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ORIGINAL ARTICLE

The Impact of Market and Nonmarket Strategies on Firm Performance in Lithuania

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Abstract

This study examines the impact of market strategies (global growth, differentiation, and cost leadership) and nonmarket strategies (political engagement and social responsibility) on firm performance in Lithuania. Based on survey data from 114 managers analyzed using partial least squares structural equation (PLS-SEM) modeling, a global growth/differentiation strategy has a positive impact on performance, whereas cost leadership does not. Nonmarket strategies positively influence firm performance, with larger firms benefiting more, ostensibly due to greater resource availability and institutional influence. Firm size moderates the relationship between nonmarket strategies and performance, highlighting the importance of tailoring strategies to an organization's specific characteristics. By focusing on firm size as a moderating factor, this study offers a nuanced understanding of how firms in Lithuania adapt strategies to align with evolving institutional frameworks and market dynamics. Managers in transitional and recently transitioned economies should integrate market and nonmarket strategies effectively while tailoring approaches based on organizational size.

Keywords: Nonmarket strategy, Lithuania, Central and Eastern Europe (CEE), Firm size, Firm performance

JEL classification: M10, M16

1 Introduction

In established economies, institutional stability provides a foundation for firms to develop and implement strategies with confidence. The regulatory environment is well-defined, market structures are mature, and institutional voids are minimal, enabling firms to focus on efficiency and differentiation. However, transitional economies face challenges due to their evolving market structures and incomplete institutional frameworks (da Silva et al., 2024). Firms operating there must navigate uncertainties, fill institutional gaps, and adapt strategies to dynamic conditions. These unique challenges necessitate strategic approaches that balance market-driven goals with nonmarket imperatives, including political engagement and corporate social responsibility (CSR).

Lithuania, a Central and Eastern European (CEE) country, faces challenges common to other transitional economies. Following its integration into the European Union (EU) and its shift from a command to a market economy, Lithuania has undergone rapid economic and institutional changes and is widely considered to have completed the transition. Its geopolitical position between East and West further amplifies the need for Lithuanian firms to integrate market and nonmarket strategies to remain competitive.

Nonmarket strategy (NMS) includes exchanges between firms and external entities mediated by public institutions, governments, nongovernmental organizations, and other stakeholders (Baron, 1995). They include political and social activity and can be an essential part of a firm's overall competitive strategy, but their influence on firm performance is not always evident (Meyer & Peng, 2016; Parnell, 2018). Most published work (e.g., Akbar & Kisilowski, 2018; Funk & Hirschman, 2017; Parnell et al., 2025) reports a positive association between NMS and organizational

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performance, although Mellahi et al. (2016) identified some exceptions. Moreover, little is known about how market and nonmarket strategies combine to drive firm performance in transitional economies (Akbar & Kisilowski, 2018; Humphreys et al., 2020; Parnell & Davidson, 2024).

Although market and nonmarket strategies have been studied individually, their combined impact on firm performance in transitional economies remains underexplored. The market–nonmarket nexus is important in countries where firms navigate post-communist economic reforms. Indeed, Lithuania provides a unique context due to its EU integration, its transition from a command to a market economy, and its geopolitical positioning as a bridge between Western and Eastern markets. Studying firms in Lithuania offers valuable insights into strategic adaptation in transitional economies.

The CEE region is increasingly important economically and geopolitically (Berber et al., 2024; Bučiūnienė, 2018; Istileulova & Peljhan, 2015; Mavretić & Vangeli, 2024; Zhang et al., 2023). Three decades of social, economic, and cultural transition and progress in the CEE region have created a unique setting in these countries to study the applicability and efficiency of managerial and market theories (Meyer & Peng, 2005). Strategy–performance research in CEE nations such as Lithuania is limited, and extant work addresses either market or nonmarket strategies, not both. Our study addresses this gap by investigating how both strategy dimensions drive performance in a growing, emerging CEE nation (Akbar & Kisilowski, 2023; da Silva et al., 2024; Humphreys et al., 2020; Parnell & Davidson, 2024).

We are studying firm behavior in Lithuania, but we are also pursuing insights that can enhance our understanding of NMS in CEE. Specifically, we seek to answer two research questions: (1) How do market and nonmarket strategies drive firm performance in Lithuania? (2) Does firm size influence the performance implications of NMS in Lithuania? Answering these questions will clarify the value of nonmarket activity in more developed CEE nations and suggest a possible pathway for transitional economies in the region. Toward that end, we developed a structured survey to investigate market strategies, NMS, and firm performance in Lithuania. We administered the survey in 2023 to 114 Lithuanian managers. We specify our hypotheses in Section 2 and outline our methodological approach in Section 3. We present the results in Section 4 and discuss them in Section 5. We close with conclusions, limitations, and opportunities for future research in Section 6.

2 Competitive (market) strategy, NMS, and firm performance

In transitional economies, where rules can be unclear, and systems might not be fully developed, NMS is especially important for dealing with the government and gaining long-term advantages. Simultaneously, market strategies such as differentiation and global growth enable firms to leverage new opportunities and mitigate the limitations of a relatively small domestic market (Parnell et al., 2024). Hence, our work is grounded in institutional theory, which argues that organizations seek acceptance and legitimacy as much as (if not more than) efficiency and effectiveness (DiMaggio & Powell, 1983; Meyer & Peng, 2005).

Market strategies are crucial to a firm's activity in market economies. Strong institutions undergird this process because firms do not compete aggressively unless they understand the "rules of the game" and how the rules will be enforced. Institutional theory also underpins NMS in several ways. Specifically, it highlights institutional roles in establishing rules and creating the context for competitive markets, thereby incentivizing firms to focus on market factors such as costs, product and service quality, and customer satisfaction. In contrast, a lack of institutional clarity forces firms to identify and negotiate the norms that govern their behavior. However, excessive government intervention in markets can contribute to inefficiency and corruption (Bartels & Weiss, 2019), particularly when it is cumbersome and ill-defined.

New institutional economics (NIE) explains how social norms and regulations influence firm behavior and, ultimately, performance (Dorobantu et al., 2017). Sound institutions minimize the potential benefits of circumventing the market. However, where institutions are ineffective or incomplete, markets are less efficient, and many firms turn to nonmarket activity to fill the void (Jianhua et al., 2019; Manikandan & Ramachandran, 2015).

Research on market strategies in transitional economies has shown positive performance relationships, as noted in previous studies (Humphreys et al., 2020). However, specific studies have revealed exceptions and contextual moderators (Mavretić & Vangeli, 2024; Parnell et al., 2024). Our research builds upon existing studies by integrating market and nonmarket strategies, while introducing firm size as a moderating factor.

2.1 *Market strategy and firm performance*

Differentiation allows firms to create unique customer value, command premium prices, and enhance profitability and performance. Scholars have found a positive relationship between differentiation and firm performance, particularly in dynamic and competitive international markets. Differentiation and global expansion can be important performance drivers in economies with institutional voids. They enable firms to transcend the limitations of small or unstable domestic markets by expanding into larger, more stable external markets. Product differentiation helps overcome institutional inefficiencies by creating unique value that is not easily undermined by regulatory uncertainty. However, institutional instability can reduce the effectiveness of these strategies by increasing transaction costs, making cross-border operations more complicated, and reducing firms' ability to maintain competitive advantages.

Firms engaging in global markets benefit from larger market bases, diversified risks, and enhanced innovation capabilities, which contribute to superior performance. Scholarship on the strategy–performance relationship in CEE—specifically, Lithuania—has produced findings like those in other Western nations. In transitioning economies such as Lithuania, leveraging unique product offerings and expanding into global markets can be effective due to the limited size of the home market and intense competitive pressures. Schuh (2014) observed that successful local CEE enterprises primarily adopted strategies emphasizing lower costs and higher quality.

Broad cost leaders seek to satisfy the needs of most or all customers in the marketplace. They often use lower prices to increase market share and profitability. The efficiency perspective suggests that firms achieving economies of scale and cost reductions enjoy higher profitability (Kharub et al., 2019). Empirical studies support the link between cost leadership strategies and firm performance, with firms achieving process efficiencies after enjoying higher profitability. In transitioning economies, cost leadership can be vital due to cost-sensitive consumer markets and the need to compete with international players on price. Continuous investment in process improvements and risk management is required to avoid diminishing returns on cost reductions. Balancing cost leadership and quality maintenance ensures that cost reduction efforts do not harm product or service quality, which would affect the firm's brand and long-term performance (Kharub et al., 2019).

Given these findings, we propose the following hypotheses:

H1a: Firms emphasizing cost leadership will experience improved performance.

H1b: Firms emphasizing global growth and differentiation will experience improved performance.

2.2 NMS and firm performance

Firms engage in nonmarket activity for various reasons. NIE suggests firms in transitional economies must balance efficiency-driven market strategies with legitimacy-oriented NMS. This dual focus is crucial for navigating institutional voids and leveraging new market opportunities (Dorobantu et al., 2017).

While firms in developed economies leverage political nonmarket techniques to sway policy and regulation, those in transitional markets utilize these strategies to bridge institutional voids (Rodgers et al., 2019). Corruption facilitates political NMS by creating an environment where political intervention is possible and rewarded (Damijan, 2023). Despite a general reduction in corruption levels within CEE following EU integration, corruption remains a significant concern, particularly regarding EU funding (Grigore et al., 2021; Porenta, 2017).

Social NMS include a range of social interventions, including the pursuit of social responsibility. The impact of CSR and other social NMS has been well researched, with most studies suggesting a positive CSR–performance link (Bialkova & Te Paske, 2021). However, the symbiotic relationship between political nonmarket activity and firm performance is more complicated (Kamasak et al., 2019; Rajwani & Liedong, 2015).

Research on nonmarket orientation in CEE is limited, but there are notable studies, especially regarding CSR. Horváth et al. (2017) examined CSR practices in CEE by replicating a study from the United States and Western Europe. The variability in CSR engagement across CEE (see also Balogh & Mizik, 2022) reflects a broader trend of inconsistency, mirroring the complexity of consumer perceptions towards CSR in regions such as Lithuania and Poland (see Adamkaite et al., 2023; Dyduch & Krasodomska, 2017; Hinčica et al., 2022).

Kovaliov and Streimikiene (2008) examined the improvement of public sector CSR, trends in CSR, and collaborations between companies and public authorities in Lithuania. They found that Lithuanian towns need better CSR awareness due to a lack of expertise, information, and financial and human resources for implementation, which they attributed to limited government engagement. Thus, the government worked to mandate and facilitate CSR initiatives, rather than partnering with or endorsing firms. Kovaliov and Streimikiene (2008) suggested that public authorities improve CSR partnerships and endorsements.

Banytė and Gadeikienė (2008) identified a strategic shift in CSR practices in Lithuanian companies from customer acquisition to retention, driven by technological advancements and globalization. This transition highlights CSR as an evolving competitive tool. Conversely, Kovaliov and Streimikiene (2008) noted a lack of CSR awareness in Lithuania, attributing this to limited government engagement and resource constraints. Their recommendation for enhanced public–private partnerships supports the need for a collaborative approach to bolster CSR initiatives.

Despite previous studies, more scholarship on social NMS in CEE is needed (Grigore et al., 2021). Additionally, the relationship between NMS and firm performance, especially in the context of political strategies, is complex. Rodgers et al. (2019) link the value of political NMS to the unique challenges faced by emerging economies, including corruption and institutional voids. Still, Rajwani and Liedong (2015) suggest that these strategies can enhance firm performance. However, the potential for negative repercussions on reputation calls for a nuanced understanding and strategic deployment of NMS (Kamasak et al., 2019).

The strategic development of an integrated NMS is essential for firms operating in transitional economies, such as Lithuania. By effectively managing social and political interactions, firms can enhance competitiveness and achieve superior performance outcomes. This hypothesis emphasizes the importance of coordinated NMS in navigating the dynamic business environment of transitional economies, where institutional frameworks are in flux. By leveraging social responsibility and political engagement, firms in Lithuania can optimize their strategic positioning and drive sustainable growth.

H2: Emphasis on nonmarket strategies (i.e., political engagement and CSR) will positively impact firm performance.

2.3 Organizational size and firm performance

Firms vary in size, resources, and ambitions (López-Fernández et al., 2011). They reside in different stages of the organizational life cycle and pursue various strategies (Desai, 2013). Size variance is not merely a reflection of the company's market presence but can also be indicative of its capacity to access critical resources, which in turn shapes its strategic choices and performance outcomes (Lafuente et al., 2020). Large firms have greater access to critical resources, which ultimately affects their strategic choices and performance. The resource-based view (RBV) suggests that a firm's resources and capabilities are the primary drivers of performance (Barney, 2001; Bonardi, 2011). Larger firms have more extensive financial, human, and relational resources, which enable them to execute both market and nonmarket strategies more effectively. On the other hand, smaller firms may compensate with agility and unique capabilities (Parnell & Brady, 2019). In this study, RBV provides a lens to understand why firm size may moderate the strategy–performance relationship.

However, the relationship between organizational size and firm performance is complex. An analysis of 54,000 firms in 17 industries in 21 European countries found that large enterprises outperformed smaller ones across the continent. In Eastern Europe, smaller enterprises tend to outperform their larger counterparts (Gaio & Henriques, 2018). This discrepancy highlights the complexity of the size–performance relationship, highlighting how regional differences and possibly sector-specific dynamics can influence firm performance outcomes.

Indeed, the relationship between organizational size and firm performance is complex and shaped by many factors, including access to resources, strategic choices, and regional dynamics (Kalkan et al., 2011). While larger firms enjoy certain advantages stemming from their size, many smaller European firms can and do compete effectively, particularly in Eastern Europe. While organizational size is positively associated with firm performance due to resource advantages, this relationship is moderated by the firm's ability to strategically leverage those resources in both market and nonmarket domains.

Relative organizational size—a firm's size compared to its rivals—also impacts the choice and impact of NMS, reflecting the firm's adaptability and strategic focus. The relationship between organizational size and firm performance, especially when considering NMS, suggests a complex interplay of factors. This complexity for firms in traditional economies such as those in CEE highlights the need for a strategic approach that aligns market and nonmarket strategies with the firm's size and capabilities. Smaller firms can capitalize on their agility and local networks, while large firms can leverage their resource base to engage in effective nonmarket strategies that complement their market actions (Kalkan et al., 2011; Lafuente et al., 2020; Parnell et al., 2024).

Large firms enjoy greater access to critical resources, which facilitates strategic and performance advantages; however, the relationship across regional contexts is more complex. Many studies have depicted a positive correlation between organizational size and performance (Gaio & Henriques, 2018), although this link is often mediated by factors such as strategic, technological, and other considerations. Hence, we proffer the following hypotheses:

H3a: Firm size will positively correlate with firm performance.

H3b: Relative organizational size will moderate the relationship between NMS and firm performance, with larger firms deriving greater benefits.

Having established the theoretical rationale and hypotheses regarding market and nonmarket strategies, we shift our focus to the methodology. In the following section, we outline our data collection approach, measurement methods, and the use of partial least squares structural equation modeling (PLS-SEM) to test these relationships.

3 Methods

The hypotheses elaborated in the previous section are summarized in Fig. 1. We measured relative firm size by asking respondents to compare the size of their firms to competitors on a scale of one (very small) to five (very large; see Oleksiuk & Rull Quesada, 2023). We also asked respondents to provide the number of employees for their firms. As a robustness check, we employed analysis of variance (ANOVA) to assess the link between the size category and relative size. As expected, relative firm size was the lowest for firms with fewer than ten employees (i.e., microenterprises) and highest for firms with more than 500 employees (i.e., large enterprises). The F value was significant at the .01 level, confirming the validity of relative firm size as a useful measure for the study.

We assessed each strategy dimension with three-item Likert scales based on previously validated work by Kellermanns and Eddleston (2006) and Parnell (2021). Because of the overlap between political and social dimensions, we treated NMS as a single construct (Humphreys et al., 2020; Parnell et al., 2025). For example, respondents were asked to select the extent to which they agree with a statement about pursuing opportunities outside their home countries (see Table 1).

Table 1 displays the scale items for construct measurement, along with explanations of the item relationships to the hypothesis statements. The assessment of firm performance used self-reported competitor-based metrics instead of financial data to maintain respondent confidentiality and promote honest responses. The research team combined responses from multiple managers at the same firm through item averaging before eliminating any evidence of duplicate or poor-quality responses. The primary control variable used in this study was firm age. Unfortunately, we lacked sufficient data to perform a reliable subgroup analysis due to the limited sample size and the influence of industry, ownership, and regional factors. The theoretical model included firm size as a moderator, rather than using it as a control variable, because it played a central role in the model.

We evaluated financial, nonfinancial, and overall dimensions of performance. Although most studies focus on financial performance, some also consider nonfinancial measures (Hillman & Keim, 2001;

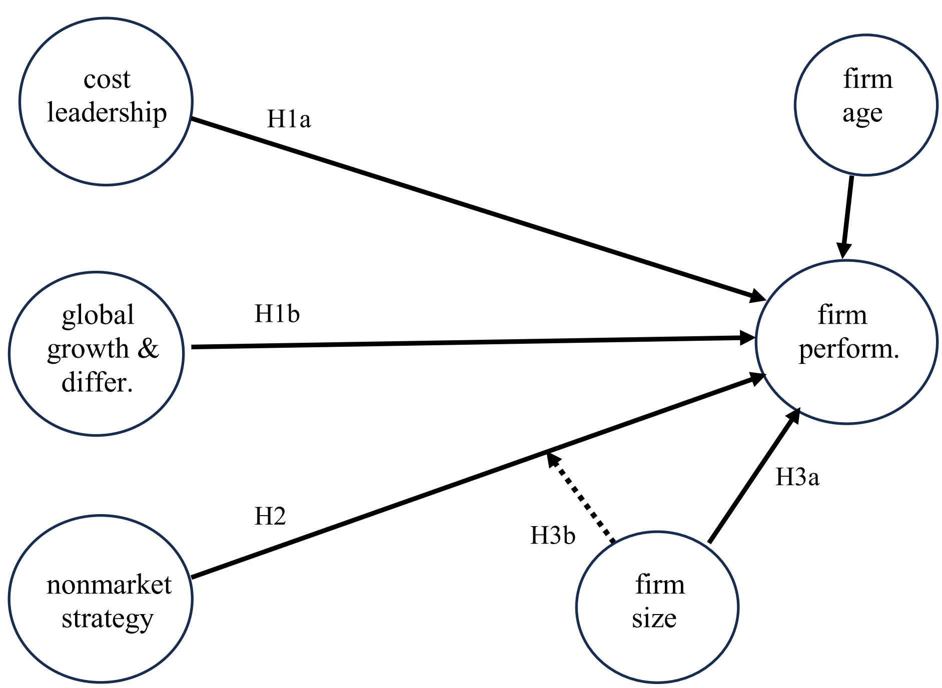

Fig. 1. Hypotheses.

Table 1. Reflective measures.

Item	Loading	Content
Broad cost leadership (α = .675, composite reliability = .808, AVE = .590)		
Broad	0.599	Focus on a broad group of customers (recoded)
Cost	0.88	Minimizing costs
Profit	0.898	Maximizing profits
Global growth & differentiation (α = .594, composite reliability = .776, AVE = .537)		
Global	0.693	Pursuing opportunities outside of our home country
Growth	0.682	Growing the organization
Unique	0.817	Producing unique goods and services
Nonmarket strategy (NMS; α = .707, composite reliability = .829, AVE = .621)		
Str_CSR	0.86	Promoting social responsibility
Str_Govt	0.666	Working closely with governments, politicians, and regulators
NMS_Overall	0.824	Overall, seeking to improve performance through social, community, political, and government activities
Firm performance (α = .817, composite reliability = .891, AVE = .732)		
Financial	0.848	Financial performance
Non-Financial	0.798	Nonfinancial performance
Overall Perf.	0.915	Overall firm performance

Shireesh, 2018) such as employee satisfaction (Bamberger et al., 2021), service satisfaction (Rew et al., 2020), and capability development (Köseoglu et al., 2013; Parnell, 2021). Although we distinguish between nonfinancial and financial performance, most studies support a positive correlation (Otto et al., 2020). Moreover, customer satisfaction can mediate the strategy–performance link (Kessler et al., 2020).

We used the Prolific platform and contacts through three chambers of commerce to survey 114 Lithuanian managers and other professionals.[1] Our approach was not purposive and was designed to secure responses from a broad array of firms. We removed responses with more than 10% missing data or evidence of straightlining, as well as those that were completed too quickly. Table 2 provides a summary of the respondents and their organizations.

Table 2. The sample (n = 114).

Variable	*n*	%
Position		
Supervisory managers	52	45.6
Middle managers	28	24.6
Top management	23	20.2
Other professionals	11	9.6
Gender		
Male	46	40.4
Female	68	59.6
Firm size		
Micro (1–10 employees)	12	10.5
Small (11–50 employees)	24	21.1
Medium (51–250 employees)	27	23.7
Large (251+ employees)	51	44.7

Market strategies were measured with previously validated items for global growth/differentiation and cost leadership, while NMS was operationalized based on CSR and political engagement activities (see Parnell, 2018). Firm performance included financial and nonfinancial indicators, assessed via self-reported measures (Hillman & Keim, 2001).

We tested the hypotheses with PLS-SEM via SmartPLS version 4. We used PLS-SEM because it does not require a normal distribution of data and can process complex models with modest sample sizes (Hair et al., 2020; Sarstedt et al., 2021). We used firm age as a control variable. We followed accepted guidelines to assess the measurement and structural models (Hair et al., 2024; Ngo & Yang, 2023).

The constructs were measured reflectively. Reliability and validity were assessed with the PLS algorithm (see Table 1). Item loadings did not exceed .700 in four instances. Cronbach's alpha scores (Nunnally, 1978) did not exceed .700 in two cases. However, composite reliability exceeded .700 (Hair et al., 2024), and average variance explained (AVE) scores exceeded .500 for all constructs (Ashill et al., 2005). The latter two measures are important because three-item scales were employed with a modest sample size. Coefficient alpha scores favor large scales, but AVE scores do not. Eliminating an indicator to increase the alpha was not a viable option because the lowest loading was .599, and maintaining a minimum of three items in each scale is preferred.

The heterotrait–monotrait (HTMT) output shown in Table 3 suggests discriminant validity in all

[1] The Prolific platform does not include respondents who claim official residence in Lithuania. When surveyed, however, few respondents affiliated with other CEE countries reported Lithuanian citizenship and residency. These respondents were included in the sample if they met other criteria. The final sample includes 45 responses from Prolific and 69 from chambers of commerce.

Table 3. Heterotrait–monotrait (HTMT) ratio.

	Broad cost leader.	Firm age	Firm perform.	Global growth & differ.	NMS	Org. size	Org. size x differ.
Broad cost leadership	n/a						
Firm age	0.023	n/a					
Firm performance	0.177	0.069	n/a				
Global growth & differ.	0.281	0.103	0.391	n/a			
Nonmarket strategy	0.227	0.093	0.455	0.287	n/a		
Organizational size	0.143	0.220	0.142	0.106	0.104	n/a	
Org. size x differentiation	0.117	0.080	0.410	0.147	0.305	0.057	n/a

constructs; all HTMT values were below 0.85. In addition, none of the confidence intervals include the corresponding threshold values (Franke & Sarstedt, 2019; Kline, 2011). We applied three additional tests to evaluate the data. The variance inflation factor (VIF) scores were below 3.0 for all items, suggesting collinearity is not a substantial concern. The data passed Harman's single-factor test, although recent research suggests results from the test are insufficient when evaluating common method bias (CMB; Howard et al., 2024). We also assessed factor-level VIF scores, which were below 3.3 in all instances, suggesting the model is relatively free from CMB.

4 Results

We tested the hypotheses with bootstrapping (10,000 subsamples) in SmartPLS version 4. We used Cohen's benchmarks of 0.02 (small), 0.15 (moderate), and 0.35 (large) to evaluate effect size. The path model in Fig. 2 provides the path coefficients, p values, and the R^2 value (.306) for the model. Table 4 provides the results of the hypothesis tests, including effect sizes.

The first hypothesis was partially supported. A firm's emphasis on cost leadership (H1a) was not associated with firm performance, but a positive link between global growth and differentiation on the one hand (H1b) and firm performance on the other was identified.

The second hypothesis (H2) was supported. An emphasis on NMS was positively associated with firm performance, with an effect size of 0.104.

The third hypothesis was partially supported. Organizational size (H3a) was not associated with firm performance. However, organizational size moderated the relationship between NMS and firm performance (H3b) with an effect size of 0.113. Table 5 maps each hypothesis to its support level, effect size, and the corresponding strategic recommendation.

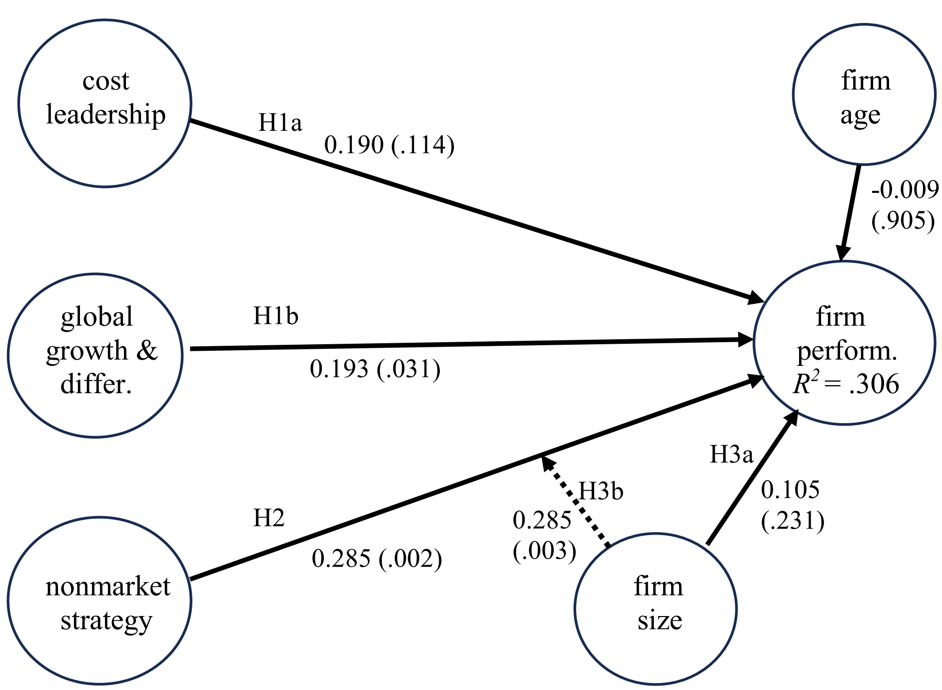

Fig. 2. Results.
Note. The lines include path coefficients and p values. H1b, H2, and H3b were supported.

Table 4. Tests of hypotheses.

Hypothesis	Original Sample	Sample mean	*SD*	*t*	*p*	Support	f^2
H1a: Cost lead. > Firm performance	0.188	0.176	0.137	1.368	.171	no	0.048
H1b: Global growth diff. > Firm performance	0.197	0.209	0.088	2.246	.025*	yes	0.053
H2: NMS > Firm performance	0.285	0.289	0.095	3.005	.003*	yes	0.104
H3a: Org. size > Firm performance	0.107	0.102	0.087	1.225	.221	no	0.015
H3b: Org. size x NMS > Firm performance	0.282	0.272	0.095	2.957	.003*	yes	0.113
n/a: Firm age > Firm performance	−0.009	−0.009	0.079	0.109	.913	n/a	0.000

* Significant at .05 level.

Table 5. Summary of hypotheses, evidence, effect size, and strategic recommendations.

Hypothesis	Support level	Effect size (f^2)	Key finding	Strategic recommendation
H1a: Firms emphasizing cost leadership will see significant performance improvement.	Not supported	Very small (≈ 0.01)	Cost leadership showed no significant link to firm performance.	Competing on price alone is not sustainable in Lithuania; focus on quality and differentiation instead.
H1b: Firms emphasizing global growth and differentiation will experience improved performance.	Supported	Moderate (≈ 0.08)	Differentiation and global growth are positively linked to firm performance.	Invest in R&D and product innovation; expand into global markets to mitigate domestic market limits.
H2: Emphasis on nonmarket strategies (corporate social responsibility [CSR] & political engagement) will positively impact performance.	Supported	Moderate (0.104)	Nonmarket strategies (particularly CSR) strongly enhance legitimacy and performance.	Develop CSR initiatives, strengthen stakeholder relationships, and selectively engage in political activity.
H3a: Firm size will positively correlate with performance.	Not Supported	Negligible	Firm size was not directly associated with higher performance.	Larger firms should not assume size guarantees success; smaller firms can outperform through agility and local knowledge.
H3b: Firm size moderates the relationship between nonmarket strategies and performance, with larger firms benefiting more.	Supported	Moderate (0.113)	Larger firms leveraged nonmarket strategies more effectively due to greater resources and influence.	Large firms should invest in structured CSR and political engagement; SMEs should focus on targeted, low-cost CSR tactics.

As a robustness check, we ran two additional models from the NMS measure. One eliminated STR_CSR from the NMS measure, and the other eliminated STR_Govt. None of the *p* values changed significance in these models, suggesting that a composite NMS measure that includes political and social items was suitable for the study.

5 Discussion

The positive performance effect of global growth and differentiation, but not cost leadership, is noteworthy. Given the limited effectiveness of cost leadership in transitional economies, managers should prioritize differentiation and global growth strategies, investing in research and development (R&D) and innovation to enhance competitiveness. The former enables firms to access new markets and customer segments, offering products or services that stand out from competitors. This pursuit can lead to premium pricing, higher customer loyalty, and improved firm performance. In the CEE context, success in these strategies is driven by unique market dynamics, where consumers may favor innovative or differentiated offerings over standard local options (Brenes et al., 2014).

The positive direction of the link suggests that cost leadership may generate performance benefits under specific circumstances, although the relationship was not statistically significant. Differentiation and global growth have a more substantial impact on performance than cost leadership strategies. The focus on quality and innovation, rather than low-cost competition, is driven by changing consumer preferences and enhanced institutional systems resulting from EU integration (Akbar & Kisilowski, 2018; Bučiūnienė, 2018; Gaio & Henriques, 2018). Our findings support Schuh (2014), who demonstrated that cost leadership is most effective in markets where prices are the primary decision factor, but becomes less effective when institutions begin to favor innovative and more sophisticated business approaches. Cost leadership remains relevant, but with minimal influence due to environmental elements and institutional aspects.

RBV predicts that larger organizations obtain better access to financial resources, institutional power, and network capabilities, which should result in better performance outcomes. Research in CEE and institutional theory suggests that firm size does not necessarily determine performance, as smaller businesses can outperform larger ones through their ability to respond quickly, maintain strong relationships with stakeholders, and minimize organizational barriers (Lafuente et al., 2020). Firm size, by itself, does not enhance performance, but becomes relevant when organizations employ NMS. The combination of CSR and political engagement strategies proved more effective for large firms, as they had more resources. In contrast, smaller businesses demonstrated better results through their ability to adapt quickly and create specialized CSR approaches. Hence, size influences how strategies produce performance results, but it is not a direct indicator of performance.

Global growth and differentiation positively influence performance by expanding market reach and leveraging competitive advantages. A positive link between cost leadership and performance might be found with a larger sample size. Still, its lack of significance reflects the challenges of competing solely on price in transitional economies, where consumer preferences often prioritize quality and innovation. NMS, particularly CSR, enhance firm legitimacy and stakeholder trust. However, the impact of political engagement may be contingent on mitigating perceptions of corruption, a legacy issue in many CEE economies (Grigore et al., 2021).

Concerning moderation, larger firms tend to benefit more from NMS due to their greater resource availability and influence. Smaller firms, while agile, may lack the capacity to leverage such strategies fully. This finding is consistent with work in Western contexts (Parnell & Brady, 2019; Rajwani & Liedong, 2015). The effect size ($f^2 = 0.113$) for moderation was the highest in the model, underscoring the importance of size in NMS efficacy. Although only guidelines exist for using effect sizes to infer practical meaningfulness, an f^2 value that exceeds 0.10 in a model with an R^2 value that exceeds .30 warrants serious consideration, depending on the constructs and context (Fey et al., 2023). Hence, we are not suggesting that large firms should pursue NMS, but that opportunities for success increase as firms grow. Firms should also consider costs and risks of a nonmarket intervention, as well as the extent to which it integrates with existing strategic activity.

For CEE firms, embracing global growth entails navigating a diverse array of political, regulatory, cultural, and competitive landscapes (Mavretić & Vangeli, 2024). Successful differentiation hinges on understanding and leveraging consumer preferences, which can vary significantly across regions. Firms that effectively tailor their offerings to meet specific market needs can achieve competitive advantage. However, the shift towards global markets and differentiation requires change, including adopting sophisticated market strategies, investment in research and development, and cultivating a global market mindset. These strategies can drive firm innovation, enhancing overall competitiveness.

The positive link between NMS and firm performance yielded the largest strategy–performance effect size ($f^2 = 0.104$) in the study, suggesting that nonmarket activities are a stronger driver than market strategies. Firms in CEE are beginning to recognize the importance of nonmarket initiatives in achieving their sustainable growth goals, treating them as investments rather than expenses. Indeed, NMS is a worthwhile consideration.

Social NMS can also be used in consumer interactions to distinguish a company's goods and services in advantageous ways (Cegliński & Wiśniewska, 2016), particularly among Generation Z consumers (Botezat et al., 2024). However, firms seeking social NMS to improve their strategic position should consider how their target audiences react to such an intervention (Li et al., 2019). Relationships with governmental actors, who are becoming more active in mandating specific social behaviors and quotas from businesses, are also facilitated by NMS. As a result, they may be used as a tool to build legitimacy through admirable business behavior. However, NMS can be expensive, so a cost–benefit analysis evaluating the social interventions' volume and impact is essential (Kamasak et al., 2019).

While the strategic benefits of NMS are evident, firms must carefully consider associated costs (Li et al., 2019). Whether investing in CSR projects or allocating resources to political intervention, assessing the return on investment is essential. Firms should weigh immediate financial impacts against long-term benefits related to reputation, customer loyalty, and regulatory advantages. Moreover, firm performance hinges on integrating market pursuits with CSR and political engagement activities. This integrated approach is evident in CEE, where societal expectations and regulatory demands are evolving rapidly. Aligning market and nonmarket strategies enables firms to create synergies that enhance their strategic position.

Global growth, differentiation, and NMS collectively drive firm performance in a multifaceted manner. Navigating these complexities involves understanding the CEE context, strategically aligning market and nonmarket activities, and assessing costs and benefits. A holistic approach to strategy formulation and execution can enhance performance and promote societal and environmental outcomes (Scherer et al., 2016).

The findings reinforce the strategic relevance of differentiation and global market expansion, as well as the applications of generic strategies to Lithuania and the CEE region (see Otto et al., 2020; Parnell, 2018). Managers should develop unique products and market expansion activities that align with global standards to leverage competitive advantage (Basco et al., 2021). Additionally, the strategic importance of NMS, particularly in regulatory compliance and social engagement, is underscored, supporting their integration into corporate strategies to enhance corporate reputation and operational efficiency (Baron, 1995).

Cultural differences can significantly impact product acceptance, branding strategies, and advertising effectiveness in the context of market strategies. They can also shape stakeholder expectations, government relations, and CSR initiatives. The societal values and norms prevalent in CEE nations influence attitudes toward environmental sustainability, ethical business practices, and corporate citizenship. Firms must navigate these cultural dynamics carefully to ensure that their nonmarket activities align with societal expectations and contribute positively to their reputation and legitimacy.

Furthermore, the economic challenges faced by CEE nations underscore the complexity of the strategic landscape. Many scholars no longer view Lithuania as a transitional economy. Indeed, economic disparities among CEE countries and ongoing transitions from centrally planned to market-oriented economies present diverse market conditions and regulatory environments. CEE firms should adapt their strategies to address these challenges while capitalizing on emerging opportunities for growth and investment. The cultural and economic diversity within CEE nations poses multifaceted political and social challenges and opportunities for firms seeking to integrate market and nonmarket strategies (Adamkaite et al., 2023; Damijan, 2023). By understanding and addressing these cultural and economic dynamics, firms can enhance their strategic agility, mitigate risks, and capitalize on unique advantages in CEE. However, further research is needed to explore the specific implications of cultural and economic diversity on firm strategy and performance in the CEE context.

The resurgence of CEE on the global stage is underscored by its strategic geographic location, which facilitates trade with Western Europe, the Middle East, and Asia. This advantage is bolstered by improved infrastructure and enhanced integration with the EU, thereby strengthening the region's social, political, economic, and military cohesion (Vienna Institute for International Economic Studies, 2021). With a significant scale (e.g., population, land area, and GDP), coupled with developing economies, CEE presents a fertile ground for examining the efficacy of market and nonmarket strategies. However, firms operating within the CEE region, including Lithuania, encounter unique challenges, notably the lingering effects of corruption from the post-communist transition. This historical baggage complicates interactions with government agencies and officials, potentially tarnishing firm reputations and undermining consumer relations and financial performance (Organisation for Economic Co-operation and Development, 2024). The prevalent mistrust in political entities' ability to address societal issues prompts businesses to seek improvement through private efforts, emphasizing the strategic value of social NMS in building trust and enhancing performance.

Our study makes several theoretical contributions. First, the findings support an institutional perspective by illustrating how firms in transitional economies balance the pursuit of efficiency-driven market strategies with legitimacy-oriented NMS. Second, they extend RBV by demonstrating how large firms can leverage NMS more effectively for performance benefits. Finally, they suggest that market and nonmarket strategies combine to promote—and sometimes hinder—firm performance. It highlights the need for additional theoretical work that accounts for these interactive effects.

We identified several practical implications. First, managers should decide whether and how to combine market and nonmarket approaches, aligning strategies that highlight their strengths (Meyer & Peng, 2005; Zhang et al., 2020). Moreover, they should recognize the importance of tailoring NMS to their organizations' specific characteristics and resource capabilities. Doing so involves assessing the firm's size, market position, and stakeholder expectations to determine which nonmarket activities are most likely to yield positive outcomes.

Table 6 provides a decision matrix to help firms navigate the balance between market and nonmarket strategies, including proposals for different firm sizes.

Second, organizations should invest in building organizational capabilities related to NMS formulation and execution, including expertise in CSR, government relations, and stakeholder management. Enhancing such capabilities can enable firms to leverage NMS to achieve their goals effectively.

Table 6. Decision matrix: market and nonmarket strategy (NMS) choices by firm size.

Firm size	Primary market strategy	When to prioritize cost leadership	When to prioritize differentiation/ global growth	Supporting NMS	Managerial guidance/metrics (KPIs)
Small (≤ 50 employees)	Agility-focused	Price-sensitive domestic market segments Limited R&D funding Competing against low-cost imports	Niche products Leverage unique local knowledge Export readiness for small but high-value markets	Corporate social responsibility (CSR; low-budget): local community engagement, customer trust-building Political engagement: limited; leverage local chambers or associations	Customer satisfaction scores Local stakeholder trust metrics Cost efficiency ratio
Medium (51–250 employees)	Balanced growth	Entering cost-sensitive B2B supply chains Process efficiencies through lean operations	Expanding regionally/EU Product customization and service differentiation	CSR: employee retention programs, sustainability reporting Political engagement: selective lobbying for industry-friendly policies	Employee retention/turnover Stakeholder interaction index Innovation milestone tracking
Large (> 250 employees)	Leverage resources	Commoditized industries where scale drives margins Ability to spread fixed costs	Innovation-driven global expansion Premium branding opportunities	CSR: formal environmental, social, and governance (ESG) initiatives, global sustainability standards Political engagement: structured government relations, EU compliance influence	Regulatory compliance scores ESG reporting standards Market share growth R&D ROI on projects undertaken

Third, firms should regularly monitor and evaluate the impact of their nonmarket strategies on firm performance to identify areas for improvement and adjust as needed to maximize their impact. This involves establishing key performance indicators (KPIs) related to nonmarket activities and tracking their progress. Managers should stay informed about changes in the regulatory and political landscape that may affect their nonmarket activities. This includes monitoring local, national, and international developments that could impact government regulations, public policies, and stakeholder expectations. Firms can better anticipate and respond to emerging nonmarket challenges and opportunities by staying proactive and adaptive.

6 Conclusion, limitations, and future directions

Our findings suggest that Lithuanian firms can integrate market and nonmarket strategies to enhance performance, but social NMS creates more value than political NMS. Global growth and differentiation positively influence performance, but cost leadership does not. Our findings highlight the influence of organizational size on the effectiveness of NMS, indicating that the benefits of NMS vary with firm size. Organizational size moderated the NMS–firm performance relationship, which underscored the importance of aligning NMS with organizational factors. This observation emphasizes the strategic imperative for Lithuanian businesses to tailor NMS to their specific characteristics and resource capabilities, thereby navigating their competitive landscape more effectively.

This study highlights the strategic interplay of market and nonmarket strategies in transitional economies. Our findings underscore the need for tailored approaches based on firm size and resource capabilities. They suggest managers should integrate NMS to build legitimacy and stakeholder trust. Larger firms should consider leveraging their resources for political engagement, whereas smaller firms should focus on agility and local market expertise.

We identified several limitations. First, we guaranteed respondent anonymity and assessed firm performance with self-typing scales (Ramanujam & Venkatraman, 1987). This approach encourages participation and provides a unique perspective on firm behavior (McGahan & Porter, 1997); however, objective performance measures can also offer a critical lens (Chang et al., 2010; Podsakoff et al., 2003). We sought to obtain only one response from a given organization, but overlap is possible. Moreover, self-reported performance measures and reliance on single-country data can limit generalizability.

Second, the use of Prolific and chambers of commerce for data makes it possible for an organization to be represented more than once in the survey. The chamber invitations were sent to one representative in each member organization. A close review of the responses confirms that no individual who completed a survey through a chamber also completed one through Prolific. An analysis of company details in data collected through Prolific suggests a low likelihood that any firm was represented twice, but we cannot eliminate the possibility of such an occurrence. It also suggests some degree of representativeness of the sample, but we cannot confirm a high level.

Third, this study does not consider possible industry influences on performance (Audretsch & Keilbach, 2004; Park & Jang, 2010). Obtaining suitable samples for a given industry, especially in Lithuania, is challenging. We mitigated this shortcoming by asking respondents to evaluate their strategies and performance relative to their competitors. Nonetheless, sector membership could influence the results (Jia et al., 2023).

Fourth, firms sometimes conceal their strategic goals from stakeholders, making it challenging for scholars to comprehend NMS and understand how market strategies impact performance (Jia et al., 2023). Research about NMS has become more sophisticated (Wu et al., 2020), but this problem remains. We relied on management reports to help us distinguish between market and nonmarket activity; however, this approach did not entirely resolve the issue.

Finally, we did not distinguish between social and political NMS. Political NMS includes interaction and exchanges with political institutions and actors that benefit the firm (Hillman et al., 2004; Weber et al., 2023). Social NMS includes activities that signal social impact through assertive stakeholder management (Brulhart et al., 2019; Foss & Klein, 2018) and philanthropic initiatives (Amsami et al., 2020). Social and political NMS are related but can be linked to strategy and performance in different ways.

Our research suggests that Lithuanian firms can leverage integrated market and nonmarket strategies to enhance performance, with social NMS emerging as a particularly potent lever for sustainable growth. This shift in strategic thinking positions CSR initiatives as integral investments, extending beyond mere compliance or philanthropy to become core components of firms' strategic arsenals (Hinčica et al., 2022; Stawicka, 2017). The emphasis on social NMS, particularly in consumer interactions and CSR, reflects a growing awareness among firms of the strategic value of social responsibility and ethical business practices in building brand differentiation and cultivating consumer trust.

We identified several future research directions. First, more work is needed to explain how size moderates the NMS–performance nexus. Exploring how CEE firms navigate the integration of market and nonmarket strategies and how intra-CEE cultural and economic diversity shapes them will provide valuable insights into the strategic nuances of operating in transitional economies (Parnell et al., 2025).

Second, we asked respondents about their firms' market and nonmarket activity, although distinguishing between them is challenging. Moreover, the extent to which a firm should integrate different nonmarket approaches into a comprehensive NMS is unclear (Scherer et al., 2016). The short- and long-term costs of market and nonmarket intervention are well understood, but their long-term performance consequences are not (Funk & Hirschman, 2017; Mellahi et al., 2016). Longitudinal studies are needed (Humphreys et al., 2020).

Third, we evaluated the views of managers and professionals within the organization, rather than those of other stakeholders or objective financial data (Jia et al., 2023; Vredenburg et al., 2020; Yim, 2021). Assessing the views of diverse stakeholders regarding NMS can help explain their impact on firm performance (Otto et al., 2020; Parnell, 2018). Ideally, studies could integrate management views and objective data, although doing so creates challenges for maintaining anonymity (Parnell et al., 2025).

Fourth, the extent to which businesses may integrate market and nonmarket strategies in CEE nations is unclear. Most NMS studies have treated social and political activities as separate nonmarket dimensions with no apparent linkage (Rodgers et al., 2019). However, some scholars (e.g., Kamasak et al., 2019) suggest that they can interact and, if well-coordinated, positively impact performance. Indeed, combining market and nonmarket strategies can enhance firm performance in transitional economies such as Lithuania, providing a nuanced perspective on strategic management in this context (Meyer & Peng, 2005).

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