Moreover, development of international energy projects such as natural gas pipelines (e.g., Blue Stream, TurkStream) and nuclear power plants (e.g., Akkuyu Nuclear Power Plant) are made possible via intergovernmental agreements (IGA), due to the political commitment required on the governmental level (Gokce Mete, 2017). This is why market strategies of energy firms cannot be disconnected from government policies. This is true even for the multinational firms that do business in Turkey and in the region. IV9 describes the importance of this in a case that his firm experienced:

“For a multinational energy company, it is important to have Turkish government as the partner in international deals. When there are a lot of risks in the regions you operate, you’d like to make friends with the most powerful actor there. In this case, our partner should be the Turkish government, especially for our commercial interests in the Kurdistan Regional Government. For instance, we thought about investing in natural gas deals off Cyprus. But that would have killed our relationship with the Turkish government. Our company made the decision not take that risk.”

The dependence of private firms’ interests on the UK government’s policy outcomes is determined by the scope of their business. There appears to be a distinction between domestic and international domains. Unlike Turkey, energy firms are less dependent on the political preferences to do business in the UK, driven by the fact that the UK energy market is among the most liberalized ones as a result of the market reforms that

²⁸ Presentation by the Ministry of Energy and Natural Resources Berat Albayrak to the Parliamentary Commission on Planning and Budget, 8 November 2016.

the government introduced in the 1980s (Keay, 2016). This has implications in international relations as well. According to IV7, contrary to the conventional wisdom, British energy firms do not have much expectations from the UK government. They rather try to keep their distance and ask for political support only when it's absolutely necessary. "When there is a strategic issue that emerges, such as dispute settlement or payments, critical players such as MI6 and Foreign Office can intervene. But those relations are used only for strategic matters and at the highest level."

The free market competition is considered as the most reliable way ensure the price for value for the consumers (*Energy Security Strategy*, 2012). Ofgem, the regulator that oversees the markets "to ensure low prices for consumers," has the mandate to protect consumers'²⁹ interests via regulatory competencies, in consultation with industry players.³⁰ This does not mean that the energy industry is independent of political considerations, including the UK government's drive towards transforming into a low-carbon economy. However, unlike Turkey, government interventions seem to drive the creation of more competitive markets (Keay, 2016). On the other hand, the dependence on foreign policy becomes a critical component for private firms that operate internationally, mainly British Petroleum and Royal Dutch Shell. Those firms are especially bound by the international sanctions that the UK is a part of. Therefore, British foreign policy is highly impactful on the business interest of the British energy firms.

²⁹ How we work. (2017, March 28). Retrieved April 4, 2017, from <https://www.ofgem.gov.uk/about-us/how-we-work>

³⁰ Ofgem's Regulatory Stances. (2016, December 19). Retrieved May 2, 2017, from <https://www.ofgem.gov.uk/publications-and-updates/ofgems-regulatory-stances>

Box – 1

Turkey – KRG – Iraq Relations: Energy Business as the Driving Force?

Political relations between Turkey, Kurdistan Regional Government of Iraq (KRG) and Iraqi Federal Government in the post-Saddam era is a testament to the transformation of national interests as a result of a mix of business, security and economic factors. The balance of power at domestic and international levels took different shapes in several periods such as the aftermath of the US military intervention, withdrawal of the US forces, centralization of the Iraqi government and civil war in Syria. Thus, Turkey's foreign policy towards KRG and Iraq has evolved in line with the changing circumstances. Energy and business actors have undoubtedly played a key – albeit not the only – role in determining the relations between Turkey, KRG and Iraq triangle.

Turkey and KRG have always had an uneasy relationship, caused by the fact that both sides have significant economic interests in common on the one hand, and security concerns on the other. The Kurdish population in Turkey and the PKK militancy across the Iraqi border complicates the balance between both sides. In addition to this, KRG and Iraqi Federal Government have their own political disagreements due to the claims about KRG's sovereign rights, including the distribution of wealth generated by the country's natural resources. Therefore, there are several underlying factors that are in constant reordering. While it is beyond the scope of this study to discuss the political developments in detail, the

background of events that create the context in which energy business assume a prominent role is necessary.

Turkey's policy towards KRG made a historical milestone in 2010, when then Foreign Minister Ahmet made a historical visit to Erbil to open a consulate. KRG President Barzani visited Ankara and met with then Prime Minister Erdogan in the same year. The visits signified a dramatic change in Turkey's foreign policy paradigm that was previously based on ignoring KRG as a political counterpart. There are three factors that led to the rapprochement between two sides. First, Turkey was pursuing a 'zero problems with neighbors policy' to solve the longstanding disputes along its borders. Second, the Turkish government had developed a roadmap to reconcile with the Kurdish population and thus to decrease the risk of a separatist insurgency that could be incentivized by the KRG. Third, Iran was becoming more active in Iraqi politics, so Turkey had to balance the Iranian influence by mending its ties with KRG. Turkey's improved relations with KRG was presumably increase Ankara's power on Iraq as well, due to the importance of KRG for Baghdad. Against this backdrop, Turkish Prime Minister Erdogan visited Erbil in 2011. Despite the fact that he also became the first Sunni leader to visit a Shia shrine and addressed the Iraqi parliament, Iraqi Prime Minister Maliki condemned Turkey a year later for interfering in Iraqi politics.

However, this positive approach by Turkey was not without its risks. While Ankara was aiming to foster a trade and economic partnership with KRG, it was concerned about the increased political power of Erbil could lead to demands on independence, which could ultimately spill over to Turkey's Kurdish minority.

Indeed, KRG held an independence referendum in 2017, which was approved by the great majority of the population. Second, Baghdad had become increasingly concerned about Turkey's influence in KRG, especially when it comes to energy deals and allocation of energy revenues. An indicator of this uneasiness by Iraqi Federal Government was its refusal to allow the plane of then Turkish Energy Minister Taner Yildiz to land in Erbil to attend an energy conference in 2012. It was also a period during which the relations between Erbil and Baghdad were strained due to the powers of Peshmerga forces and then Prime Minister Nouri al-Maliki's centralizing tendencies.

Despite the ups and downs in political relations, KRG has managed to become an important trading partner of Turkey by increasing from \$4 billion in 2009 to \$8 billion in 2017³¹ and constitutes half of Turkey's trade with Iraq. A research demonstrates that 80 percent of goods sold in the Kurdistan Region of Iraq come from Turkey and approximately 1.000 Turkish companies are active in the region (Üstün & Dudden, 2017). As discussed in the chapter about Turkey's energy sector, Turkish energy policy is based on diversifying its energy imports to minimize supply security risks and become an energy hub of the region. KRG could become one of the pillars of Turkey's energy strategy. This explains why Turkey favors KRG over Baghdad, but only if KRG can continue to be a reliable supplier. Therefore, it's safe to assume that energy firms have been involved in matters relating to foreign policy of Turkey towards KRG.

³¹“Turkey's trade with KRG ‘business as usual’ despite referendum, says Economy Minister”, *Hurriyet Daily News*, 27 September 2017, <http://www.hurriyetdailynews.com/turkeys-trade-with-krb-business-as-usual-despite-referendum-says-economy-minister-118427>

KRG's energy policy, on the other hand, was to attract multinational energy companies from different countries to not only benefit from the natural resources, but also to hedge the political risks. To this end, American, Russian, Turkish, Indian, Chinese companies signed deals with KRG. While those deals were an effective way for the KRG to conduct its international relations, it has put further strain on its relations with Iraqi government. The issue escalated when ExxonMobil acquired 80 percent of two blocks in Kurdistan region and Iraqi Prime Minister Maliki demanded the American administration to take measures against the deal.³²

Genel Enerji then an affiliate of Cukurova Holding signed a production sharing agreement with the interim KRG representation in 2004 to explore the Taq Taq Oil Field. In 2009, KRG started exporting 180.000 barrels per day of oil from Erbil to reach the international markets over Turkey via the Kerkuk-Ceyhan oil pipeline. In 2011, Genel's merger with Vallares turned it into major energy actor operating in Kurdistan region. As a result of an agreement with KRG in 2013, Genel Energy was awarded the right to ship oil directly from the area. While Genel operated as an oil and gas exploration and production company, the agreement with KRG also involved plans to build new oil and natural gas pipelines to make KRG a direct exporter. Genel's increasing involvement in KRG's energy sector was in tandem with the changing Turkish foreign policy paradigm.

In brief, Turkey found itself in a challenging situation where it has to strike a balance among various dynamics. First, it aims to increase its energy and trade

³² "Iraq gets "positive" Obama response on Exxon concern", *Reuters*, 20 July 2012, <https://www.reuters.com/article/us-iraq-oil-kurdistan/iraq-gets-positive-obama-response-on-exxon-concern-idUSBRE86I1HL20120719>

involvement in Kurdistan Region of Iraq, however, it does not want this to reach a point where KRG gains enough power to act independently. Second, Ankara would like to create a counterweight against Iranian influence in Iraq, however, Baghdad has disagreement with Turkey regarding its relations with KRG. Third, Turkey wants to solve its own Kurdish conflict and it needs KRG's support in fight against PKK. Therefore, energy firms could be a part of this complex system. IV24, however, argues that Turkey did not adopt a line where it could cooperate with private firms in managing this situation.

“Turkey could use the private sector and especially energy companies in its foreign policy. However, Turkish policy-makers did not prefer this option, particularly in the case of relations with KRG. Indeed, Turkey could set up a strategy where Turkish private sector would make the inroads into Iraq by taking the frontrunner role in political relations. This approach could then be supported by the Turkish state by making State-owned firms the small partners of the relevant energy projects.”

Turkey formed a state-owned firm to specifically handle the energy sector of Kurdistan Region of Iraq. Turkish Petroleum International Company (TPIC), was established and transferred under the Turkish Pipeline Corporation (BOTAS). Within the TPIC, the Turkish Energy Corporation (TEC) was established to operate to this end. IV24 argues that TEC held direct talks with the KRG government but still did not align its strategy with private firms such as Genel Enerji.

IV24 further states that Turkey did not support the ‘private-sector approach’ at the beginning. The private firms found themselves in a difficult position for two reasons. First was the balance of relations with the Kurdish population in Iraq. Second, the balance between KRG and Iraqi Federal Government. Turkish diplomacy has not been in the same understanding with the private sector to maintain these relations. For instance, when private sector was building relations with KRG, Turkish government preferred to work closely with Iraqi Federal Government. Therefore, private firms did not receive any support from Turkey. Instead, the government could have used private sector’s power in political relations. But foreign policy makers did not want to give up on that prerogative.

5.1.2. Dependence of defense firms on foreign policy in Turkey and in the UK

Turkey’s defense sector has an inherent dependence on government policies. The development trajectory of the industry demonstrates that it’s driven by the combination of the preferences in economic policy and foreign policy. The Turkish state has established an institution in charge the defense sector in 1985, which later evolved into the current Undersecretariat for Defense Industry (SSM). The decision to establish SSM was motivated by two dynamics: economic development and independence in foreign policy. According to the law, SSM is responsible for the “development of a modern defense industry and modernization of the Turkish Armed Forces.”³³ The decision making the body of the industry is Defense Industry Executive Committee, composed of the Prime Minister, Chief of General Staff, Minister of Interior and

³³ Savunma Sanayi Müsteşarlığının Kurulmasına Dair Kanun (1985, November 7). Retrieved April 14, 2017. http://www.ssm.gov.tr/anasayfa/kurumsal/Documents/SSM_3238_tam%20metin.pdf

Minister of National Defense³⁴. IV4 claims that the core reason of arms industry's dependence on the government is the fact that the government is the main customer of the arms. "This is why having long-term and trust-based relations with the related governmental bodies. Since the Committee is composed of the highest level officials, it is very difficult to influence their decision. However, their political orientation might play a critical role in the outcome. The chairman of the committee can decide to order purchase of a supplier that is not ranked at the top". A separate fund called the Defense Industry Support Fund is fully controlled by the SSM and allocates financial resources for production and procurement. The private sector has become gradually involved in the defense sector and built foreign partnerships, as a result of the liberal economic policies of the Ozal governments in the 1980s (Karaosmanoglu & Kibaroglu, 2002). Though this policy marks a change from being a procurer to a producer, foreign partnerships also arguably make defense autarky much harder to achieve (Bağcı & Kurç, 2017). IV4 argues that the state and firms need each other for critical supplies in defense industry. Therefore, transparency and mutual interests are key to sectorial growth.

An important player in the industry is Turkish Armed Forces (TSKGV), which makes the Turkish Military a shareholder in the sector through affiliations with companies such as Aselsan (Military Electronic Industries), Havelsan (Software and Defence Company), Roketsan (Rocket Manufacturer) and TAI (Turkish Aerospace Industries). IV2 claims that since those firms are under the control of TSKGV, the Armed Forces have a natural influence on decision-making processes regarding their involvement in international matters. However, the Turkish government seems to be

³⁴ It should be noted that as a result of the decree law Nr: 696 published on December 24 2017, The Undersecretariat for Defense Industry has come under the authority of the Presidency and the President will chair Defense Industry Executive Committee.

pursuing a policy to increase the civilian control and the share of private sector in critical fields. Most recently, the Chief of SSM declared that the newly established state-funded company Defense Industry Technologies (SSTEK) will partner with the new entrants to the market, in order to encourage innovation that seems to be declining in the established companies owned by TSKGV³⁵. IV15 claims that the government now holds the upper-hand in decision-making. In any case, just like the energy sector, the Turkish state is both the market regulator and player. Its role, however, exceeds the national borders. IV8 states all stages of exports in defense industry is dependent on the permissions from the state. “Firms cannot even conduct marketing activities without government’s approval. Marketing, tender, contract and delivery are separately controlled and monitored.” The Turkish defense sector representatives demand from the government to lobby the foreign governments and encourage off-set agreements to stimulate government-to-government trade (*Savunma ve Havacılık Sanayi İhracatçıları Birliği Arama Konferansı*, 2012). Moreover, the private sector also demands to be involved in the coordination of export licenses to ensure foreign market penetration. IV21 claims that cooperation between foreign ministry and private sector are highly important in energy and defense sectors. There are many cases where economic and business interests drive the Turkish Foreign Policy. However, Turkish businesses’ power is quite limited. It’s mostly the foreign policy makers who set the direction. Especially in defense deals, government and private sector works in tandem. In many cases, Turkish Navy or Airforces accompany the private firms during the business negotiations, because such deals may require air assets such as the training of foreign staff. This is why it’s absolutely necessary to have the governmental support behind the business actors. A respondent states that commercial activities and foreign

³⁵ Savunma sanayinde ortaklık dönemi, *Dünya*, 3 June 2017, <https://www.dunya.com/ekonomi/savunma-sanayisinde-ortaklik-donemi-haberi-365881>

relations of the government are highly interdependent. Once a certain product is aimed for exports, the potential clients (foreign governments) are determined according to the current and future political relations. IV4 says that this is why intergovernmental relations are highly critical. “For instance, defense firms such as ours currently lobby the foreign policymakers to put certain trade items on the agenda of the President’s upcoming official visit to China and Indonesia.”

UK defense industrial base has gone through phases that gradually transformed its relationship with the government and reorganized the sector dynamics. The transformation meant both change and continuity (Dunne & Macdonald, 2002). The UK government’s strategy during the Cold War was to apply protectionism to help develop the domestic industry through its procurement policies. Despite the absence of a centrally organized formal defense industry policy, the government pursued a strategy to retain key defense capabilities in the UK by forming supportive relationships with certain contractors (Macdonald, 1999). While this strategy helped the UK defense companies to share the burden of high costs caused by the development of technologically sophisticated products, it also hampered competition in the sector (Bishop, 1999). The preferential trade terms had begun changing in the mid-1980s when the conservative government introduced the principle of market competition in line with Thatcher’s policies. Though big players such as BAE Systems have retained their dominant position through mergers, the period was marked with the privatization of the UK defense industry, unlike other countries in Europe where state-ownership still played a major role (Guay, 2005; Hopkinson, 2000). The MoD, which has always been the single biggest buyer of the defense industry, adopted a “hands-off” approach that forced the restructuring of the defense companies to remain competitive in the face of international competition. IV 22 claims that in the UK, especially BAE Systems

and Rolls Royce are the driving forces of British economic interests globally. The lack of cooperation between Turkish governmental institutions are always a problem. This is not the case in the UK. “The British Establishment” works in close cooperation with each other. More importantly, each department of the British government is able to defend its interests internationally. Also, bureaucratic team is highly politicized. British staff are highly loyal and have the institutional identity.

Even though competition has become the cornerstone of the MoD, the UK defense industry approach has also fostered closer consultation with the defense firms. The defense industry partnership between the UK government and the private firms has thus transformed the essence of dependence. While the industry was dependent on the MoD’s procurement before the 1980s, it is now dependent on the UK government to encourage exports. According to the main British defense lobbying group ADS, the ability of the British government to form favorable political relations with foreign governments is key to boost UK defense exports, especially in the face of competition from more corporatist governments such as France. One respondent states that the support of British government becomes even more important in international markets, especially where the British defense firms are latecomers. In addition to government-to-government lobbying, the UK government’s export controls is another source of dependency for the British defense firms. IV2 states that the law F686 clarifies the procedures of export permissions. According to IV3, the UK has a policy to prevent arms exports to countries that use those arms for domestic suppression. The process requires cross-government teams between various UK governmental institutions such as MoD, FCO, and Department for Business, Innovation and Skills (UK Strategic Export Controls Annual Report 2015). According to IV10, while defense firms are involved in this process, they also act according to the international political context

not to be on the opposite side of the British foreign policy. UK government's political relations and principles (e.g., human rights abuses, internal repression) become an essential consideration for arms exporters, though there are controversies regarding the applicability of such rules due to "wider context of the relationship between arms companies and the UK state (Stavrianakis, 2008, p. 32)." The involvement of British defense firms in foreign policy can be summarized by the comments of a respondent (IV3): "While defense industry does not drive foreign policy, mixing firms' interests with foreign policy is acceptable. UK has special relations with the Gulf countries and especially with Saudi Arabia. There is a special Saudi Arabia program under the Ministry of Defense, which indicates the intrinsic relation between commercial and political interests. However, it should be noted that Gulf countries are also geopolitically important for the British interests."

5.2. Institutional Structures of Foreign Policy Making

5.2.1. Institutional Analysis of Turkish Foreign Policy Making

Turkish foreign policy has attracted a great deal of attention over the past decade. The academic interest on Turkey's foreign policy can be explained by the increasing activism of the Turkish government in international relations. Despite the extensive literature on the topic, "the process of foreign policy-making is one of the least well-studied aspects of Turkish foreign policy (Hale, 2012, p. 205)." The lack of research on 'how' the foreign policy is made limits the discussion on firm's role in that process. Nevertheless, the goal of this section is to analyze the institutional structures of Turkish foreign policy making and explore where the involvement of firms could be situated. The analysis demonstrates that firms as agents of foreign policy making in Turkey is not institutionalized and remains as a factor whose impact depends on the circumstances and issue area. Firm's involvement increases when Turkey adopts more

integrationist policies and decreases when protectionism becomes the dominant paradigm, in accordance with the shifts of power among related institutions.

The impact of public and private institutions have been constantly reshuffling since the foundation of the Republic of Turkey. Though there is a formal structure in which roles and responsibilities are distributed according to the law, each political and bureaucratic actor constantly tries to increase its influence over the policy making process and thereby determine the policy outcome. The constant competition among actors result in different policy outcomes. Compared with other policy processes, Turkish foreign policy system is relatively closed but pluralistic (Efeğil, 2001). By reviewing the content of the official documents of the National Security Council (NSC),³⁶ I suggest two key factors to analyze Turkish foreign policy making: main foreign policy issue and domestic political balance. I argue that key actors such as the president, government, Turkish Armed Forces, foreign ministry, parliament and businesses carry influence to varying degrees depending on the circumstances determined by these two factors. The NSC is also the main institution where energy and defense matters are discussed within the foreign policy context.

According to the Turkish Constitution, presidency and council of ministers are charged with determining the basic principles and goals of Turkish foreign policy. Despite the fact that it has no official role other than advising the government on certain issues, the Turkish Armed Forces (TSK) has enjoyed an almost unchallenged prerogative to determine the Turkish foreign policy for several decades. Content analysis of press releases between January 1984 and March 2016 demonstrate that

³⁶ NSC's press releases since 2003 were made public on its website. The author obtained the press releases since 1984 upon official request to the General Secretariat of NSC.

foreign policy has always been one of the main topics on NSC's agenda, where TSK influenced critical topics such as Cyprus, Kurdish issue (and relations with Kurdish factions in northern Iraq) as well as relations with Israel (Aksu, 2012). NSC has become the key institution through which Turkish military imposed its foreign policy choices and even monitored whether those policies were properly executed.³⁷ Its dominance has gradually declined as a result of the reforms enacted during the EU accession process in early 2000s and the resulting shift in domestic political balance in favor of the civilian³⁸ government.³⁹ MoFA is mostly given the role of execution in foreign policy issues. Additionally, the Ministry is also tasked with doing the preliminary work and suggestions to the government.⁴⁰ Another powerful public institution, Ministry of Foreign Affairs (MoFA) is also considered to have informal influence over foreign policy making due to its expertise and control over information, as well as its institutional strength (Uzgel, 2009). Parliament's role, on the other hand, is confined to declaring war and allowing Turkish troops to be dispatched abroad or foreign troops to be deployed in Turkey.⁴¹ Foreign Relations Committee of the Parliament is tasked with legislating the approval of international agreements, overseeing organization of foreign ministry institutions and conducting diplomacy between parliaments.⁴² While some foreign policy topics can get on the agenda of the General Assembly, the Parliament does not have a decisive effect on foreign policy making, except for critical decisions that fall under its authority, such as the one on

³⁷ T.C: Resmi Gazete, 24 July 1981,

<http://www.resmigazete.gov.tr/main.aspx?home=http://www.resmigazete.gov.tr/arsiv/17410.pdf&main=http://www.resmigazete.gov.tr/arsiv/17410.pdf>

³⁸ In 2004, a former ambassador was appointed as the first civilian secretary general of the Council.

³⁹ In 2001, the decisions of NSC were re-described as "recommendatory" and the word "primarily" was removed (<http://www.adalet.gov.tr/duyurular/2011/eylul/anayasalar/1982ilkson.pdf>)

⁴⁰ "Law on Foundation and Responsibilities of the Ministry of Foreign Affairs (Nr: 6004)",

⁴¹ According to the Constitution Art. 92

⁴² Foreign Relations Committee of the Grand National Assembly of Turkey, https://komisyon.tbmm.gov.tr/komisyon_index.php?pKomKod=11

deciding whether the American troops can enter the Iraqi borders from the Turkish territory in 2003.

Period	Key Foreign Policy Player	Main foreign policy issues	Domestic balance of political power
1960s-2004	The Turkish Armed Forces (via National Security Council)	<p>Cyprus dispute, military intervention and foundation of the Turkish Republic of Northern Cyprus.</p> <p>Kurdish issue and fight against PKK militancy in southeastern Turkey and in northern Iraq.</p> <p>Tension with Greece, dispute over territorial waters and fly zones in the Aegean region. Political and military cooperation with Israel.</p> <p>Collapse of the Soviet Union, transformation of NATO, conflicts in the Caucasus, Balkans and Middle East.</p>	<p>Political instability and fractured coalition governments, TSK's increasing political power, unchallenged dominance of TSK in NSC, capacity to force governmental policies and monitor their implementation.</p>
1983-1993	Prime Minister/President T. Ozal	<p>First Gulf War, relations with Iraq, business interests in foreign policy, integration into</p>	<p>Pushing back the power of TSK by Ozal after 1980 military coup. Economic</p>

		international capitalist system	transformation.
1993-2000	President S. Demirel	Vision of increasing Turkey's influence in the aftermath of Soviet Union's collapse.	Increasing influence of TSK in 1990s due to weak governments and PKK militancy.
2003	Parliament	Refusal to allow deployment of US troops on Turkish territory.	Consolidation of AKP's political power, tension with the TSK.
2004 - ...	Government	<p>Cyprus referendum</p> <p>EU accession process</p> <p>Soft-power ('zero problems with neighbors'): mediation in regional disputes, increase of humanitarian aid</p> <p>Improving relations with KRG</p> <p>Arab Spring: Syrian civil war, ISIS, refugee crisis</p> <p>Kurdish Issue: Peace process and renewed conflicts</p>	Increasing power of civilian rule in both overall policy-making and in NSC due to the impact of EU accession process and trials against TSK personnel on the accusation of planning coup.

Within this constantly changing institutional structures of Turkish foreign policy, firms have gained greater influence during two main periods. The first one was Turgut Ozal's leadership as the prime minister and the president between 1983 and 1993. This was the first time when the voice of business was heard in foreign policy making. IV21

shares his experience about the gradual integration of business to the foreign policy making by underlining the role that Turgut Ozal personally played:

“Turkish government’s experience with the private sector has begun during the Ozal era. In the past, diplomatic staff was quite untouchable and inaccessible by the businessmen. They were not interested in the foreign commercial matters at all and did not have the idea to consider business matters in diplomatic relations. Nobody would expect that kind of behavior from an ambassador anyways. Ozal has changed this perspective. He invited businessmen to his plane during the foreign trips. He underlined the importance of economic diplomacy. This is the period when the interactions between diplomats and businessmen have begun. Diplomats have received clear instructions to be involved in commercial matters. Businessmen such as Sarik Tara, Nihat Gokyigit, Feyyaz Berker, Erman Ilicak have become active in foreign policy. In addition to that some commercial projects - such as the ones in Libya - required political support from the Foreign Ministry. As a result of Ozal’s leadership as the commercial diplomat, cooperation between foreign ministry and business have begun.”

As a part of Turkey’s economic policy to shift into export oriented economy, businessmen have started taking part in Ozal’s foreign trips and even acted as special envoys for some key policy issues. Foreign Economic Relations Board (DEIK) was founded in 1986 as a sub-institution of Turkish Union of Chambers and Commodity Exchanges (TOBB) to help businessmen be involved in foreign policy issues. This period is seen as the beginning of commercial interests becoming a part of foreign

policy making, which continued in 1990s to varying degrees.⁴³ The second conjuncture where firms had greater involvement in foreign policy was the first period of the AKP rule between 2002 and 2007, when the idea of “trading state” has gained importance. As IV1 claims:

“Diplomats have also assumed commercial roles since the AKP has become government. The ruling party implemented the policy of narrowing the gap between diplomacy and economy. Diplomats in foreign missions now lobby host country governmental institutions to help Turkish companies do business, such as winning tenders. Those are not upon official instruction most of the time. Apart from that, commercial interests can become a part of the political agenda during high-level state visits.”

IV21 also holds the same view regarding AKP’s ascent to power and the changing dynamics of foreign policy making in Turkish institutions. But today the relationship between Foreign Ministry and private sector can be described as interdependence and complementarity:

Until the AKP government, the high bureaucracy of Foreign Ministry and Turkish Army were in charge of formulating the Turkish foreign policy. The Army had a disproportionate power in some matters, especially regarding the topics of Cyprus and Greece. They also wielded extreme influence during the military rules. In general, the center of gravity has changed according to the issues. Since early 2000s, the Foreign Ministry has held direct contacts with the private sector. Construction sector has

⁴³ Turkish Industry and Business Association (TUSIAD) published a report in 1998 titled “Towards a New Economic and Commercial Diplomacy in Turkey.”

decided to invest abroad and required political support from the Turkish governmental institutions. Such direct contact took place also in international gatherings abroad. However, it should always be noted that private sector is always profit-driven, while the government is concerned with sovereign rights.

As a result of the changes in country's economic system, business interests have started finding their way in foreign-policy making. Turkey's national interests could not be narrowed down to security matters anymore, they also included many economic and business matters (Kirisci, 2009; Kirisci & Kaptanoglu, 2011). There is a significant political economy factor behind Turkey's multidimensional foreign policy and business actors have become major actors of Turkish diplomacy (Onis, 2011). The emergence of Turkey as a regional power and its aspirations were in line with the foreign policy paradigm change and structural transformations that followed (Parlar Dal, 2016; Parlar Dal & Kurşun, 2018). Despite these developments, however, the structures by which Turkish foreign policy is made has not led to the emergence of institutions that made private firms an integral and independent actor in the decision-making. According to IV6, firms can only become of the foreign policy process when they reach the 'gate-keepers' of certain issues and make themselves relevant to the policy-makers. There is a consensus among respondents that the interactions take place at personal level and require the involvement of the managers. IV8 states that it's the 'informal policy networks', which firms can sometimes be a part of, that determine the policy outcome. According to IV1, "interactions between business and government take place mostly through personal connections. Institutional procedures are not properly established. DEIK could be a bridge between private and public sectors, but its role has been limited." IV7 claims that the bureaucracy does not take businesses seriously unless the owner of the firm is takes personal responsibility. However, when

the firms can make inroads into foreign policy making, they can be very effective.

IV12 describes this as follows:

“Private sector can become a very important actor of foreign policy. Indeed, even more so than the domestic policy. Different dynamics can be influential in public policy, such social reactions at local level. There is a larger room to maneuver in the field of international relations. For instance, it’s much easier to make an impact on a certain foreign policy issue, then on tax policy.”

5.2.2. Institutional Analysis of British Foreign Policy Making

Being the pioneer of the industrial revolution and pursuing interests globally since many centuries, the UK has developed institutions that made foreign policy making a combination of a number of political, social and economic factors. As IV1 puts it, “British foreign policy has always been driven by trade, legacy of mercantilist tradition based on sea-borne trade routes protected by the navy. This is why business is still influential in foreign policy making.” The British political system allows the development of multiple foreign policies, as well as involvement of various stakeholders in the policy making process depending on the issue (P. Williams, 2004). IV17 confirms this view by providing a glimpse into the British foreign policy approach, which includes a great deal of business component:

“The British government has a holistic strategy for the regions. In these strategies, we have various pillars such as security, defense, human rights and so forth. But without exception, there will be a commercial pillar of the foreign policy strategy. In this strategy, we have two main questions: First, how do we improve trade and investment? Second, how can we make sure that trade and investment support other

aspects of our foreign policy. In sum, you can see that commercial matters are at the forefront of our diplomacy.”

IV7 claims that firms and intelligence agencies are quite active in foreign policy making. Boards of strategic firms such as BG Group and BP involve former officials from these institutions and they play the key role in bridging the firm with foreign policymakers. Just like in Turkey, different actors attempt to influence the foreign policy in the UK with the goal of determining the outcome in their favor. The theoretical debate shows that the policy making process thus swings between centralization and decentralization in response to such attempts (Bevir, Daddow, & Schnapper, 2013). In other words, though there is no controversy regarding the fact that the British foreign policy has become more diverse over the past several decades, the debate still continues as regards to what best explains the institutional structures of its making.

On the one hand, it can be argued that the British foreign policy gets increasingly centralized as a result of the prime minister’s growing role in the process. According to Ewelme, the relationship that determines the policy outcome is still between the prime minister and foreign secretary (Ewelme, 2008). The personality of the prime minister thus becomes an important factor of British Foreign policy, as Tony Blair’s decision to involve the UK in the Iraqi war exemplifies (Dyson, 2006). Blair’s leadership had a decisive impact on the outcome of British foreign policy despite the fact that other factors were not supportive of joining the war. In addition to the leadership style, UK’s “majoritarian institutional design” also means that any new government can make substantial changes in country’s foreign policy ideology, as well as whether a junior coalition partner can determine the policy outcomes (Brommesson & Ekengren, 2012; Oppermann & Brummer, 2014). On the other hand,

decentralization is another force that pulls the decision-making of British foreign policy, driven by the desire of secretaries to “retain autonomy for their own departments (P. Williams, 2004, p. 912).” Notably, Ewelme was criticized for excluding the power of business groups and specifically arms manufacturers on policy outcomes. Just like the domestic politics, British foreign policy is also prone to be affected, to different degrees, by external influences, including public opinion, interest groups, media and private firms (Radcliffe, 2004). Thus, firms operate in such a diverse decision-making environment to influence foreign policy outcomes.

Indeed, the United Kingdom of Great Britain and Northern Ireland (and its predecessors) has a long tradition of conjoining the commercial interests with its foreign policy. The dialogue between Sir Walter de Frece and Neville Chamberlain is a significant example⁴⁴:

Mr Frece: asked the Prime Minister whether he can assure the House that in all diplomatic negotiations tending to define the international policy of this country there is the closest inter-working and understanding between, on the one hand, the Foreign Office and, on the other, the Board of Trade, so that no serious diplomatic step can be taken without prior consideration of its effect on our commercial well-being; and whether this applies in particular to the Anglo-Japanese Alliance?

Mr. CHAMBERLAIN: My hon. Friend may rest assured that in all matters affecting them both there is close consultation between the two Departments referred to. In a question of such importance as that of which my hon. Friend makes special mention there need be no fear that the views of any Department will be ignored or overlooked.

IV22 shares his view that the century-old example given above is still pertinent for

⁴⁴ U.K. Parliamentary Papers, Commons Sitting of Thursday, 9th June, 1921. Volum Title: Fifth Series, Volume 142, Page Column: 2025-2222. Permalink: <http://parlipapers.proquest.com:80/parlipapers/docview/t71.d76.cds5cv0142p0-0013?accountid=11893>

the UK foreign policy making. According to IV22's experience, the British government especially consults with the private firms in international politics. For instance, BP is well established in Azerbaijan. Whenever the British government formulates a certain policy or organizes an event in Azerbaijan, they consult with BP executives. Bilateral politics is heavily impacted by the business interests. Firms get involved in diplomatic negotiations by raising their commercial issues through diplomatic channels. IV16 explains that the firms state their commercial interest and develop a foreign policy position that would support those interests. The next step is to include those positions in the agenda of the policy makers. There either proxy institutions are used or firms can take direct action. Policy makers may or may not bring those points during the political negotiations with their foreign counterparts.

The government's choice can also be to adopt a more business-friendly foreign policy approach. IV21 provides an example of how this close interaction between business and foreign policy structures took place in the recent past:

“In the UK, there are hundreds of years of tradition to drive the British Foreign Policy via commercial matters. However, Tony Blair's election as the Prime Minister was also a critical milestone. In his first written instruction to the Foreign Office, he underlined that ‘British diplomatic staff are also commercial envoys and close cooperation with the private sector is of critical importance to the UK prosperity.’”

The UK has benefited from its diplomatic network and business presence all around the world to achieve the political and business goals simultaneously. IV17 states how business matters are embedded in foreign policy making and how it affects the evolution of the roles and responsibilities of the British diplomatic establishment:

“ambassadors’ whole job used to be make sure that bilateral and multilateral relations were in good shape. Economy was only a part of the foreign policy. However, we have seen a steady increase in of commercial aspect of foreign policy, which now shape many bilateral relations. Today, no British diplomat with significant commercial experience can become to the position of an ambassador. We are all expected to do something for commercial matters. Each ministerial visit has a commercial aspect. We are all responsible for what we call Prosperity of the UK.” In the cases where the Foreign and Commonwealth Office (FCO) and private firms have different views regarding a topic of common interest, such as increasing British political influence in a country and grasping business potentials respectively, the two institutions have been able to find a common stance through coordination (Suonpää, 2015). However, this does not mean that firms are a part of the foreign policy apparatus. As IV9 explains, there are major differences between the UK and Turkey as to how firms align and diverge their interests with the governments.

“In Turkey and in the Middle East, executives of American or British energy companies are seen as advocates of the national policies of these countries. This is not true. Our company’s interests may or may not align with national interests. We are not bound by the political choices. We comply with the law. This is very different from Turkey, because a Turkish firm would not want to go against the interests of policymakers, even if its actions are completely legal.”

Williams argues that the British private firms, alongside with diplomats, politicians and central bankers, play an important role in the development and execution of the foreign policy. Private firms have the double-sided role of contributing to the national economy, which is highly dependent on foreign direct investment, and acting as the

agents of British foreign policy abroad. The British diplomatic institutions have evolved towards greater integration of the commercial and political interests, especially since the Labour government's coming into power in 1997 (D. Lee, 2004). IV17 agrees with this argument in principle, but argues that firms are not involved in all aspects of foreign policy: Firms are not fully involved in foreign policy, but certain aspects of it can be shared with firms. It is important to note that firms are not interested in all aspects of foreign policy, it is such a broad subject. But issues like visa regime, security warnings, taxation are high on the agenda of firms. In this case, there are semi-official bodies that get involved in policy making. Foreign Secretary cannot discuss all foreign policy matters openly. There are limits on how much it can consult. "But when we can, we do."

The British paradigm to integrate political and business interest within the foreign policy has institutional implications. The UK government has founded a joint department between the FCO and the Department of Trade and Industry (which was later replaced by other departments), called UK Trade and Investment. Formed in 2003, UKTI had been tasked with promoting British exports to other countries, as well as attracting foreign direct investment into the UK. UKTI coordinated its strategy and activities with the FCO, having permanent employees and advisors in embassies and consulates worldwide. The UKTI was replaced by the Department of International Trade (DIT) in July 2016. The willingness of DIT to influence the British foreign policy has surfaced when a leaked message by its director to the Foreign Secretary demonstrated that his department had requested a formal restructuring between the two

institutions to allow the DIT set the agenda of the foreign policy regarding business matters,⁴⁵ which was reportedly refused by the Prime Minister.

In addition to the formal institutions, individual stances of British policymakers are also critical. IV2 states that:

“Prince Andrew, for instance, is UK’s trade ambassador to the Middle East. This gives UK a unique selling point and access to top rulers. British Royal family has good relations with the Gulf kingdoms. Any visit by a royal family member is accompanied by arms companies. Companies bring military devices and equipment during those visits.”

This idea is also backed by IV24, who claims that British Foreign Policy is very much influenced by British businesses. Royal or Politician visits involve business people, who organize forums and use that platform to intensify business cooperation. It’s normal the Prime Minister goes to the KSA to announce X billion dollar deal. It’s a very useful way to show that employment and prosperity.

The British approach to foreign policy making thus shows that it has a more established institutional structure to allow the private firms influence the policy outcomes. In the words of IV16, “In Turkey, foreign policy plays the leading role in commercial relations. In the UK, foreign policy is very much determined by the commercial interests of British firms.”

⁴⁵ “Liam Fox tried to wrest control of Foreign Office duties from Boris Johnson,” *The Guardian*, 14 August 2016, <https://www.theguardian.com/politics/2016/aug/14/liam-fox-attempt-wrest-control-foreign-office-duties-boris-johnson>

5.3. The Strategic Significance of Sectors

The purpose of this section is to discuss the third proposition about the strategic importance Turkish and British energy and defense sectors to the economic development and national security of these countries. According to the theoretical framework suggested in the previous chapter, strategic importance of these sectors to the national security and economic development is a major determinant of firm's involvement in foreign policy. The analysis demonstrates that private firms' involvement in foreign policy making is positively associated with the level of strategic significance of the sector that they operate in. The findings indicate that the market and nonmarket characteristics of the sectors drive 'how' firms become an agent of foreign policy.

5.3.1. Strategic significance of energy sector in Turkey and in the UK

Energy is a strategic sector for governments due to various reasons. Vivoda argues that oil has its own dynamics when it comes to bargaining between multinational oil companies and host governments (Vivoda, 2011). Both sides have strategic resources that can be used against each other. Big firms possess financial resources, technical capabilities and managerial skills that are necessary to explore and produce oil. Host countries have the advantage of having control over valuable natural resources and geographical location. The scarcity of natural resources is a factor that strengthens host country's bargaining position. The level of technological capabilities required for the exploration and production of oil makes big firms more valuable. Such market entry variables determine whether a mutually desired outcome is possible. The outcome is reflected in the "Production Sharing Agreement (PSA)" that is signed between the firm and the government. Bayulgen describes the importance of a PSA as follows:

“A PSA outlines the regulatory, financial, organizational, legal, and compensatory relationship between the investor and host government and, as such, is a good proxy for measuring the stability and attractiveness of an investment environment for the oil sector. The PSA regime – the laws, governmental regulations, and terms of these contracts – are seen by foreign investors as the principal mechanism for attracting foreign investment, especially in developing countries where the rule of law and institutions that can protect property rights are weak (Bayulgen, 2005, p. 8).”

Stevens suggests that the outcome of negotiations is highly driven by oil prices (Stevens, 2008). High oil prices give both sides an advantage, which fades away when the prices drop. A poor outcome of bargaining results in possible resource nationalism in the future, especially in less developed economies. As we have seen in previous sub-chapter, governments gain the advantage once the investment decision is made. Therefore, firms aim to assure continuous revenue flow after the investment, because profits accrue after several years of investment.

Similar dynamics are at play in Turkey’s energy sector as well. Regulatory policies relating to the Turkish energy sector have been driven by the government’s desire to pursue political and economic gains, leaving autonomy to the private sector insofar as it serves this purpose. Though energy is a highly regulated sector in most countries, the way the government uses regulation makes a significant difference in the business environment. Three factors can explain the Turkish government's energy policy overall.

First, energy is both a commercial and political commodity (Oguz, 2010). For this reason, Turkish consumers see government policies as the primary determinant of prices. Being aware of this perception, policymakers design energy policies with electoral concerns in mind. A major driver of electoral behavior is the country’s stance

in international politics. Energy plays a crucial role in this respect. The research demonstrates that Turkish voters are highly sensitive to energy prices, which is determined by the government. 15% of the voters indicate that energy policies play a crucial role in determining their electoral choices.⁴⁶ Thus, energy is a strategic matter for the electoral success of policy-makers. Some of the energy projects are even deemed to be geopolitical assets, putting their role in energy relations in secondary place (Hoffmann, 2014). A key priority of the Turkish government is to become an energy hub, providing “the political influence in Europe and in the region due to the ownership of a key infrastructure route (Coskun & Carlson, 2010, p. 214).” Thus, energy policy is not only a concern for a commodity, but also a tool to configure the geopolitical balance of power and turn Turkey into a regional hegemon (Aribogan & Bilgin, 2009; Triantaphyllou & Fotiou, 2010). IV21 claims that Turkish Foreign Ministry’s biggest success in the energy sector is to make Turkey a regional energy player despite not having energy resources. Therefore, energy policy is an integral element of country’s national security. IV22 claims that this situation increases strategic importance of energy firms. Turkey does not have international energy companies. There are state-owned firms. However, over the past 15 years the government institutions started to listen to the private firms. This is because the government needed significant investments, for which private sector had to put the money. However, the government also had to provide incentives and thus the conversation between two has begun.

As IV8 puts it, energy is closely related with foreign policy issues especially on specific topics: “Relations between Turkey and KRG is good case that demonstrates

⁴⁶ Public Opinion Survey conducted by Kadir Has University, <http://www.khas.edu.tr/news/1511>

how energy, security and foreign policy interact. Turkey needs to keep KRG government in check and contain militancy near its borders by putting pressure on KRG oil supplies. KRG government needs money to pay salaries of its security forces (peshmerga), which it can only earn by exporting oil via Turkey (which amounts to \$800 million per month). Oil and gas companies need KRG security forces to ensure the safety of their assets and staff.” IV7 affirms the importance of Turkey’s relations with the KRG and claims that Genel Energy played a significant role in the improvement of relations between the two governments, as well as personal relations between the policy-makers. He asserts that firms can have a greater likelihood of influencing the agenda and policy-making discussion when they arrange the meeting and provide information to both sides.

Second, energy demand is closely linked with economic growth. Management of the energy market has, therefore, an indirect impact on both employment rate and social development. Given the scarcity of Turkey’s domestic energy resources, improving market efficiency through privatization and competition becomes a political goal. The second reason is the correlation between energy security and economic growth. There are several studies that prove the correlation between energy consumption and GDP growth (Erdal, Erdal, & Esengün, 2008; Lise & Van Montfort, 2007; Sari & Soytas, 2004). This correlation obviously translates into economic development. According to the official figures of the MENR, Turkey’s economy has grown annually by 4.8% on average between 2003 and 2014, while primary energy demand has grown annually by 4.12% on average during the same period.⁴⁷

⁴⁷ The official transcript of the presentation by minister Berat Albayrak to the General Assembly of the Turkish Parliament on the 2016 budget of MENR.

According to IV7 and IV13, Turkish government does not want to loosen the grip on the energy sector due to its strategic importance. However, this creates difficulties in attracting high-quality foreign direct investment and thus turning Turkey into a regional energy powerhouse. In order to reach that stage, the government should improve the quality of public institutions, quality of regulations and make sure that the rules do not change during the game. IV22 provides an example of how firms can benefit from their knowledge assets to influence policy-making. According to IV22, the state institutions are direct counterparts of the private firms. It could be Presidency, Prime Ministry, Energy Ministry or Foreign Ministry. BP published a report in 2009 based on extensive research that Turkey had to make significant investments in order to sustain its economic growth. The Energy Minister at the time benefited from this information and it had an impact on the improvement of public - private discussions.

Third, electricity and gas are network industries characterized by high fixed and sunk costs. This has two main implications: justification for IRAs to regulate monopoly and dominance of vertically integrated public companies. The market dynamics leave little room for private entrepreneurship.

Box – 2

Baku-Tbilisi-Ceyhan Oil Pipeline: Where Business and Geopolitics Meet

The building and operation of the Baku-Tbilisi-Ceyhan (BTC) Oil Pipeline is a good example of how business and geopolitics interact on strategic projects. It demonstrates the interrelatedness of foreign policy making by governments with the interests of the private firms. What makes Baku-Tbilisi-Ceyhan a special

project is the importance that it carries regarding the geopolitical balance in the Southern Caucasus.

In the aftermath of the Soviet Union's collapse, independence of former Soviet countries, most notably Azerbaijan's integration with the West has become a hot topic of international politics. Once seen as Russia's backyard, the region has become a battlefield of influence between the US, the EU and Russia. A major cause of competition was the delivery of energy sources to the international markets. From Russia's perspective, it was clear that the route had to involve its territory, while Turkey – backed by the US – was pushing for alternative routes. Energy has thus become the main tool over which the two camps were competing. IV22 states this fact as follows: “BTC was realized as a result of strong support from US and the UK. For Azerbaijan, oil means survival, while natural gas means political impact. Baku increases its political importance in Europe by supplying non-Russian energy. I believe things like Eurovision and Formula 1 race events took place in Azerbaijan as a result of the political integration with the West via giant energy projects.”

The BTC oil pipeline was born when Turkey, Georgia and Azerbaijan signed the intergovernmental agreement in 1999. While signatory states were the main parts of the energy project, IV22 tells that BTC was realized as a result of strong support from US and the UK. Indeed, 30.1% of the BTC Company that was established in 2002 to construct and operate the pipeline is owned by BP. The length of the pipeline 1,768 kilometres and costed around \$4 billion, which was a significant amount of investment at the time.

As a result of these political and commercial interests, BTC has become a focal point in the interactions between governments and private firms. There was also a strong coordination mechanism among government institutions. As IV23 says: “During the negotiations over BTC, there was a functioning coordination mechanism between the Foreign Ministry, Energy Ministry and Botas. The Undersecretary of Energy Ministry was the main coordinator. The parties would even coordinate on creating the content for a roundtable discussions speech at an Energy Conference.” Especially in Turkey and in the UK, foreign policy makers and business managers were in close contact to determine the political and commercial terms of the agreement. Both sides had the common interest to realize the project, but they differed on which conditions should rule. While government officials are more interested in maintaining sovereign rights of the country (e.g., security, environmental protection), firms are pushing for more lucrative conditions. As the IV 21 clearly explains:

“A critical milestone in terms of the relations between the Turkish Foreign Ministry and private sector was the process that resulted in the agreement on Baku-Tbilisi-Ceyhan pipeline. It required close contact between diplomatic staff and businessmen. This was caused by a simple fact: it was the private firms that had to make billions of dollars of investments, but it was the government officials who had to sign the binding terms of agreements that ultimately determine the business conditions. The project was critical for both Turkey’s geopolitical importance and economic well-being, especially regarding Azerbaijan’s independence against Russia. The Turkish Foreign Ministry has learned the

importance of cooperating with private sector during the tough negotiations on BTC.”

IV22 provides the British perspective on how the relations between the government and BP determined the realization of BTC:

“BTC is important example that demonstrates how business and governments cooperated. The main driver of BTC was to ensure Azerbaijan’s independence via energy exports. Therefore, geopolitical goals were at the forefront. The new and small country had to get up on its feet. However, there also had to be a commercial logic, because after all it is private companies that would operate the oil pipeline. Indeed, BP was not eager to invest in BTC at the beginning, because another oil pipeline that carried Azeri oil to the Black Sea shore was already in operation. However, it accepted to become a part of the consortium as a result of the significant pressure by the UK government. Here the geopolitical interest of the government became more important, because the oil had to be carried to the Mediterranean coast to avoid Russian impact.”

In conclusion, BTC project demonstrated two things. First, business-to-government negotiations in the foreign policy area was a learning process for both companies and policy-makers. Especially the Turkish institutions learned to deal with business interests on certain topics. Second, the outcome of these negotiations determined the fate of the project that had a significant geopolitical importance for the region, and for the countries that are involved.

The UK's energy strategy demonstrates that the significance of the industry to the country has different characteristics than those of Turkey. The main objective of the UK's energy policy is economic effectiveness. The term indicates that the main purpose is provide the British citizens with energy in the most efficient manner. The government pursues energy security and environmental protection via incentivizing the private sector for further investments. Referring back to the varieties of capitalism literature in the chapter 2.1., the British energy sector demonstrates the characteristics of liberal market economy, as opposed to the coordinated market economy that Turkish energy sector can be classified. IV7 states that since the market is very much liberalized in the UK, the main issues are about taxation and environmental impact. Business organizations are much stronger in the UK because they represent the whole sector rather than special interests. Therefore, the market-driven energy sector in the UK does not have a major strategic importance as far as the its international relations are concerned.

However, big energy companies have strategic importance⁴⁸ to the UK's economy and national security. Even though unlike Turkey (where energy is still a political commodity partly because the energy prices are dependent on Turkey's international relations) it has become a tradable commodity in the UK as a result of the pro-market energy policy paradigm, the UK government considers such firms as national assets (Kern, Kuzemko, & Mitchell, 2014). The strategic importance of the energy sector manifests itself in the governance of public institutions and private firms. The Department of International Trade has a strategic relations department that identify

⁴⁸ BP's Impact on the UK Economy: https://www.bp.com/content/dam/bp-country/en_gb/uk/documents/bp-economic-impact-report-uk.pdf

strategic firms and their counterparts in the civil service.⁴⁹ Appointment of a trade expert as the chief of FCO was seen as the Labor Party's approach to allow business drive the British Foreign Policy.⁵⁰ Moreover, the exceptional consultations between the FCO and BP also demonstrates the willingness of the UK government to align the country's foreign policy with the company's business interests.⁵¹ In line with the theoretical explanations on corporate political activity, a similar strategy is pursued by the BP by implementing the 'revolving door' tactics by bringing former high level civil servants on board.⁵² IV7 affirms this view and claims that in addition to the arguments that firms use on employment, economic growth and trade relations to have a say in foreign policy making; they can also use personal incentives such as a role on the board of the firm or special consultancy. The "special relationship" between the UK's global energy firms and the government means political intervention in strategic business matters,⁵³ such as preventing foreign takeover of national champion brands⁵⁴ and lobbying to foreign governments on behalf of them to ensure favorable conditions.⁵⁵ In brief, even though energy is not a political commodity of the British Government, energy firms are still strategic assets of foreign policy.

⁴⁹ Strategic Relations,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/537412/SRM_List_for_GOV_UK_July_16.pdf. Retrieved 5 June 2017.

⁵⁰ Business to drive foreign policy as PM announces diplomatic reshuffle, *The Guardian*, 21 July 2010, <https://www.theguardian.com/politics/2010/jul/21/business-foreign-policy-pm-diplomatic-reshuffle>

⁵¹ International Energy Unity, Foreign and Commonwealth Office

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/467477/FOI_0505-15_FCO_high_level_dinners_with_BP.pdf. Retrieved on 25 May 2016.

⁵² Profile of Sir John Sawers, BP <http://www.bp.com/en/global/corporate/about-bp/board-and-executive-management/the-board/sir-john-sawers.html>. Retrieved 2 February 2017.

⁵³ UK ministers make Gallic gesture to keep the British in BP, *Financial Times*, 25 April 2015

<https://www.ft.com/content/68d541c4-e9c311e4-a687-00144feab7de>

⁵⁴ UK Government warns BP over potential takeover, *Financial Times*, 26 April 2015,

<https://www.ft.com/content/06a3207e-e901-11e4-87fe-00144feab7de>

⁵⁵ UK backs BP in federal contracts dispute with US government, *Financial Times*, 3 December 2013, <https://www.ft.com/content/f5332c16-5c2b-11e3-b4f3-00144feabdc0>

5.3.2. Strategic significance of defense sector in Turkey and in the UK

The existing literature demonstrates that defense is considered as a strategically important sector. According to “the defense sector is perhaps the most closely tied with national security interests, and therefore alliances between defense firms are more likely to be embedded in geopolitical alignments (Shenkar & Arikan, 2010, p. 17).” Firms’ alliances in defense sector are mostly driven by political relations. For instance, Shenkar and Arikan suggest that the Airbus consortium is in most part a consequence of European political and economic integration. Firms from allied nations find it easier to do business with each other and with third parties. According to the two-tier bargaining model of Ramamurti, the defense sector demonstrates that business negotiations in strategic industries take place at a macro-political level between two governments, which sets the stage for talks between firms and governments. Findings of the study of Li and Vashchilko show that bilateral investments increase when there is a defense sector-related pact between the two countries (Li & Vashchilko, 2010). The causal link here is that governments that have relations with regards to defense sector do have amicable relations, which in turn translates into increased trade relations in other industries.

Turkey’s defense industry is a highly strategic sector for the similar reasons that are valid for the energy sector. First, achieving autarky in defense capabilities is considered as the central pillar of an independent foreign policy. The process of development in the Turkish defense industry demonstrates its close connection with country’s foreign political relations, especially those with the United States. Turkish defense industry has been long dependent on the military aids from the USA, as a direct consequence of becoming a NATO member in 1952. This reliance, however, has begun changing as a result of another significant foreign policy event, when the US

President Johnson told the Turkish government in 1964 that NATO's security umbrella cannot be assured against the Soviet Union and the US military equipment cannot be used in case Turkey conducts a military intervention in Cyprus to end the ongoing conflict. According to IV15, this can be seen as a turning point in Turkey's quest for more autonomous defense sector. The US arms embargo that lasted between 1974 and 1979 has led Turkey to adopt its the policy of developing of its own defense industry policy as of 1985 to gain the ability of pursuing an independent foreign policy (Mevlütöğlü, 2016). According to IV8, the government has a deliberate policy of preventing foreign investments. This does not mean that foreign partnerships cannot be formed for production purposes, however strategic actions such as merger & acquisitions are not encouraged by the government, because it pays special attention to the ownership of the capital within these firms.

When it comes to the involvement of defense firms in Turkish foreign policy making, the data demonstrates that the depth and scope of the Turkish defense industry has not come to a point where it can influence the outcomes in general. However, it can become an agent of foreign policy-making, especially when particular commercial interests and political relations are concerned. For instance, IV8 claims that firms can become a part of political relations between governments on specific issue areas. He provides the example of the collective action by Turkish defense firms in gaining support from Lockheed Martin, Boeing, United Tech managers against the Resolution in the US Congress regarding the allegations on Armenian genocide. In a similar manner, defense firms can ask the government officials to put the trade deals on the agenda of the meetings between head of states. Such a request would indicate both political support for the commercial project and policy preferences that would be aligned. IV11 affirms that defense sector is considered as a part foreign policy.

According to IV4, Turkish defense sector and its firms are more involved in foreign policy matters than one might think. This is especially the case for Turkey's foreign policy toward the Middle East. "Turkish defense industry faced challenges as a result of Turkey's foreign policy in the aftermath of the military coup in Egypt. Gulf countries led by Saudi Arabia put a distance with Turkish defense firms, which we've witnessed in sector exhibitions. Firm representatives and officials of SSM conveyed messages to the Turkish policymakers about this issue, which eventually resulted in the normalization of ties after the death of King Abdullah. I cannot say that defense firms were the only cause of the change foreign policy outcome, but they were certainly one of the drivers." The adverse effects of the tension in international relations is also confirmed by IV2. Since arms purchases require trust-based and long-term relations, the contracts are closely related with political relations. The defense industry representatives participate in the foreign trips of the Turkish President, where arms deals are signed as a way to forge political relations⁵⁶.

The second dynamic, namely the causal link between defense expenditure and economic growth, has become subject to research in the literature. Previous studies demonstrate that there is a positive link between Turkish military spending and real economic output (Halicioglu, 2004). The causality is explained by the amount of investment and exports that defense spending leads to (Kalyoncu & Yucel, 2006). Strategic Plan of the Undersecretariat for Defense Industry also clearly indicates that its sectorial development is inherent component of the government's macro-economic strategic objectives as defined in the Development Plan (2014-2018) and Middle Term Program (2016-2018) (*Stratejik Plan 2017-2021*, 2017). According to the declarations

⁵⁶ Dış politikada yeni anahtar savunma sanayi, *Anadolu Ajansı*, 27 April 2017, <http://aa.com.tr/tr/turkiye/dis-politikada-yeni-anahtar-savunma-sanayisi/806246?amp=1>

of the Minister of National Defense, the industry provides high added-value exports, which has reached to 1,68 billion USD in 2016. Regarding the third factor about the sector's impact on electoral behavior, there is no research that shows the exact link. However, an indirect causality can be established. The Turkish public has a strong preference for Turkey to be independent and act alone in international relations.⁵⁷ The government thus turns this point into a political communications strategy by emphasizing the link between the development of the defense industry and national independence (Çağlar & Özkır, 2015, p. 32)⁵⁸. According to IV12, defense is a major driver of economic growth. It provides 'organized wealth' and positive externalities in many areas. The sector has a lot of by-products that increase innovation and technology-driven production even in small and medium size enterprises, mostly purchased by Aselsan. Firms like Gama, Guris and Nurol are also involved in this sector because of the potential to create economies of scale. The total investment in Turkish defense industry is estimated at \$3.5 billion.⁵⁹

The defense industrial base is a strategic sector for the UK government and its foreign policy, resulting in the balance of interdependence between the two. The importance of government - industry cooperation is manifested in the institutions, appointments and their policies. The National Security Strategy and Strategic Defence and Security Review published in 2015 indicates that the defense industry is key to the three main strategic objectives of the government: protecting the British people, projecting UK's global influence and promoting its prosperity (*National Security*

⁵⁷ Public Opinion Research by Kadir Has University on Foreign Policy, <http://www.khas.edu.tr/news/1367>

⁵⁸ TBMM Başkanı Yılmaz: "Seçmenin uyarısını ciddiye alacağız", *Milliyet*, 24 Ekim 2015 <http://www.milliyet.com.tr/tbmm-baskani-yilmaz-secmenin-uyarisini-sivas-yerelhaber-1030716/>

⁵⁹ Savunma Sanayi, *Milliyet*, 14.05.2017, <http://www.milliyet.com.tr/yazarlar/gungor-uras/savunma-sanayi-2450427/>

Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom, 2015). The critical role that defense industry plays in the innovative capabilities of the UK manufacturing is also underlined (*UK Defence Outlook 2016*, 2016). With more than 142,000 employees, £24 billion turnover and £7.7 billion average exports per year, the defense industry plays an important role in the growth of the UK economy. As the manufacturing and services in the defense industry is becoming more international via partnerships, subcontracting and co-production, the UK government assumes a greater role in arranging international affairs in coordination with the industry representatives (T. Taylor, 1990). IV2 claims that firms can put pressure on the British government to be involved in foreign policy making. Major British firms use the ‘employment card’ quite often against the government to pursue certain policy outcomes. Moreover, unlike Turkey, the Parliament plays an important role in both relations between the sector and the government, as well as making of the British foreign policy. Firms can lobby the Parliamentarians who can influence the foreign policy making.

According to IV1, British defense firms use such connections and arguments quite assertively: “As a lobbying organization for instance, Society of British Aircraft Companies can legitimately approach Foreign Office, Prime Minister or other ministers and say, “If you blacklist this and that company due to political reasons, we will lose jobs.” They also provide information to parliamentary committees on foreign policy issues. Firms issue papers or connect with parliamentarians to have their voice heard in specific topics. Defense firms are not the sole influencers, but among the drivers.” IV24 further confirms this view by saying that defense companies and especially BAE Systems are very critical players for both domestic and international markets.

In order to benefit from the rapidly growing industrial base and its international connections, the UK government has increased the capabilities of the existing institutions and formed new ones to foster public-private-partnership, with the goal of “supporting the negotiation and delivery of government-to-government deals (*National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom*, 2015, p. 77)”. For instance, UK Defence Solutions Centre, an initiative by of the Defence Growth Partnership, a jointly funded platform by government and industry increase collaboration between the industry stakeholders.⁶⁰ (The DSC advocates for the UK defense industry and does not favor any particular firm). British foreign policy towards the Gulf and especially Saudi Arabia demonstrates how this strategy is applied (Michou, 2012). Hopkinson argues that this is in part an outcome of the close cooperation between MoD and FCO (Hopkinson, 2000). Defence Security Organization of the Department for International Trade (formerly UKTI) is specifically tasked with coordinating these policies⁶¹ in various locations outside the UK. IV17 explains the interrelatedness between defense sector and foreign policy, as well as how it contributes to the Prosperity of the UK:

“Defense and foreign policy are self-perpetuating circle. The more you do business, the better foreign policy get, and then the more business you do. Defense equipment sales and foreign policy are very much interrelated and it’s hardly possible for a third country to break into that relationship. Take the UK - Brunei relations. The ruler is a UK-educated person and he’s looking to the UK for security matters. That provides the UK the possibility to sell arms, but also invest in its oil wealth as a spin-off effect.”

⁶⁰ UK Defence Solutions Centre - <http://www.ukdsc.org/about-ukdsc/>

⁶¹ Department for International Trade, Defence & Security Organisation, <https://www.gov.uk/government/organisations/uk-trade-and-investment-defence-and-security-organisation/about>. Retrieved 12 May 2017.

According to IV3 and IV4, these are critical partnerships between the British government and private firms to promote wealth by investing abroad. However, serious reputational and compliance risks may emerge as a result of the weak institutions and corrupt regimes. This is why British firms prefer to partner with public firms that have close political connections with the host government. IV9 underlines a similar point in the energy sector by stating “When we decide to invest in a country, we ask for some terms in return. Those terms mostly related to the transparency of the investment process, such as bidding procedure. A multinational energy company would not take the risk of damaging reputation, because it directly affects behavior of our investors. Moreover, FCPA rules can put our chairman to the jail, if it’s proven that he has not taken the necessary measures to comply with anti-corruption provisions.”

5.4. Nonmarket Environment and Firm Capabilities

The purpose of this section is to study the firm-level dynamics of the corporate diplomatic activity framework. As suggested in the theoretical part, I will examine whether firms’ market and nonmarket capabilities provide them with the leverage of influencing foreign policy outcomes and political relations between governments. Since each firm has its own characteristics and it is not possible to make country-wide generalizations. Rather, I pursue the strategy of providing the environmental context in which firms operate, how they respond to their external environment and whether their response capabilities can possibly affect foreign policies.

An important note for this section is that while the analysis below is based on the existing research and empirical data, the recent political developments in both

countries are prone to bring about significant changes into nonmarket environments. The constitutional referendum that was held in Turkey in April 2017 resulted in the transformation of the country's political system from parliamentarism into presidentialism, which will probably lead to a fundamental restructuring of the nonmarket environment. An equally fundamental change took place in the UK as a result of the British people's decision to leave the European Union. Since UK's regulations and market dynamics were hitherto shaped by the European Union, the Brexit will definitely have significant impact on how businesses interact with public institutions. Therefore, the nonmarket environment in both countries is likely to evolve in the coming years and the study here will provide the background against which this evolution can be observed. Nevertheless, this chapter keeps the focus on the fundamental principles and conditions that may not change in the middle-term.

5.4.1. Turkey's nonmarket environment and firm capabilities

In Turkey, the origins of market emergence can be defined in Karl Polanyi's words as "instituted process brought into being by state intervention (Bugra, 1991)". Thus, market players and the market itself did not emerge as a natural result of the contradiction between merchant class and rulers. A major differentiator of Turkish political and institutional context pertaining to the business – government relations is the question of 'social legitimacy' of Turkish private sector. Bugra, who has done extensive research on the matter, claims that Turkish businesses owe their very existence to relations with the state, and thus, have the capacity to act only within the boundaries set by policy-makers (Bugra, 1994a). A survey of top 1000 companies listed by the Istanbul Chamber of Industry demonstrates a similar finding. Ozcan finds that politically connected firms (those with either direct personal connections and or

connected through networks) have witnessed abnormal performance on average over non-connected firms between 2003 and 2011 (Ozcan & Gündüz, 2015b).

Since very few business owners have a reliable source of revenue on their own, they cannot claim autonomy against the governments, IV1 states. This means business class is not regarded as an independent actor that can affect political and social outcomes, because their existence is very much dependent on resource allocation by the State. On the one hand, most Turkish businesses had no solid commercial foundation to stay afloat without governmental support. This is why they have become increasingly dependent on policymakers' favors. On the other hand, the newly founded Turkish state needed an entrepreneurial class that could provide economic footing of the nation-building. IV4, describes this situation as being "mutually imprisoned in each other's needs and capabilities." IV23 states this problem as follows:

"Business to government relations in Turkey are extremely selective. Only selected private sector players enjoy the political support of the government. It's not the firms that have the vision and capabilities to take risks of creating new business ventures. Rather, they are assigned to take on some specific responsibilities in international business affairs. It's almost a quasi-public business model. The government is therefore the main decision-maker. This approach has its downsides as well, because it impedes the entrepreneurship. Instead, we need national champions in every sector, such as Petronas."

An important area that political favoritism impacts business survival and growth is having privileged access to financial resources (Sapienza, 2004). By studying lending of government-owned banks in major emerging markets in the 1990s, Dinc finds that

government-owned banks increase lending in election years in comparison to private banks, which can be interpreted as “distributing rents to their supporters (Dinc, 2005).” Furthermore, Dinc argues that his study does not capture the possibility of politicians using government-owned banks in non-election years, or using their political influence to force lending decisions of private banks as well. When it comes to Turkey, my findings demonstrate that government sourced funding is a crucial tool for the Turkish government to keep businesses in political check. IV6 tells that the root cause of Turkish private sector’s dependency on the government is the need to gain access to greater financial resources even if their financial statements do not justify:

“The fact that Turkey’s economy performs better among other emerging markets despite political and economic hardships increases private sector’s risk appetite. This means Turkish firms would like to make investments at a larger scale. However, those firms do not usually possess required capital. Cash reserves of most Turkish corporations are depleted and they lack financial leverage. The only way they can get the required funding is to have access to state-owned banks. This is exactly where government gains the political leverage over the businesses, because it holds the control of their finances via state-owned banks.”

The position of business class vis-à-vis the state in Turkey has two main implications. The first one is the nature of relationship between business people and bureaucrats. Successful firms are usually regarded with suspicion due to underlying assumption that privileged links with decision-makers could be the main reason of wealth. According to IV5, a typical Turkish bureaucrat considers businessmen as unreliable profit-seekers and makes individual comparisons. This creates some level of tension between both sides. Heper argues that the center of gravity has shifted from

bureaucratic-military establishment to the civilian politicians over the past decade, but the overall attitude towards business has remained the same (Bugra, 1991).

The second implication is on the business strategy of firms. According to IV11, every government has the goal to raise its own business class for political purposes. The defining principle of relations between government and business is ‘nepotism’, and businesspeople are very much aware of this. This is why their way of gaining competitive advantage is not to increase the innovative capacity and value of their companies, but rather to improve the level of relations with key decision-makers in government. This, relationship based business strategy has long-term consequences in terms of sustainability. Daron Acemoglu asserts the situation has adverse effects on the development of Turkish private sector and on the economy:

“I see private sector’s dependence on politicians as a threat to Turkey’s economy. The firms that are not able to move all of their business outside of the country are so involved in politics that it kills their creativity. Most of their financial sources come from public tenders. When you look at the winners of tenders, they are the ones who are very much linked to the politicians. This is very significant risk. Businessmen in Turkey devote 60 – 70 percent of their time to build relations (with politicians), instead of focusing on innovation and R&D. Think about the opportunities that are missed just because of this reason.⁶²”

The data gathered in the interviews show that that this is a widely shared view. IV20 claims that governance and source of revenue are the two main reasons of why Turkish firms are dependent on the government. First, they are mostly family-owned firms, so

⁶² D nyaca  nl  ekonomist Acemođlu, T rkiye’nin kalıcı b y me form l n  verdi, *H rriyet*, 17 April 2016, <http://www.hurriyet.com.tr/dunyaca-unlu-ekonomist-acemoglu-turkiyenin-kalici-buyume-formulunu-verdi-40089839>

their governance structures are not strong enough to develop nonmarket skills. Second, their revenue is mostly dependent on government sources. As the resource dependence theory suggests, the goal of managing dependence is to minimize the uncertainties deriving from dependence. Here Turkish firms face the challenge of “policy-induced uncertainty.” Having a valuable connection today can turn into a liability in the future due to replacements of key decision-makers or changes in the main characteristics of the political regime (Alimadadi & Pahlberg, 2014). In the case of Turkey, despite being ruled by a single-party government since 2002, there are competing bureaucratic factions among governmental institutions. IV11 describes this situation as “various fiefdoms within the state, controlled by civilian commanders.” The inherent contradiction between policy-makers and bureaucracy may turn firms’ political links worthless (IV5).

The complexity and unpredictability of decision-making processes result in various strategy and capability development efforts by firms, such as diversification of business areas, partnerships with foreign companies and providing policy inputs via membership of associations. First, diversification is a significant tool for especially holdings. Firms diversify either their customers or sectorial involvement to hedge against the risks posed by the government (Colpan & Jones, 2015; Gundem, 2012). This creates a precaution against the possibility of losing profits due to a sudden regulatory change. Second, Alimadadi and Pahlberg assert that multinational companies use relationships with well-established business groups to create a buffer against the potentially detrimental effects of existing political relations in uncertain markets such as Turkey. IV14 tells that though the partnership of his firm with a major multinational company is not always profitable from a purely business perspective, it has other major benefits such as providing shield against political risks in Turkey.

Third, membership in an association is another relationship capability for Turkish firms. Businesses pursue certain political agendas, such as pushing for democratization and EU reforms (Onis & Bakir, 2007). However, those mostly aim to further their own commercial interests (Ozel, 2013). Onis and Turem claim that businesses are interested in democratization in so far as it helps them to create a “small and accountable state (Onis & Turem, 2001).”

Ozel argues that if the private sector is involved in the reform process as a partner of policy-makers, then state – business coalitions become much more sustainable (Ozel, 2003). IV22 shares this view by stating that “In general, if private firms and the government have a mutual understanding and cooperate on certain issues, there can be significant improvements. However, if private sector side is pushing only for its own interests, or government takes a certain initiative without consultations with private firms, then the result is failure, which is usually what happens in Turkey.” IV21 holds a similar view and argues that Turkey can organize the private sector and get them work for the same purpose with the government, the dynamism of business can provide great value for policy purposes.

Such a sustainable cooperation, however, requires an institutional structure that permits an open and two-way information flow. IV11 and IV1 assert that relations between businesspeople and government officials are often ad-hoc and based on personal connections. This is why Turkish firms have developed capabilities in response to their nonmarket environment, which aimed to adapt firms to the external requirements, rather than implementing a shaping strategy.

5.4.2. UK's Nonmarket Environment and Firm Capabilities

The research on the nonmarket environment in the UK is rather limited, providing limited insight regarding the political interactions of the firms and how they shape their external conditions. Since the UK's regulatory environment and business – government relations are influenced by the European Union's legal framework, the idiosyncrasies of the British nonmarket environment, as well as corporate political actions of British firms have been largely ignored. According to Rival, “European lobbying exists in France as well as in the UK and is determined by the complexity and the special rules of the European Union (Rival, 2012, p. 225).” This situation is likely to change as the UK leaves the European Union and firms are considering their political strategies in response to the separation.⁶³ Nevertheless, it's necessary to study the existing situation and the conditions that created it. Another reason for the lack of sufficient resources on the topic is the “discreet nature” of the profession, which is not visible and transparent (Moss et al., 2012).

In the case of the UK, the nonmarket environment is shaped by both the evolution of the political and economic structures, as well as by the inner structure of the business network. The British firms are thus in constant interaction with not only public institutions, but also with other firms within their network while developing and implementing corporate political actions. IV24 states that economic benefit is one of the tools that British firms use to lobby not in their home government, but also in their target market. According to IV25, there is a mutually beneficial relationship between the British government and firms. The government uses the economic impact of the firms as a bargaining chip when it comes to dealing with foreign governments.

⁶³ British business on Brexit: what companies said, The Financial Times, 19 June 2017, <https://www.ft.com/content/ecf9bb8e-54f5-11e7-9fed-c19e2700005f?mhq5j=e7>

Moreover, British firms are invited to semi-governmental organizations and roundtables to discuss the possible areas of cooperation with the British government. When a British firm is involved in arms deal, it really has to play the both sides. Firm size also matters. Larger firms will have the capacity to engage mainstream media and public authorities based on their commercial power and corporate reputation (IV25). In line with the theoretical approach of integrated strategy, IV24 argues that with CSR being more and more important, firms are seeking to set the agenda particularly on environmental issues. They will prefer to set the agenda from PR point of view, and not let it to the government side.

Therefore, it is appropriate to study the external and internal conditions that determine corporate political actions of firms. As Coen and Wilman assert, the regulatory institutions urged British firms to establish organizational functions to deal with this environment. As Coen states:

“Britain has had a long tradition of specialised government relations, fostered by contacts with US multinationals (MNs), a large number of domestic MNs and an open political tradition which encouraged a form of 'company state' (Willis and Grant 1987). Consequently, large British firms were well positioned to take advantage of the political opportunities presented by the EU, and were the first European firms to set up offices in Brussels (Coen, 1998, p. 94).”

Lobbying in the UK is largely dependent on the political and economic transformations that the country went through over the past decades, as well as their implications on the institutional environment of business. Especially during the period characterized by globalization and privatization in the 1980s, British firms ramped up

their public affairs efforts in an attempt to gain competitive advantage against their rivals during the transitions (Harris, 1999). UK government's decision to sell public assets and monopoly licenses led to the growth of political activities by firms to get their fair share in this newly emerging area. Thus, British firms have developed public affairs capabilities within their organizational structures to handle their political environment. IV23 shares his observations as saying that British and American firms are vertically integrated and have billions of dollars of assets, which provide them with the ability to establish a relationship with their governments in a much more sophisticated way. Such firms also use relational assets – which is a critical component of corporate political activity – by facilitating the transitions between public and private sectors. IV24 states that when public sector officials retire or lose seats, they want to remain active. There is an understanding that they can still provide value to UK Plc, the synonym that stands for the commercial interests of the UK. How long should one wait before making such a transition? There are guidelines in place. Revolving door is regulated to a certain extent.

However, as the British government focused on privatization and free market economy, its role as a regulator has not diminished. On the contrary, that the government's role as the regulator "has dramatically increased" throughout the 1990s. As a result of the increasing interest by the private sector in the regulatory power of the government during the economic transformation of the country, principal actors such as firms, government and regulators have gotten involved in the decision-making processes. The British approach to regulation has been to establish a regime in which the Director General of a regulatory body (Of tel, Of wat, Of gas, Of fer, etc) negotiates directly with firms. By studying the changes in network industries in Germany and in the UK, Coen demonstrate that the strategic relations between regulators and firms are

determined by the idiosyncrasies of the regulatory institutions (Coen & Willman, 1998).

The UK has specific regulatory institutions for each sector, which provides firms with two main benefits. First, the constant contact between the regulators and firms create the possibility of long-term relationship building. Such interactions inherently involve an interest by the firms to protect their reputation in order to main their influence on regulation-making over time. IV3 asserts that the reputational risks are high on the agenda of British firms, which urges them to be very cautious in their activities in the markets outside the UK. Second, the UK regulatory institutions' capabilities have evolved over time as a result of the interactions – albeit sometimes confrontational - between the two sides. However, the ability to learn from the past experiences also give the UK regulator institutions their stability.

The stable yet opaque characteristics of the UK regulators have influenced the network organizations among business firms. Useem describes the highly connected and influential business class as “the inner circle.” The inner group indicates a growing number of business leaders who – in addition to the interests of their particular firms – are also concerned about addressing the more communitarian topics such as labor and economic growth. In these cases, the main target of lobbying organizations is the Parliament, thanks to its influence on decision-making (IV26). The ability of British firms to use their public affairs capabilities for common action, as opposed to the Turkish case, creates an exponential ability to influence policy and regulation making. IV16 confirms this view by saying that the critical distinction between UK and Turkey is the status of big businesses. In the UK, the government is small and efficient. In Turkey, the lack of capital accumulation makes Turkish businesses weak against the

policy discretion. The British government is very much commercial oriented. For instance, the British government now supports foreign buyers of British goods and services via financing.

Additionally, civil society has also an increasing involvement in legislations. IV24 states this fact as following:

“Civil society in the UK - enabled by greater connectivity - direct relationship between the Parliament and constituents. Sophistication of civil society with regards to legal expertise make also great impact on policy-making. Direct action and advocacy campaigns now have legal depth. There are judicial review of proceedings and challenges to legislative making. Digital revolution really transformed the role and greatly enhanced the scrutiny to hold UK governments account.”

IV22 shares the same view on the importance of civil society on foreign policy-making:

“Lobbying in the UK is more like a bottom-up approach. Private firms create certain discussion in the civil society, especially by using certain think-tanks or business associations. These discussions are quite effective in making a topic visible and worthy of policy-maker’s attention. In a way, they start cooking the meal and when the bubbles reach the top, the policy-makers are already convinced that there needs to be an action on that topic. There are also government institutions such as Foreign Office, PM and DTI, but civil society is really effective tool.”

Harris argues that a political party conferences have become the primary targets of firms and lobbyists to communicate their interests decision-makers (Harris, 1999). His research over a four-year period at party conferences demonstrate the corporate lobbying and influence have increased dramatically. Thus, British firms have developed lobbying skills as a core strategic management competence. Public affairs functions within the British firms provide them with the capacity to proactively monitor the policy developments and respond accordingly. IV26 shares this view and argues that election funding, knowledge sharing and constituency building are the main tools of British firms to make their positions known by decision-makers. This is especially the case for former monopolies, which as a result of the privatization faces the challenge of competition. A study on the British Telecom demonstrate that the changes in the market arena (i.e., changing scope of services and products) require development of capabilities in the nonmarket arena as well, which should be effectively combined with internal organization (Kingsley, Vanden Bergh, & Bonardi, 2012). IV10 asserts that British firms put pressure on policymakers and regulatory agencies via providing information to the members of parliament and thus making their political voices heard.

Lobbying organizations play an important role in firms' approach to policy-making in the UK. According to the interview data, it appears to be a much more effective tool in the British political system, especially compared with Turkey. This is particularly the case with the business bodies that represent a sector and influence the policy-making to make their members firms domestically and internationally competitive. IV16 and IV20 states that organizations such as CBI and TheCityUK are immensely powerful in public policy domain. For instance, even if they were unable to prevent Brexit, they could ensure a 22-month transition. While they have a significant power

in decision-making, British business organizations do not act very assertively. IV17 says that lobbying in the UK is not like other countries. Firms lobby in a more subtle way, because too much PR creates suspicion among people. Making issues big is not a smart strategy. An exception is Brexit, where many trade associations such as BCI took a clear and overt stance against Brexit. “They became vocal by preparing reports on the possible implications of Brexit on British prosperity and leaking it to media. They’re really good at taking a stance in big global issues.”



6. Towards a Business Theory of International Relations

This study probed into the dynamics of business involvement in international political relations between governments. The particular focus was to find out ‘how’ firms can become an actor of foreign policy by developing and implementing nonmarket strategies. The two cases that were investigated throughout the research posed interesting puzzles, as well as provided empirical insight on the questions derived from the existing literature. Based on the suggested model and case studies, I believe the findings will be instrumental to develop a theoretical framework in this chapter.

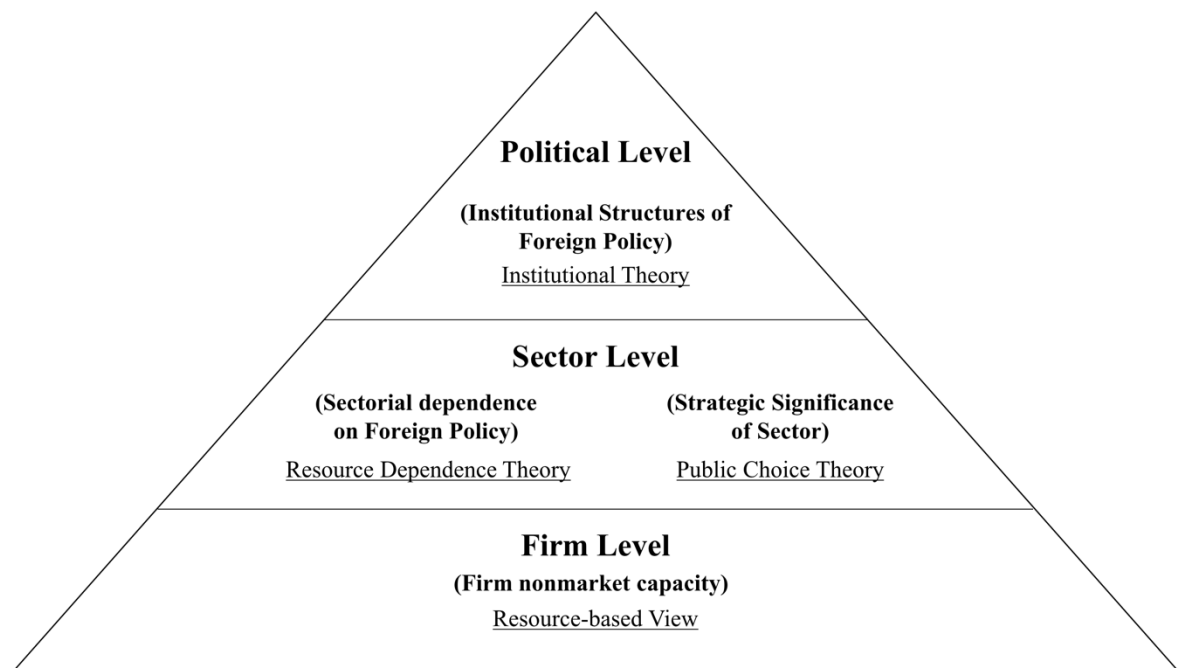
The new framework will serve as the conceptual model to be elaborated in further studies as a part of the nonmarket literature. The current nonmarket research is composed of corporate social responsibility – which deals with the societal relations of firms – and corporate political activity – which covers firms’ relations with public institutions,- as the two main components of the literature. The corporate diplomatic activity framework to be developed throughout this chapter will thus aim to integrate the ‘foreign policy’ aspect of the firm – government relations into the nonmarket literature. In this respect, while the suggested framework on corporate diplomatic activity is a new theoretical approach, it is also an application of the nonmarket research into a specific issue area.

In line with the deductive research strategy explained in the methodology chapter, the propositions that will lay the foundations of the corporate diplomatic activity framework were tested in the empirical chapters where the cases of Turkey and the UK were examined. The propositions were deduced from the existing theories (resource dependence, institutional theory, public choice and resource-based view)

that were demonstrated to be relevant to the research question. The purpose of this chapter is to synthesize the theoretical underpinnings with the empirical findings to provide a consistent explanation to the observed phenomena, that is the firms' involvement in international political relations.

6.1. Modeling Corporate Diplomatic Activity: Three Layers of Analysis

This chapter revisits the CDA framework suggested in the fourth chapter and makes a comparative summary of the cases. The conceptual model and the empirical discussion on the corporate diplomatic activity examines the firm, sector and political/institutional level dynamics of firm involvement in foreign policy making. Similar levels of analysis were used in understanding firms' influence in public policy making and the analytical model proved to be applicable (Macher & Mayo, 2015). Each layer corresponds to the propositions deduced from the related theories of social sciences and applied to the research question. The chart below demonstrates the three levels of analysis and corresponding theories that will create the analytical model to constitute the corporate diplomatic activity:



The levels that were conceptualized in detail in the fourth chapter and empirically tested in the fifth chapter are meant to construct a coherent logic that can conceptualize an observed regularity. Firm, sector and political level analysis and the related propositions arguably capture how firms behave in international politics by the means of influencing foreign policy making. It is important to note that the model does not indicate that firms are the drivers of international relations, rather it aims to test the propositions under which firms can become an explanatory factor of the variance in foreign policy outcomes.

The model is an appropriate tool in the sense that it provides the researcher with the ability to create a measure upon which the effectiveness of corporate diplomatic activity can be observed. In other words, each level of analysis indicates a scale where the subject of inquiry can be situated. By analyzing the interrelations between different layers, one can reach an assessment on how firms' involvement in international politics will play out. Each level indicates a part of the holistic view of corporate diplomatic activity. As it will be shown in the subsequent chapters, firm's nonmarket capacity or the inclusiveness of foreign policy structures are solid indicators of how firms behave in the field of foreign policy. Just like corporate political activity and corporate social responsibility concern themselves with public policy and society respectively, corporate diplomatic activity also brings about a theoretical lens to study the foreign policy area.

Throughout the empirical part of the study, the levels demonstrated in the chart helped analyze the data in accordance with the theoretical framework discussed in the previous chapters. Additionally, a concept emerged during the research to better grasp the core discussion on firm capability level. The "nonmarket environment" captures

the overall political and social conditions under which firms utilize their internal capabilities to achieve certain objectives. The cases of Turkey and the UK in terms of how the nonmarket environment is structured indicates striking differences. While the historical trajectory and the current situation of business in Turkey limits firms autonomous political behavior, the nonmarket environment in the UK provides greater ability to influence policy making. The study reveals that this overall assessment on nonmarket environment is a major determinant of corporate diplomatic activity as well. Therefore, the firm level analysis involves not only firm capabilities, but also the broader nonmarket environment in which those capabilities influence policy outcomes.

What follows in this chapter is an overall assessment of the empirical study within the concepts suggested in the theoretical framework. The main purpose is to make a connection between the theory and data to demonstrate whether and how the findings indicate a logical argument. Therefore, I will revisit the propositions regarding the corporate diplomatic activity and examine the conclusions that are drawn from the empirical part. By testing the propositions in the cases of energy and defense sectors in Turkey and the UK, I will explain whether the propositions were falsified or hold true, as well as what observations are made. By pursuing the deductive research strategy – that is testing the tentative theory based on three levels of analysis to explain the firms' role in international politics – I will compare the findings with the existing theories to determine whether it advances our understanding of nonmarket research. Finally, based on the synthesis of nonmarket concepts and the empirical findings, I will demonstrate the generalizable conclusions and a framework that will constitute the corporate diplomatic activity, which can be tested in further studies. Therefore, theoretical implications of the empirical comparison will be given.

6.2. Comparative Analysis of Empirical Findings

The purpose of this sub-chapter is to revisit the tentative theoretical framework suggested in the fourth chapter and make a comparative analysis of the findings within the corporate diplomatic activity model suggested above. The subsequent chapters will study the empirical findings in relation to the propositions deduced from relevant theories. Thus, the comparative narrative will help us link the theory with data, as well as guide the next chapter (See 6.3.) where theoretical implications are discussed. Therefore, the content of this chapter provides insight to make iterative refinements to the theory.

6.2.1. Political Level (Institutional Structures of Foreign Policy)

I have revealed in the 2.1. that institutional structures have significant impact on firm behavior. The literature on the institutional theory has clear implications on the actions of agents (in our case firms), which respond to incentives and constraints established by the institutional environment. While the cases of Turkey and South Korea demonstrated that institutions determine market actions – such as investment, productivity and innovation -, the discussion also showed that the nonmarket environment created by the formal and informal institutions have clear effects growth-inducing activities of the firms and thus, economic development of countries overall. Relying on the definition of North that institutions aim to structure political, economic and social interactions among actors, the chapter proved the argument that the ability of firms to manage their internal and external relations is a critical factor of competitive advantage. Therefore, the political level analysis of corporate diplomatic activity model adopted the institutional theory as the main framework and applied the theoretical insights into the foreign policy area.

Based on these institutional implications, I have empirically studied the institutional structures of Turkey and the UK in the field of foreign policy making. Both countries provided sound empirical evidence to study whether institutional-level differences can explain variance in foreign policy making. The research aimed to discuss and test the proposition suggested in the fourth chapter that *firms' involvement in foreign policy making is determined by its institutional structures*. If firms' activities in the market and nonmarket area are significantly influenced by the institutional incentives and constraints, it follows the logic that firms' impact on international political relations would be determined by the foreign policy institutions. The two cases were compared to figure out whether this logic holds true and resulted in a clear assessment on the question.

The comparative study between the two countries revealed that the institutional structures of foreign policy making in the UK provides more incentives to private firms than those of Turkey. The commercial aspect of the British foreign policy is established in both formal and informal institutions of the UK, which gives British firms to speak up on internal matters (a significant one being the Brexit process) that could have an impact on the business interests. The mercantilist tradition of the British diplomacy seems to have been institutionalized over the years. The political paradigm of the British governments also underpins the mechanisms of the involvement of commercial aspect into foreign policy making, as evidenced by the consistency of the empirical data. The interview findings corroborate the argument that British foreign policy is very much driven by the commercial interests and this understanding is reflected at every level of governmental procedures, from policy strategy development to the promotion criteria of civil servants.

The so-called “Prosperity of the UK” is the common theme that provides the ideological ground for the interactions between business actors and government institutions. The idea that both government and firms need each other to create a sustainable foreign policy strategy and internationally competitive business is the core of institutional setting. The proactive approach to include the commercial aspect is evidenced by the foreign trips of UK government leaders or Royal Family members, who actively promote British businesses abroad by using their political capabilities. There is also an institution (Department of International Trade) that backs these political efforts at the bureaucratic level. However, it should be noted that the component of foreign policy in which firms are interested in does not have an overarching scope. Foreign policy is a broad subject and both sides make it clear that they are selective about the topics where firm involvement is necessary and allowed.

The involvement of business in foreign policy making is more institutionalized in the UK, whereas it is more opaque and ad-hoc basis in Turkey, because the integration of commercial interests into policy-making is a government prerogative based on the political objectives. Despite the transformation of institutions that took place over the past decades as a result of changing policy priorities, Turkish foreign policy makers have been selective to instrumentalize private firms towards their own goals. Nevertheless, the Turkish institutional setting still provides a less clear stakeholder landscape regarding how firms can get a foothold in foreign policy related matters. The roles of political actors (MoFA, Presidency, Parliament and the Military) analyzed in the chapter 5.2.1. have been reshuffling, which resulted in a less systematic approach that firms can pursue. While Turkish Ministry of Foreign Affairs has always assumed the leading role in the formulation and execution of the policies, private firms have been considered as ‘outsiders’ except for some particular incidents.

A substantial evidence that demonstrates the subordination of Turkish businesses to foreign policy makers is the critical milestones of Turkish foreign policy eras based on the archives of Turkish National Security Council as shown in Table – 1. With the notable exception of the Ozal period that lasted between 1983 and 1993, commercial aspect of Turkish foreign policy has been largely neglected. Even during the Ozal period where businessmen were allowed to take greater role in Turkey’s international relations, institutional structures were not conducive to make firms a significant player of policy making. Instead, individuals that are encouraged by Ozal were included in the closed circle to make their voices heard. However, broader commercial interests of the Turkish private sector had hardly made its way into policy-making structures. The establishment of Foreign Economic Relations Board (DEIK) in 1986 – which is currently a government entity affiliated with the Ministry of Economy – aimed to institutionalize business – government relations in international relations. Even though the bureaucratic institutions of Turkey have not evolved to the point of British commercial diplomacy apparatus, Ozal’s impact was instrumental to change the paradigm in policy making that was defined by traditional diplomatic approach that was based on a security paradigm only.

The case studies on Baku-Tbilisi-Ceyhan pipeline (See Box-2) and Turkey – KRG – Iraq relations (Box – 1) demonstrate that the alignment between business and political interests usually take a temporary nature in Turkey. In the case of BTC pipeline, business and government coordinated certain actions during the negotiations but had diverging interests regarding the terms and conditions of energy deals. In the case of relations with KRG and Iraq, Turkey’s main interests oscillated between security concerns and commercial objectives. Turkish policy making structure indicate that relevant institutions may allow firms to be involved in policy-making processes

in so far as they help the political relations to be executed, but the actorness of firms and the integration of business interests into diplomatic means is a relatively newcomer to Turkish foreign policy. According to the interview data, the AKP government that came to power in 2002 adopted a commercial paradigm and restructured the institutions to increase the civilian authority over policy-making, as opposed to the military-dominated National Security Council structure. The evolution of institutional setting has been in line with the changing balance of power in internal politics. The commercial role of diplomats gained greater importance in Turkey's international relations, making it possible for individuals outside of the public institutions to be appointed to diplomatic posts. As Onis and Kutlay argues, the political economy factor behind Turkey's foreign policy transformed the way firms and government interact.

The comparative analysis of foreign policy structures between Turkey and the UK reaffirm the insights of institutional theory and especially Daron Acemoglu's argument I discussed in the chapter 2.1. According to this, institutions are creatures of certain historical contingencies rather than outcomes of predetermined paths. This argument seems to be pertinent when studying the Turkey and UK cases. Looking at the historical trajectories of both countries, it becomes clear that Turkish foreign policy institutions were shaped by security concerns such as PKK militancy and the division of Cyprus, whereas British foreign policy mechanism were driven by the 'prosperity' objective that could only be achieved through international expansion. Consequently, formal and informal institutions have diverged between the two countries as a result of the constraints under which policy-makers make decisions. As the empirical data has shown, the institutional divergence made a significant impact on how firms behave in foreign policy making, which is the proposition of corporate diplomatic activity

framework. Therefore, the political and institutional level factors should be accounted when firm's impact on international relations are explained.

6.2.2 Sector Level Analysis: Dependence and Significance

Nonmarket research greatly benefits from the strategic management literature. Sector-level analysis of corporate diplomatic activity is also based on the main insights that strategy scholars have discussed in the past. A mainstream thought that is led by Michael Porter considers the industry dynamics as the main determinant of firm's success (See Chapter 3.1. for the detailed discussion on industry-based vs. resource-based strategies in relation to dynamic capabilities in the case of Turcas). According to this, firm competitiveness in the market area is for the most part influenced by the industry it operates in. If the firm is competing in an industry that constrains competitive forces (such as entry barriers, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among firms), then the firm has limited ability to achieve its strategic business objectives. This idea seems to have been affirmed by a recent work by Bradley, Hurt and Smit – strategy consultants at global management consulting firm McKinsey & Company – who published their findings on what makes firms outperform others (Bradley, Hirt, & Smit, 2018). According to the results, industry dynamics account for 50% of firm performance. The findings are so striking that the authors claim that a firm “would be better off as an average company in a great industry than a great company in an average industry.”

If the industry/sector level dynamics matter so much in strategic management, then corporate diplomatic activity – as a new contribution of nonmarket strategy literature - must certainly have a sector consideration. As the model explained above demonstrates, I have divided the sector level into two components. The first

component deals with the firm's angle on the sector, while the second one aims to capture the government's angle. In this chapter, I will start with the first one and revisit the proposition based on resource dependence theory: *The more a firm's business interests are dependent on political relations between governments, the more it will try to be involved in their foreign policies.* I will compare the findings of energy and defense sectors in the cases of Turkey and the UK to understand how the dynamics in these sectors affect firms' corporate diplomatic activities.

In the case of Turkey, the empirical findings demonstrate that firms operating in the energy sector are highly dependent on government policies, especially in the field of international relations. The overall regulatory environment makes Turkish energy firms exposed to the decisions of certain institutions. Those institutions were initially established as independent regulatory agencies (such as EMRA) in line with the market expectations to provide credible commitment to players. However, they have gradually become political instruments for governments to shape the market actions. The principles of regulation-making is widely discussed in the private sector. The contradiction between market efficiency via competition and firms' endless quest to get ahead of their rivals exist in all countries, but in Turkey in particular. The interview data shows that in the case of Turkey regulations are considered as government prerogatives that aim to further political objectives. Instrumentalization of the market forces is a main determinant of firm dependency. Another aspect is the security-based foreign policy paradigm of Turkey. As we have studied in the previous chapter on foreign policy structures, though Turkish governments sometimes adopted a commercially-driven international relations approach, security concerns have always been the priorities in policy-making. This general tendency influenced the energy policy as well. As the empirical findings on Turkey's relations with KRG and Iraq, as

well as interview data on Cyprus issue demonstrates, Turkish energy firms are heavily dependent on Turkey's geopolitical interests. Most strategic energy projects require either legal protection via intergovernmental agreements or political commitment between governments. Therefore, the broader bilateral or multilateral context in which energy policies are embedded is the main dependency for energy firms.

The liberal structure of the British energy market makes British energy firms less dependent on regulatory considerations of the government. Efficiency and consumer-oriented energy policy provides market players with the ability to predict market trends. As the interview data indicates, private sector players have less expectations from the government in terms of market intervention. However, the global interests of the UK government may have an impact on how British firms make commercial decisions. As the BTC case demonstrates, British firms are expected to consider their business objectives in line with the geopolitical goals of the government when broader interests are at stake. Consequently, British government officials take part in commercial dealings only in exceptional cases where political disagreements between the governments might have an adverse effect on business results. A critical area where British firms are dependent on the UK governments foreign affairs is international sanctions. As we have discussed in Chapter 3.2. in the cases of Total and Siemens, firms try to circumvent sanctions or influence the sanctions policies in order to keep their business on track. This is arguable a point where the interests of British firms and the British government collide due to the overseas commercial interests of British businesses and international regimes that the British government should abide by.

When it comes to defense sector, both countries have similar characteristics regarding the dependence of private firms on government decisions. Both governments

have strict policies on defense sector, regulating all stages of the commercial process – from production to sales. In the case of Turkey, the defense industry has a special governmental focus. Empirical data indicates that this is caused by its impact on economic growth (defense industry provides business stimulus to many other sectors) and national security. The development and evolution of Turkish defense industry institutions demonstrate the increasing interdependence between the government and private sector. Empirical data also makes it clear that the main dependency of the firms is the fact that the government is the main buyer of their products, driven by national security requirements. Therefore, investments in this sector require a long-term commitment and mutual understanding from both sides. When it comes to international affairs, the government acts as the ‘gatekeeper’ in defense deals. It can be both a facilitator by actively advocating national defense exports in political negotiations, or it can prevent any private firm to export any kind of product by imposing certain restrictions. It is empirically shown that Turkish defense industry firms lobby the Turkish government to take certain actions in foreign policy with the goal of making it possible to engage in international trade deals. Since arms sales is a highly complex procedure that involves both technical details and political commitments. Therefore, Turkish defense firms are significantly dependent on Turkish foreign policy to conduct business across borders.

The same is true for the UK, though the relationship between British defense firms and the government seem more sophisticated. The privatization of the UK defense industry – especially with the growth of BAE Systems – paved the way of the liberalization. The sector dynamics forced private firms to be more competitive, which resulted in the hands-off approach by the government. The ‘gatekeeper’ role of the government is akin to Turkey. British government and even the Royal Family links are

used to sign defense deals with other countries, particularly Gulf Countries. Empirical data shows that foreign policy strategy of the British government towards a particular country or region definitely involves business aspect and defense relations. Findings also demonstrate that defense relations and political relations reinforce each other. In other words, better political relations with a country leads to greater defense sector involvement which in turn results in closer defense relations. This situation is caused by the fact that the strength of defense sector determines the national security capabilities of a country. The more a country relies on external supply for its defense sector, the more their political agendas should be aligned. The British government carefully considers such aspects of its relations. Despite the attempts to liberalize the British defense industry to make it more competitive at the international scale, the close consultation between the public institutions and private firms remain. For instance, the Ministry of Defense's Saudi Arabia program is charged with evaluating commercial and political relations in the same context. Findings demonstrate that it is also the desire of the private firms to have the British government as their supporter in international relations, especially in the face of competition from corporatist governments. However, the existing regulations also give the government the ability to control the exports, especially within the framework of controversial human rights principles, such as domestic suppression. It should be noted that according to interview data, British defense firms act very carefully to align their commercial interests with the political objectives of the government.

The overall comparison of findings demonstrate that the proposition of this part that dependence on foreign policy outcomes makes firms engage in corporate diplomatic activity holds true. In both countries, firms try to influence the foreign policy of governments whenever necessary. This is especially the case in defense sector due to

the political and regulatory impact of the government. The comparison of energy sectors tells a different story. While Turkish energy sector is still dependent on cross-border regulation and policies (caused by Turkey's energy policy and national security paradigm), British energy sector is highly liberalized and focused only on consumers, decreasing the necessity for the firms to be involved in foreign policy field.

The second component of sector level analysis aims to study the government angle of the corporate diplomatic activity. By deducing the framework from public choice theory, the proposition tests the reliance of governments on the sectors in which the firms operate. This proposition can be considered as the other side of the coin of the previous proposition which was focused on firms' reliance on government's policy outcomes. The proposition is formulated as *firms operating in sectors that are strategic to economic development and national security have greater likelihood of getting involved foreign policy making*. The rationale behind this proposition is that the more important a sector is for the political and economic interests of the government, the more it will be open for the impact of corporate diplomatic activity. Therefore, firms in these sectors will incentivized to take corporate diplomatic activities.

Turkey's energy sector is highly strategic from government's perspective. There are various reasons behind this. First, due to the political and regulatory grip on the energy sector's dynamics (as opposed to the liberal UK market), consumers consider energy prices as the outcome of government policies. This means that energy is not only a commercial commodity but also a political one that could affect voting behavior of consumers. Therefore, energy policies and the market actions of the firms are politically significant. Interview data shows that the government's intention is to keep

the tabs on energy market, while trying attract foreign investments to provide reliable energy for consumers. Private firms try to be involved in policy making either through corporate political links and institutional interactions or by providing information to policy makers.⁶⁴ Another reason for Turkish government to consider energy as strategic is its role on overall economic growth. Economy is a major driver of energy sector due to industrial and household consumption. Scarcity of natural resources in Turkey makes it highly dependent on foreign supplies. This means that energy consumption is not only an electoral concern but also a topic of national security. As the empirical findings indicate, Turkish policy-makers consider energy policy as a part of Turkey's broader foreign policy strategy. BTC case has shown that the geopolitical interests were at the forefront of international energy project, though coordination with business actors were also considered as a significant driver of decision-making.

The relationship between the energy sector representatives and the British government is based on the acknowledgement that energy is a commercial commodity that should be provided to consumers in an efficient manner in terms of price and reliability. According to the empirical findings, business organizations are much more effective in representing the sector's demands in the governmental institutions. It is also evident that former government officials land jobs in private firms, sometimes at the board level. The reverse tool is also applied by the firms behave in regulatory matters. This tendency corresponds with the 'revolving door' concept of the corporate political activity and as an effective manner to influence policy making. Even though the political connections between government institutions and private firms are limited, taxation and environmental regulations are considered as the main topics of

⁶⁴ Turkey's foreign and security policy 'needs to support its energy goals', *Hurriyet Daily News*, 2 April 2018, <http://www.hurriyetdailynews.com/turkeys-foreign-and-security-policy-needs-to-back-its-energy-goals-129628>

discussion. Moreover, special relationships exist between the British government and global firms such as BP, as the findings demonstrate. The case of BTC indicates that BP acted on the will of the government to pursue certain political objectives. Another finding of the interview data is that ‘British Prosperity’ is a key concept for policy makers and private firms are involved to align commercial and macro-economic interest. Therefore, even though the British energy market is not controlled by the government as much as in Turkey, certain topics are escalated to the government level due to their strategic significance for British economy and national security.

The difference between Turkish and British energy sectors can be explained through the theoretical lenses of varieties of capitalism literature, which I studied in detail in the chapter 2.1. According to this, Turkish energy sector has the characteristics of coordinated market economy, whereas British energy sector is more similar to liberal market economy. There is no doubt that private firms face transaction costs in both countries, though with different degrees. Such costs may arise due to the way that the foreign policy is made. Information asymmetry and predictability of policy outcomes seem like the main transaction costs as far as foreign policy is concerned. However, the difference arises from the ways the firms resolve them. While Turkish energy firms rely on strategic interactions with policy makers, British firms use market relations in line with the main principles of the liberal market economy.

When it comes to defense sector and its strategic significance to the governments, it goes without saying that defense is closely tied with economic growth and national security. Defense is probably the most closely tied sector to government policies. As I have discussed, partnerships between firms from different countries in the defense sector also indicate that a certain level of political alliance between the governments

of these countries.⁶⁵ It is because the cooperation in defense procurement requires reliance on the supply of goods and services in times of conflict and only politically allied countries can be trusted to make business partnerships.⁶⁶ Whereas the cases of Turkey and the UK differ in many respects in institutional structures and firm capabilities, defense sector's strategic significance for foreign policy indicate similarities. In this respect, this part of the empirical research is different from other parts of the study.

The findings regarding the Turkish defense sector shows that its political and economic impact on policy makers provide significant leverage to private firms to get involved in foreign policy making. Turkey pursues a deliberate policy to improve local production of defense equipment to become a self-reliant regional actor. Interview data proves the close link between foreign policy institutions and defense institutions in policy-making. The cases studied regarding Turkey's relations with the Arab world and lobbying strategy against the Armenian interest groups in the USA show that defense firms can take a significant foreign policy role when the circumstances allow. While the institutional collaboration is not well-defined, business associations of Turkish defense sector have direct political links with the policy-makers. Findings also show that a major driver behind the political strategy to vitalize the defense capabilities is its implications for the broader economy. Findings indicate that defense sector helps economic growth not only through exports to other countries, but also by feeding other sectors that supply equipment and technology. The collateral benefits make defense firms de facto partners of the Turkish government to provide 'positive externalities.'

⁶⁵ Turkish Firms Hope Qatar Show Will Be Gateway for Gulf Exports, *DefenseNews*, 19 September 2015, <https://www.defensenews.com/industry/2015/09/19/turkish-firms-hope-qatar-show-will-be-gateway-for-gulf-exports/>

⁶⁶ As of this writing, Turkey's planned purchase of S-400 missile defense system from Russia is a political controversy among NATO allies, which is testament to the political aspect of the defense sector.

The most recent data show that there are four Turkish firms in the top 100 global defense firms list.⁶⁷

The British defense industrial complex has also an evident involvement political and economic matters, thereby the foreign policy issues. The link between British defense establishment and foreign policy outcomes take place in a more institutional context than that of Turkey. UK Defence Solutions Centre provides a platform where private and public stakeholders determine a common business and foreign policy agenda. The economic impact of the British defense sector is a critical element in the political negotiations with the British government. Interview findings demonstrate that British defense firms often use the economic implications of certain foreign policy decisions to influence the outcome in their favor. Interest groups make their voice heard through information sharing or via political links with the parliamentary committees on foreign policy issues. British foreign policy-makers are well-aware of the ‘self-perpetuating cycle’ where better defense ties with a country leads to better political relations and vice versa. Moreover, British defense investments abroad usually comes with some political strings regarding the investment environment and processes. British firms are also bound by the rules imposed by the British government regarding conducting commercial activities abroad, especially in the areas of corruption.

6.2.3. Firm-level Nonmarket Capabilities and Nonmarket Environments

The last level of analysis that makes a part of the corporate diplomatic activity is the resource-based view of the nonmarket research. According to this approach, firm-level capabilities are the main determinants of firm behavior in nonmarket area. Whether a

⁶⁷ Top 100 for 2018, *DefenseNews*, June 2018, <http://people.defensenews.com/top-100/>

firm has the required capabilities to manage its nonmarket environment is defined by its unique resources, such as the amount of its investments, existence of political links of the upper-management, campaign contributions, and so forth.

However, firms do not exist in vacuum. They shape and respond to their environment in various ways. Therefore, it is not sufficient to study the firms and their unique resources only. Rather, we need to have an understanding of the environment in which they operate in order to fully grasp the capabilities that will make a firm competitive in the nonmarket area. This approach to studying firm-level differences are, as I have shown in the third chapter, valid at public policy and foreign policy levels.

I studied the case of Turcas in Turkey as an example of how firms can deploy nonmarket capabilities in response to changing nonmarket environments. The Turkish energy sector went through a period which was characterized with increasing centralization of public policy decision-making and regulatory adjustments. In order to cope with the challenges of changing sectorial dynamics, Turcas developed nonmarket capabilities by creating a ‘government relations’ unit. The unit ultimately became a part of the management committee, demonstrating the importance of nonmarket decisions in the firm’s overall business strategy. The strategic management theory that I made the use of in this case was the ‘dynamic capabilities’ approach. By adjusting the dynamic capabilities framework in line with the nonmarket conditions, the Turcas case demonstrated how firms respond to their nonmarket environment by going through organizational change.

The second part of the third chapter studied the different nonmarket strategies that firms pursue in response to international sanctions. By analyzing the corporate diplomatic activities of Siemens and Total, I have demonstrated that firms may adopt divergent approaches to sanctions regimes. Such divergences appear as either ‘responsive’ or ‘shaping’ in the way that international political decisions are made. What makes firms develop and implement either of these nonmarket strategies is their unique nonmarket capabilities that are deployed in the foreign policy area. The cases indicate that Siemens pursued a ‘shaping’ strategy by getting involved in the foreign policy-making, while Total took a more remote political stance. In the end, both firms aimed to endorse their business goals by taking political actions.

The implications of the above cases that were studied in the third chapter were applied in the main subject matter of the thesis, which is Turkey and the UK nonmarket environments and the capabilities of the firms in these countries. While specific information about the firm-level nonmarket capabilities were insufficient to build a grounded theory, generalizable interview data were gathered to make inferences about the research question.

Turkey’s nonmarket environment is almost directly reflected in the area of foreign policy and thus affects what this study calls ‘corporate diplomatic activity.’ The dependence of Turkish firms on government-related revenue – either in the form of public procurement or preferential treatment due political links – make it challenging to develop and implement nonmarket capabilities at firm-level. In line with the Bugra’s findings on the historical trajectory of state – market relations, the limited extent of self-reliance of Turkish private firms make their foreign policy involvement an exceptional action. Empirical data confirms the long-standing tradition by the

government to selectively allow certain private sector actors to take role in foreign matters. However, as the case on Turkey's relations with Iraqi central government and KRG demonstrates, such a role is mostly limited to the boundaries determined by policy-makers.

The research demonstrates that while the Turkish government approaches the involvement of private firms in foreign matters suspiciously, private actors consider the lack of coordination as a missed opportunity. At the heart of the issue is the divergence of interests when it comes to determining the policy path. Government is mostly concerned about sovereign rights and public benefit, while firms pursue private interests that may not always align with those of the government. While private sector's dynamism is considered as a driver of foreign policy, it is not possible to benefit from this dynamism without establishing a mutual understanding between both sides.

The interview data also demonstrated the lack of firm-level capabilities of Turkish firms to monitor the international political environment and respond to changes. My research indicates that majority of Turkish firms do not have departments that deal with foreign policy matters and dedicated resources to influence the outcomes. As the previous chapters have shown, such effects are mostly ad-hoc depending on the specific foreign policy issue and region, as well as some exceptional periods such as Ozal era when businessmen were granted greater access to foreign policy mechanisms. Moreover, normal involvement of firms usually takes the form of consultation during the policy-making process. Therefore, my study shows that the resource-based view of corporate diplomatic activity is not affirmative in the case of Turkey.

In the case of the UK, the nonmarket capabilities of firms are more developed to influence the policy outcomes, especially in the case of foreign matters. The British business network (or “the Establishment” as some call it) has a sophisticated way of conducting corporate diplomatic activity that blends commercial and moral arguments. British firms have a long tradition of conducting external affairs at public policy and foreign policy realms. The research shows that unlike Turkish firms, British private sector is well organized to pursue certain policy objectives in foreign matters. Moreover, they dedicate financial and reputational resources to achieve such objectives. The brand UK Plc is symbol of how British business interests are enmeshed in political topics.

According to the interview data, a main differentiating factor that sets the UK apart is the strength of the civil society in which firms are embedded. When a firm pursues a certain political objective, the approach is usually a subtle strategy that lays the groundwork in institutions (NGOs, think-tanks etc.) where policy makers are fed with information. Moreover, such mechanisms provide the ability to influence the decision-making by conducting advocacy campaigns in public and therefore affecting policy-makers’ choices. On global issues that affect the business environment in general, such as migration policy and EU affairs, British firms take a direct and open stance through the powerful business organizations.⁶⁸

The research also indicates that the British businesses greatly benefits from the transitions between public service and private sector to build nonmarket capabilities. The prominent political and bureaucratic figures take role in strategic management

⁶⁸ CBI urges government to drop ‘blunt target’ on immigration numbers, *The Guardian*, <https://www.theguardian.com/politics/2018/aug/10/cbi-urges-government-to-drop-brex-it-blunt-target-on-immigration-numbers>, 10 August 2018

functions. Such firm-level capabilities provide political and reputational ability to become a part of foreign policy matters. It is not uncommon to see independent board members (who formerly served in public) as the foreign policy and geopolitics units in British multinational firms. The specialized nonmarket functions within the firm structures help senior managers to deal with political topics both in the UK and in other markets.

6.3. Business, Politics and Society: Market as a Broader Debate

The purpose of this thesis is to explain the firm behavior in foreign policy by developing the CDA framework. That said, theoretical exploration and empirical discussion about the question provide input for a broader debate. The constant interaction between business, politics and society inevitably affect each other. Firms are need to be understood in the context of political institutions and norms, as well as the societies and communities they operate in. I have already discussed how institutions and societies may determine firm behavior. In this section, I will discuss the political and social implications of firm's behavior, as well as the role of civil society.

The main domain where these three actors relate to each other is the market. Firms, institutions and societies have all a stake in how markets function and how their output is distributed. The way that these values are created and distributed depend on how business, political and social actors answer various questions: Is it only the shareholders who should benefit from firm's activities or also the stakeholders that business affect? What are the regulatory policies that governments should pursue in strategic sectors? What are the limits of firms in trying to influence public policies? Is there a link between corporate governance and firm performance? What are the

responsibilities of boards and shareholders towards the societies and communities where their firms operate? How can governments ensure transparency in their relations with firms? What is the influence of institutional and political norms on the relations between firms and governments? Do firms have ethic responsibilities? The way that we answer these questions frame the broader debate on business, politics and society.

There are different perspectives regarding where markets stand in relation to society and politics. This is a key distinction in examining firm's relation to social and political actors. History of economic thought shows there are several points of view regarding how markets should be organized (Heilbroner & Milberg, 2011). For the purpose of this study, I suggest discussing two main schools and their implications. The first one led by Adam Smith, posits that markets are autonomous and self-regulating domains and are distorted when nonmarket forces intervene. Self-interested actions of individuals will result in competition, which will in turn provide goods that society needs at an equilibrium that meets economic expectations of all market players, the so-called "invisible hand" (Heilbroner, 1999, p. 52). Though neoclassical economics does not particularly exclude the role of government, it does nevertheless consider any nonmarket intervention as a potentially market-distorting factor that could lead to rent-seeking.

In line with this market approach, Milton Friedman argues that the only responsibility of firm is to increase its profits, an idea expressed as "the business of business is business." Ruling out the concept of social responsibility as a factor of free market system, Friedman argues that executives are employed by shareholders, who should be pursuing the business objectives set by them, that is to increase financial returns. The counterargument to this approach is asserted by Ed Freeman by suggesting the theory of stakeholder capitalism (Freeman et al., 2007; Freeman,

Wicks, & Parmar, 2004). Freeman argues that firms should comply with ethical responsibilities towards society and work together with social stakeholders to create sustained value. Both arguments, though contradictory, find themselves within the debate of varieties of capitalism.

The second school of thought suggested by Karl Polanyi goes beyond the contradictions between markets, state and society. Polanyi posits that free market economy was a liberal utopia of the nineteenth century. It subscribes to the idea that markets are part of broader economy, and economy is a part of broader society (Polanyi, 1944). Disassociation between market activity and society has ended in early twentieth century, especially with the Great Depression and Second World War. The institutional separation between the two domains is actually the fundamental cause of these destructive events. Therefore, we need to have a broader understanding of how markets function and their ‘embeddedness.’

The concept of ‘embeddedness’ posits that there is no self-regulating market that can exist in isolation from social relations and political decision-making. Economy is not left to market forces only and economic activity serves social, political and cultural rules (Bugra, 1994b, pp. 13–14). According to Polanyi, the historical pendulum between ‘market authority’ and ‘political authority’ determines the mutual relations between economics and politics (Strange, 1998). Land, labor and capital are fictitious commodities, because they cannot be exchanged in the market. Free market economists are wrong about the separation between market and state, because a complex society cannot escape governmental coordination of society and economy. Government intervention is thus needed to regulate the fictitious commodities in the name of unemployment, supply of money and use of land. Markets are necessary, but unlike classical and neoclassical economic theories suggest, “human freedom depends

on a coalition of state and civil society that has the power to protect society against the destructive forces of marketization” (Block & Somers, 2014, p. 13).

I argue that the embeddedness of markets has implications on the relations between firms, states and societies. If the markets are subordinate to political and social relations, then the firms should also position themselves not only as profit-seeking economic actors, but also political and social beings. The impact of this idea is that in order for firms to create greater value for both their shareholders and societies, we need to have a better understanding of which rules and principles should rule the markets. Some recent examples about such topics are data privacy, artificial intelligence, competition among big-tech companies, corporate governance principles, ethics and compliance norms, environmental protection and so forth. As the firms take greater role in every part of the life, their impact on the citizens are getting more significant. Therefore, society’s demand to regulate the markets and inspect firm activities becomes a political question: how should states decide meeting social demands and ensuring economic development?

As the comparison of Turkish and South Korean cases have shown, there is no one-size-fits all answer to this question. Institutions and norms emerge as a result of certain historical contingencies and evolve overtime according to the new requirements posed by the society. That said, we are not completely in the dark. If decision-making processes stick by certain rules, all actors – shareholders, citizens and governments – will be creating better outcomes. In the case of policy making structures, democratic standards such as accountability, transparency and rule of law are the backbone of an optimized nonmarket area. If societies request governments to regulate firms’ activities in political, social and environmental topics, if governments act in a

transparent manner in their relations with firms, and if firms act – voluntarily or involuntarily – in line with the standards that are determined by a strong civil society, the outcome would be better off for all sides.

6.4. Theoretical Implications

This study attempted to uncover the main limitations to make the interrelationship between international politics and business more evident. The investigation shows that there is a propensity of firms to be involved in decision-making processes in public policy and influence the outcomes by using corporate political strategies. The underlying assumption of this thesis is that the firms would try to pursue similar paths in the field of foreign policy, in so far as foreign policy outcomes and political relations between governments have the potential to affect their businesses. Even though as I have shown that there are cases where business and foreign policy outcomes could be associated, the theoretical gap in this field had to be yet studied. By studying the energy and defense sectors in Turkey and in the UK, I took the first step to ‘bring the firm back to international relations.’

The empirical investigation of this thesis indicates that there are certain theoretical implications regarding the determinants of firms’ foreign policy involvement. The research model that is based on firm, sector and country level determinants explain how firms can become an actor of international politics. The new theoretical framework based on the concept introduced by this thesis is ‘corporate diplomatic activity’. CDA aims to explain how different firms pursue different strategies in foreign policy area, depending on the variations at firm, sector and country levels. Thus, there are theoretical implications that are drawn from this model to discuss the generalizable suggestions.

In line with the CDA model, the first theoretical implication we can draw is about the country-level determinants. As I have suggested in the fourth chapter as a hypothesis, the empirical study tested whether firms' involvement in foreign policy making is related to the institutional structures. By studying the empirical findings through the lenses of the institutional theory, the investigation demonstrates that firms have the propensity to get involved in foreign policy when the foreign policy structures are inclusive of business interests. The institutional environments that effectively bridge the foreign policy mechanisms and private sector provide the necessary ability for firms to conduct CDA. Therefore, the proposition of CDA's first layer has been affirmed in the cases that were studied. The outcome, however, does not mean that firms operating in non-inclusive institutional environments are not affected by international relations. Indeed, there seems no difference when it comes to the impact on firms based on institutional structures. In other words, institutions do not make any difference as to whether firms are affected. Rather, they influence firm behavior on involvement in foreign policy making.

The sector level has two components as 'significance of the sector' and 'dependence of the sector' with regards to foreign policy. The empirical investigation demonstrates that the two determinants have different effects on the relationship between firms and foreign policy. While 'dependence of the sector' on international political relations makes firms more prone to be involved in foreign policy, it does not necessarily enable them get a role in policy making processes. When firms' commercial stakes are affected by the international political environment, they have a natural tendency to take a position regarding the policy outcomes. On the other hand 'significance of the sector' to economic growth and national security enable firms to use certain tools to engage in political strategies in foreign policy. The theoretical

implications show that firms are significantly more likely to use CDA to actively influence their political environments. As discussed earlier, firms operate in a dynamic and complex structure of the international political environment. In order to create and maintain value – such as increasing firm performance or gaining competitive advantage – firms act in accordance with the sectorial conditions to perform CDA.

The last layer on resource-based view provides significant theoretical implications as to how firms act with regards to international politics. The distinctions among firms, as well as their overall nonmarket environments, affect the way in which they respond to foreign policy outcomes. Firms' unique nonmarket capabilities – such as size, organizational structure, political ties – prove to be significant resources when it comes to CDA. Empirical investigation demonstrated that dynamic capabilities of firms are valuable to manage their nonmarket environments. Firms sense, seize and transform their capabilities according to the nonmarket conditions. In the case of CDA, such conditions derive from foreign policy decisions. The nonmarket environment in general has also an impact on CDA. For instance, in countries where firms are usually dependent on government as a source of revenue the ability to conduct is significantly lower, whereas in countries where firms can act independently from government's discretion are more likely to engage in CDA. Moreover, they use different mechanisms – such as acting independently or via business organizations – to become an actor of foreign policy.

The CDA model suggested in this study and its application in the cases that were empirically investigated can be theoretically framed to explain 'how' firms behave in foreign policy. The analysis demonstrates that firms can choose to either "adaption"

or “shaping” strategies in response to foreign policy outcomes. The outcome can be generalized in the table below:

CDA Level	Variable	Firm Behavior
Political/Institutional	Institutions are inclusive and facilitate involvement of firms in foreign policy-making processes.	Shaping: The firm conducts CDA in accordance with institutional setting to influence foreign policy outcome.
	Institutions are rigid and allow limited or ad-hoc involvement of firms in foreign policy-making processes.	Adaptive: The firm anticipates the institutional outcomes and takes reactive behavior.
Sector Dependence	The sector in which the firm operates is highly dependent on foreign policy choices in terms of regulatory and commercial environment.	Shaping: The firm performs CDA to try to get involved in foreign policy-making.
	The sector in which the firm operates is less dependent on foreign policy choices to conduct business.	Adaptive: The firm takes defensive stance and does not proactively act to influence outcomes.
Sector Significance	The sector in which the firm operates is highly significant for economic growth and national security.	Shaping: The firm uses sectorial dynamics (i.e., employment, investment, security) to influence policy outcomes.
	The sector in which the firm operates is not significant for economic growth and national security.	Adaptive: The firm takes an anticipatory approach towards foreign policy outcomes.
	The firm has firm-level resources (e.g., size,	Shaping: The firm uses its CDA

Firm Level/Nonmarket Environment	political ties) and operates in a nonmarket environment that facilitates CDA.	capabilities to influence policy outcomes.
	The firm lacks CDA capabilities and the nonmarket environment restricts firm's involvement in policy-making.	Adaptive: The firm takes a reactive stance and acts in accordance with business organizations if necessary.

Implications of CDA on Politics, Business and Society

Development of corporate diplomatic activity (CDA) fills a theoretical gap in the nonmarket strategy literature. The foreign policy aspect of the nonmarket research was evidently missing in previous research. While public policy and social responsibility are the two main pillars of nonmarket area, this thesis integrated CDA as the third pillar by focusing on foreign policy. Therefore, CDA is both an original theoretical contribution and also lays the groundwork for future research on this topic. It will enrich our knowledge of politics, business and society on three main points:

First, foreign policy perspective of business is likely to gain more importance in the coming years. This is driven by the fact that international relations and foreign policy choices of the governments are getting increasingly important for the management of corporations. On the one hand, firms in various sectors are growing their cross-border operations as a result of technological development. While firms seek new markets for more commercial gain, they face political and social issues that could not have existed few decades ago. Thus, the advance of digital economy turns firms into agents of international and national politics. While studying such questions, we need to look into the points of alignment and divergence between commercial requests of firms, demands of the society and objectives of political institutions.

The global forces that shape the world will oblige scholars and practitioners to handle such topics at international level. Therefore, CDA will provide a conceptual model and practical tool to this end.

Second, CDA brings the firm into the foreign policy analysis. The state-centric tradition of the international relations scholarship will be enriched by the firm-centric approach of CDA. As the research question stated clearly, this thesis does not claim that firms are the sole drivers of foreign policy outputs. Rather, CDA provides a model on 'how' firm involvement in foreign policy making can be studied. In this respect, the model is an input to international relations field and meets gaps that were previously mentioned about the need to consider business as an element of foreign policy. By taking firm into account while studying foreign policy of governments, scholars and practitioners will have the possibility to make analysis that includes a wide range of variables. Applying CDA into international politics, firms and business interests will become an inherent part of international relations study.

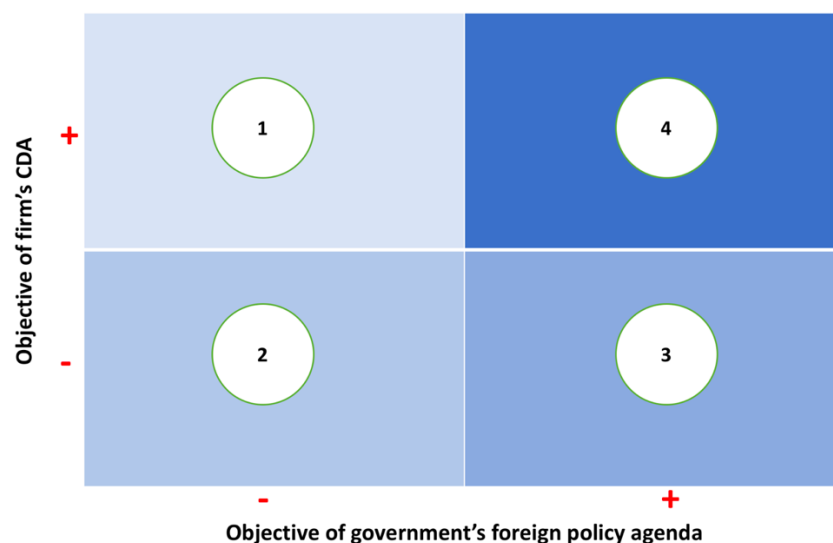
Third, executives will be better equipped to deal with political, social and cultural issues while conducting cross-border business. An international firm's operations are affected not only by public policy but also by foreign policy issues. This requires managers to be involved in matters that fall under the scope of CDA. By choosing shaping or adaptive CDA strategy while conducting nonmarket activities, practitioners will become more adept in dealing with international issues. Pursuing the right CDA strategy will not only help executives to achieve better outcomes for their firms, but also create a more participatory decision-making in many realms of society.

Measuring CDA's Impact on Foreign Policy

The CDA framework suggests a set of parameters (political/institutional structure, sector dependence, sector significance and resource-based view) to analyze shaping or adaptive strategies by firms. While the model explains 'how' firms get involved in foreign policy-making, it does not help us determine the impact of CDA on foreign policy. As discussed earlier, this is hard to measure given the fact that foreign policy is an outcome of a variety of variables. However, we can explore a different model to study this question.

The quadrant below is based on two-parameters that aims to explain the conditions under which CDA activities could affect foreign policy outcomes. The model has not been tested empirically, and it is rather a theoretical construct that we can deduce as an outcome of the research.

On the (vertical) y-axis, we define the objective of firm's CDA. On the (horizontal) x-axis, we define the objective of government's foreign policy agenda. The signs of plus and minus indicate where the two parameters converge and diverge.



According to this model, the first quadrant is plus for firm and minus for the government. This indicates that a foreign policy outcome requested by the firm is not on government's agenda. We can estimate that it would require significant resources and nonmarket capability for the firm to conduct CDA and change government's foreign policy preference in line with its own business interests. Therefore, the likelihood of status-quo remaining is high. The second quadrant is the situation where both firm and government do not request a change in foreign policy. Since no actor is willing to change the status-quo, the situation will remain the same, unless an external factor is involved. In the third quadrant the government aims to achieve a certain policy outcome indicated by plus sign, which is not in firm's interests as it is indicated by minus sign. In this case, it depends on government's preference to get the firm on board with foreign policy strategy – in case firm or sectorial dependence is required – or act alone. The firm is also in a position to choose between shaping or adaptive strategy as suggested by CDA model. Therefore, it depends on firm's nonmarket capability to prevent government's agenda to pursue a certain outcome. Lastly, the fourth quadrant is where the foreign policy agenda of firm and government align. This is where we can expect the firm to have more influence on the outcome.

The four-quadrant model explained above provides a framework to study the impact of CDA on foreign policy outcomes. The model can be used in future research to explore specific cases where business and government interact on foreign policy matters.

7. Conclusion

The purpose of this thesis was to study the relationship between private sector and international politics. By formulating the research question with a focus on how firms behave in foreign policy, I have explored the determinants of firm involvement in foreign policy-making.

The main contribution of the study is to enrich the nonmarket strategy literature. The current literature has two main components: corporate political activity (CPA) and corporate social responsibility (CSR). Both literatures encompass issues that are different than foreign policy. CPA literature analyzes firms' activities in public policy area and has an extensive research agenda that includes determinants, outcomes and methods of conducting such activities. CSR mostly deals with firms' relations with society and their impact on firms as well as on societies from a managerial perspective. I have reviewed and highlighted the main insights from both areas of the nonmarket research, and argued that foreign policy area would be a significant contribution to the literature that is currently lacking.

This thesis was based on the argument that foreign policy as an issue area should also be a part of the nonmarket strategy literature. By demonstrating the observed phenomena that firms are – under certain circumstances – can become actors of international politics, I have asserted that the firm as an agent should come under the focus of scholars of management and international relations. The limited literature on these questions so far has indicated two things. First, there are certain cases where firm's involvement in international politics was empirically studied, but remain theoretically unexplored. Second, scholars who are engaged in interdisciplinary studies – such as international political economy – have expressed the necessity of

developing ‘a business theory of international relations.’ Thus, this study brought together management and international relations disciplines and laid the groundwork of a what can possibly become a new interdisciplinary area.

The main theoretical framework that I suggested to understand firms’ behavior in foreign policy is corporate diplomatic activity (CDA). The term is evidently inspired by the CPA concept and slightly adjusted to correspond to the foreign policy matters. CDA is based on a three-layer model that includes firm, sector and institutional level determinants. Since this study aims to develop a new theoretical approach, it is based on deductive research strategy. Thus, CDA is not meant to be an ‘emergent theory’ but rather a new way of looking to facts. By using analytical eclecticism, I benefited from existing theories in social sciences – such as institutional theory, resource dependence, public choice and strategic management – to construct the conceptual part. I would like to note here that various models are used in CPA literature to analyze public policy questions, though with different variables, and have similarities with CDA. What I have achieved with CDA is to constitute a framework within which empirical cases can be studied. By doing so, the concept extended the nonmarket strategy into the discipline of international relations by modeling how firms behave in foreign policy area.

Throughout this study, I have not argued that firms are the main drivers of foreign policy. In a world of global complexity, singling out one variable or actor as the cause of any outcome would be an unrealistic assertion. Rather – as in the case of all decisions in government, business and life – foreign policy-making involves a great deal of actors, interests, issues and relationships. Firm is a one of them and I argued that it should not be neglected. Moreover, I suggested a theory on how the ‘firm factor’

should be studied. Therefore, CDA's main contribution is not revising theories on international relations but 'bringing the firm back to international relations.' In this respect, it aims to ensure that an important variable of foreign policy analysis is not missing.

The empirical study was based on a matrix selection. I have studied two sectors in two countries: energy and defense in Turkey and in the UK. The selection of cases was based on the justification that the research question can be best explored in these sectors and some of the CDA layers can be comparatively studied in two countries. The empirical study was based on semi-structured in-depth interviews with individuals who are involved in the intersection of business and international politics. As I have demonstrated in the discussion chapter, CDA layers were proven to be useful to understand to explore the research question. Turkey and the UK have institutional and firm-level differences in how firms behave in foreign policy area. The findings were in line with the institutional and strategic management theories' main insight that agents act in response to external contingencies (institutional framework) and according to their internal capabilities (resource-based view). This conclusion gave substance to the CDA framework. Sector level analysis, on the other hand, demonstrated that CDA outcomes can be similar under certain circumstances. For instance, when it comes to defense sector, the relationship between firms and foreign policy is almost identical.

While the core of the thesis was the two country – two sector case study, other parts of the study included empirical parts that endorsed the exploration of the research question. The chapter on the comparison of Turkey and South Korea indicated that the institutional environment in a country can determine the market and nonmarket

activities of firms. Based on the new institutional economics literature, economic development can be traced back to the firm level actions. Another chapter was devoted to organizational transformation in response to nonmarket environment and was based on the Turcas case. By analyzing Turcas within the dynamic capabilities framework, I have demonstrated that a firm can respond to the changing circumstances in the nonmarket environment by restructuring itself and developing capabilities. The Turcas case showed that a firm can gain and sustain competitive advantage by proactively adapting to external contingencies. At the international level, I have explored the research on sanctions to understand how firms respond to sanctions decisions by governments. The cases of Siemens and Total showed that firms can take different approaches according to the scope of sanctions and the firms' business interests.

In the sixth chapter, I made a comparative analysis of the empirical findings and discussed the theoretical implications. Since the main purpose of this thesis was build a theoretical framework, I suggested a distinction between firm behavior in foreign policy according to the CDA model. I argued that firms take either adaptive or shaping strategies when conducting CDA. Firm, sector and institutional level parameters determine which strategy the firms will choose.

In addition to firm behavior on foreign policy, the empirical findings and theoretical discussions paved the way for a debate that could possibly bring about new insights on the relations between politics and society. Since the business actors interact with governments and communities (composed of voters), their interactions inevitably affect the overall outcome of the markets. Following Polanyi's footsteps of the "embeddedness of markets", the discussion shows that civil society's demands from government to regulate the business activity in a way that is more favorable for the

greater public, rather than narrowly-defined shareholder value, has a significant impact on political norms. When civil society proactively pursues the establishment of a better business environment – that is more ethical, environment-friendly, socially engaged – policymakers are more likely to comply with transparency and accountability norms.

7.1 Limitations

The main limitation of the study was the challenges faced while conducting the empirical research. Gaining access to primary data on a delicate subject such as business and government relations was a daunting task. Moreover, the course of interviews and the authenticity of the data was a crucial aspect to ensure the internal validity of the study. I have mostly relied on a network of individuals to reach the relevant persons who are knowledgeable on the topic. While the interviews were difficult to arrange and conduct, I was able to obtain valuable data and triangulate it with archival research. Limitation in information channels notwithstanding, this study is the first research that was based on primary sources. Therefore, given the limitations on collection, data provided in this study is significantly insightful.

The second limitation is the selection of cases. In line with the research strategy that aims to build a new theoretical framework, I have chosen to work on case studies that are comparable. Yet, especially the selection of sectors indicates certain limitations. Energy and defense sectors are evidently most closely linked with foreign policy matters. Arguably, they are affected most by international political relations. Thus, it can be argued that another sector that is not closely linked with foreign policy could be included in the study. However, the cases were not selected to “prove” that firms affect foreign policy outcomes. Rather, the main purpose was to understand how firms

behave in the area of foreign policy and the determinants of their behavior. In this respect, the selection of cases was purposeful to provide the greatest empirical findings possible.

The third limitation is the complexity of foreign policy and international politics. The extant literature on the topic demonstrates that there are various independent variables that explain foreign policy outcome as the dependent variable. Therefore, the question of whether firms explain foreign policy outcomes was not addressed. Rather, firm behavior was the unit of analysis and it was put in the context of foreign policy. In line with the research question, I sought to understand how firms behave in foreign policy questions.

7.2 Implications

An important objective of this thesis was to provide both theoretical and managerial implications. Throughout the study, I have sought ways to find out how the research can provide theoretical insights that are applicable in business and policy making. Bringing business back to international relations was a pertinent attempt to this end. By exploring the behavior of firms in the field of foreign policy, I have been able to draw business and policy relevant conclusions.

In the theoretical realm, the study demonstrated that the three-layer model suggested by CDA framework is appropriate to explore how firms behave in foreign policy area and under which circumstances they can become an actor of international politics. As discussed in the previous chapter, firms can take either adaptive or shaping behavior when it comes to conducting CDA. Their behavior is determined by the firm, sector

and institutional level variables and each has an impact on how the firms respond to policy outcomes.

The study has also implications in the business realm. As the cases indicated, firms are affected by the foreign policy outcomes. Business achievements might be dependent on certain political developments at the international level. This is something that managers need to pay attention to and develop capabilities in their organizations to deal with external contingencies of foreign policy. Organizational strategies need to include the objective to align their commercial aspirations with not only public policy – which is the main focus of CPA – but with foreign policy as well.

The implications for policy makers need also be taken into account. Policy makers have already the underlying motivation to account the business interests in policy-making processes whenever necessary. The institutional mechanisms, whether established or ad-hoc, may create a room for private firms to get involved. Advanced institutional governance approaches suggest that regulatory impact assessment and stakeholder engagement are main tools that decision-makers in public sector can benefit from. As an outcome of this study, the same approach can be applied to the foreign policy area. In other words, policy-makers can consider and consult when necessary private sector's interests to evaluate how their decisions can affect foreign policy and business interests.

7.3. Avenues for Future Research

This study was focused on understanding how firms behave in foreign policy area. By doing so, it laid the groundwork of CDA – a new conceptual framework at the

intersection of business and international relations. While CDA is the first interdisciplinary research on this topic, many other aspects of the same question remain to be studied. They include – but probably are not limited to – the following areas:

- Application of the CDA model to other sectors and countries to test for further generalizability can be a significant contribution. In this study, the cases were limited to energy and defense in Turkey and the UK to use exploratory research. However, it could be beneficial to look into other cases.

- An opportunity for further research would be to examine which tools firms can use to respond the foreign policy developments. Just like in CPA research, firms need to acquire and deploy material and nonmaterial resources (reputation, relation, revolving-door etc.).

- Further research can also explore what other determinants might affect firm's behavior in foreign policy area. While CDA suggested in this study came up with three layers, other layers or determinants might also have significant effects.

- Another topic can be the impact of CDA on firm performance. As discussed throughout previous chapters, even extensive research on CPA has conflicting results on firm performance. Nevertheless, it is still interesting to gauge whether firms' ability to shape or adapt to foreign policy decisions has any business impact.

- The impact of CDA on institutional isomorphism can also be a topic of interest. As firms conduct CDA, they can affect how institutions work and evolve over

time. The implications of CDA on institutional theory can be a significant elaboration of the topic.

- Firm's structure and governance model, as well as their impact on how firms conduct CDA can also be a topic of further research.



Annex – I

Interviewee Code	Description
IV1	Former Turkish Diplomat
IV2	Head of Defense Department at UKTI
IV3	British military attaché
IV4	Business development manager at Turkish defense firm
IV5	Manager of corporate affairs at Turkish firm
IV6	Manager of government relations, Turkish energy firm
IV7	Former director of government relations at British energy firm, freelance consultant, author
IV8	Former high-level government official at Turkish Defense Industries (SMM).
IV9	Country manager, multinational energy firm
IV10	Country manager, British defense firm
IV11	Economy and business editor at Turkish national newspaper
IV12	Former secretary general of Turkish business association
IV13	Chairman of the board, Turkish energy firm
IV14	Chief executive officer, Turkish energy firm
IV14	Advisor, Turkish Ministry of Energy and Natural Resources
IV15	Business intelligence analyst, Turkish defense firm
IV16	Trade officer at the British Consulate
IV17	British diplomat
IV18	Former high-level official at the Turkish Undersecretary for Defense Industries, currently working in private sector
IV19	Former manager at Turkish state-owned defense firm
IV20	Former manager of investment agency in the UK
IV21	Former ambassador and businessman
IV22	Former chief external officer of British energy firm
IV23	Former manager at BOTAS
IV24	Former public policy director of a British multinational firm
IV25	Director at multinational British firm
IV26	British energy advisor

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