

**Complementarity in Firms' Market and Political Capabilities:
An Integrated Theoretical Perspective**

Nan Jia

Assistant Professor of Strategic Management
Marshall School of Business
University of Southern California
BRI 306, 3670 Trousdale Parkway
Los Angeles, CA 90089-0808

Kyle Mayer

Professor of Strategic Management
Marshall School of Business
University of Southern California
BRI 306, 3670 Trousdale Parkway
Los Angeles, CA 90089-0808

Accepted by the *Advances in Strategic Management*

Running Head: Complementarity in Firms' Market and Political Capabilities

Abstract

We examine how a firm's market-oriented capabilities (in areas such as R&D or marketing) and consumer focus (business-to-business or business-to-consumer) foster its effectiveness in pursuing corporate political activities. We then explore the sustainability of any advantage that firms may gain from their political activities. We develop a conceptual framework to propose that a firm's political capabilities to implement different political tactics, such as information provision and constituency building, are a product of how related these tactics are to different market-oriented capabilities and to the skills needed to serve different types of customers. Finally, we propose that the integration of market strategies and political strategies provides new insight into the sustainability of the advantages that a firm might gain through political activities.

Key Words

Market Capabilities, Political Capabilities, Complementarity, Customer Focus, Political Tactics, Sustainable Advantage

INTRODUCTION

Strategic management scholars have increasingly recognized that a firm's likelihood of succeeding in a particular market is a function of not only its market-related resources and capabilities, such as patents, brands, and/or its marketing or R&D capabilities (e.g., Wernerfelt, 1984; Barney 1986, 1991; Peteraf 1993), but also its political capabilities to influence the rules of the game in its favor through political strategies (e.g., Hillman and Hitt, 1999; Oliver & Holzinger, 2008). Governments drive the framework of legislative and policy constraints within which market competition occurs, thereby shaping the opportunities and threats that firms face in their business operations (Baysinger, 1984; Ring, Bigley, D'Aunno & Khanna, 2005). An emerging body of literature has started to investigate firms' political capabilities—defined as the firms' ability to effectively identify and utilize relevant political tactics to achieve political goals (Holburn & Zelner, 2010; Fremeth and Shaver, 2014).

While scholars have generally recognized the necessity for firms to simultaneously possess both strong market capabilities and strong political capabilities in order to achieve higher performance (Li, Peng, Macaulay, 2013), these two types of capabilities have been largely treated as *independent* assets, both of which firms need to develop. The *linkage* between market capabilities and political capabilities, however, has rarely been discussed. For example, the literature on firms' political capabilities has primarily focused on how prior political activities (in home countries or different countries) enable future political activities (e.g., Holburn & Zelner, 2010; Henisz & Delios 2002; Garcia-Canal & Guillen, 2008; Henisz and Zelner, 2012), implying that the foundation of political capabilities is the prior experience in the same or other policy environments. Moreover, some hold the view that a *substitutive* relationship exists between market capabilities and political capabilities, arguing that political strategy may shield a firm

from market competition and thus reduce the firm's incentives to invest in certain market strategies, thereby creating a substitution effect (e.g., Lenway, Morck & Yeung, 1996; Morck, Sepanski & Yeung, 2001). Such a strategy, however, is highly dependent on whether the government limits market competition over the long term in specific ways that favor the focal firm(s), which may be difficult to sustain.

By contrast, this paper seeks to advance our understanding of this issue by highlighting that a firm's market capabilities may influence what political actions it undertakes and how effectively the actions are executed. Using capabilities and resources that are central to the firm's competitive advantage in the market and applying them to political tactics to achieve certain policy ends creates a *complementary* relationship between market strategy and political strategy. In this way, firms can develop political capabilities, a process that is typically facilitated by drawing on the resources and capabilities that the firm has developed in competing with rivals in the market. We develop a conceptual framework to generate testable propositions regarding how market capabilities (in areas such as marketing or R&D) and customer focus (i.e., business-to-business or business-to-consumers) can lead to the development of political capabilities and facilitate the use of particular political tactics of information provision and constituency building. In addition, we highlight the value of both internal and external alignments as key drivers of the sustainability of advantages from political activities.

Many interesting phenomena of how firms pursue corporate political activities motivated us to link a firm's capabilities developed in markets to its corporate political activities. While many companies are politically active, some seem to be particularly good at or more prone to use certain political tactics than others. For example, many internet-based high-tech firms in the Silicon Valley appeared particularly skillful at motivating grass root support and organizing

political campaigns than firms in traditional media and telecom industries with whom they battle over issues such as antipiracy and network neutrality,¹ but the formal lobbying efforts of the internet-based firms have lagged behind traditional industries, and some large high-tech firms, such as Google, Facebook, and Apple are still learning to play the lobbying game in the Capitol.² While firms do learn to use different political tools—even those that they are not initially familiar with—over time, as evidenced in those in more traditional industries that have longer history of dealing with politics, the possibility that some skills learnt by the firms in running businesses in market settings may facilitate the utilization and success of certain tactics in political settings (i.e., political tactics) is quite interesting but under-explored.

In order to examine how firms' market capabilities influence the efficacious use of political capabilities, our theorizing combines elements from research on firms' political capabilities with the knowledge developed by the rich body of literature on the resource-based view (RBV) of the firm. The RBV focuses on how firms utilize resources and capabilities to build sustainable competitive advantage (e.g., Barney 1986, 1991; Peteraf 1993). Work on the RBV, however, has primarily focused on market competition and typically regards the institutional environment as exogenous while examining how firms can outperform other firms in terms of profitability, market share, and growth. While research on political capabilities is very consistent with the underlying premise of the RBV that firms must build unique and difficult-to-imitate resources and capabilities to overcome competition, to date, there has been relatively little work on political capabilities from the RBV perspective. We seek to address this important gap in the literature because of the importance of the institutional environment to the

¹ "Silicon Valley learns fast in game of lobbying," *Financial Times*, January 18, 2012. Also see, e.g., "Startups Can't Ignore Washington," *The Bloomberg Business Week*, April 12, 2012.

² See, e.g., "Facebook, already ubiquitous in Washington, aims to beef up its lobbying power," *Los Angeles Times*, February 3, 2011; "Although Apple is a tech goliath, it has the mind-set of a David in D.C. power circles," *Los Angeles Times*, March 29, 2011; "Lobbying War Over Net Heats Up," *The Wall Street Journal*, December 10, 2010.

value of a firm's market resources and capabilities; for example, changes in the law can influence the value of patents, trademarks, and brand names, as well as technical capabilities associated with the development of research and development (R&D). Thus, firms often must learn to develop political capabilities, which we argue may flow from their market capabilities and resources, to protect their profit stream. We further argue that seeking to develop complementary political strategies and market strategies is likely to provide a more substantial advantage by helping firms overcome competition while influencing the rules of the game in their favor.

This study provides an important extension of prior research on corporate political strategy, which has focused on how other corporate characteristics, such as financial resources, financial slack, and firm size, influence a firm's use of various political tactics (e.g., Lenway & Rehbein, 1991; Schuler, 1996; Hillman & Hitt, 1999; Schuler, Rehbein & Cramer, 2002). By integrating ideas from the RBV, we seek to highlight the key role played by a firm's existing portfolio of market resources and market capabilities in its attempts to create political advantage.

We begin by investigating the capabilities needed to effectively implement political tactics, based on how relevant market capabilities and customer focus are for developing political capabilities. We then discuss how the internal and external consistency of the firm's political strategy influences the sustainability of the advantages gained from using political tactics.

POLITICAL TACTICS AND MARKET CAPABILITIES

The central question that we address in this paper is which market capabilities cause firms to be more or less likely to pursue, and more effective in pursuing, different types of political strategies. A central element contributing to a firm's effectiveness in pursuing political strategies

is its ability to implement the appropriate political tactics. To achieve a particular political goal, firms must utilize political tactics, such as lobbying and campaign contributions, to influence political decisions and public policy. In this section, we examine two major political tactics that have been the subject of extensive prior research: information provision and constituency building. We argue that successfully utilizing these tactics requires particular capabilities. We then examine how the political capabilities to use certain political tactics can originate from or be enhanced by various market capabilities. Therefore, a firm's market capabilities influence how effective the firm is in implementing different political tactics.

Common Political Tactics and Underlying Political Capabilities

In seeking to use political strategy to achieve private goals, firms may deploy a broad range of specific political activities, such as lobbying by providing information, testifying at government hearings, offering campaign contributions, and forming political action committees (PACs). Firms can also extend personal services, such as political network building, appoint officials as board members, form collective organizations, directly participate in political processes, and engage in constituency building (e.g., Grier, Munger and Roberts, 1994; Hillman & Hitt, 1999; Hillman, Zardkoohi, & Bierman, 1999; Oliver & Holzinger, 2008). Researchers typically divide common political activities into three general categories: information provision, constituency building, and financial contributions (e.g., Hillman & Hitt, 1999).

Hillman and Hitt (1999) provide detailed definitions of the three generic tactics.

Information provision occurs when firms seek to influence political decision making by providing information that is relevant to political actors, such as regulators and legislators. For example, firms may lobby by supplying position papers or technical reports, providing research

findings and survey results on the subject matter, or testifying as expert witnesses. Constituency building occurs when firms attempt to shape public policies by obtaining support from individuals and constituents whose policy preferences and votes matter to politicians. For example, firms may mobilize “grass roots” such as consumers, employees, shareholders, and communities, run advocacy advertising and political education programs, or engage in public relations (PR) building through, for example, press conferences. Thus, information provision is used to directly influence policy makers, whereas constituency building is used to motivate policy makers indirectly by having their constituents pressure them to take a particular action.

To effectively deploy these political tactics, firms must have certain political capabilities. Political capability refers to the firm’s ability to know when and how to use particular political tactics to achieve a specific political outcome. For example, the ability to identify and engage key political actors has been found to contribute to a firm’s success in handling political risks and obtaining favorable policy outcomes (Holburn & Vanden Burgh, 2002, 2008; Holburn & Zelner, 2010). In addition, a firm’s ability to identify different types of political issues and to take different actions at varying stages as political issues develop is a critical factor influencing the firm’s gains or losses in the political arena (Bonardi & Keim, 2005).

We begin by focusing on the specific political capabilities that are needed to most effectively implement information provision and constituency building. We first discuss information provision. We make an important note that despite what the name suggests, information provision does *not* merely require an ability to effectively transfer information; instead, it requires a much richer set of capabilities and skills. Influencing public policy through information provision demands the use of *individual persuasion*, that is, the use of deep knowledge of technology and context to persuade individual politicians or regulators that it is

advisable to (or not to) take a particular course of action—this is essentially a fact-based mechanism to influence the target audience. To effectively use information provision, firms should have the ability to identify what information is most important to target users (i.e., policy makers), to conduct relevant research that can generate critical information that is needed to convince the target audience, to have a deep understanding of the technology and context, to effectively convey key elements of this information to the target audience, and to have the flexibility to respond to requests and questions that are raised from various perspectives.

Constituency building essentially aims at *mass persuasion*, which requires the organizational ability and skills to motivate many people and constituent organizations to pressure politicians for particular outcomes. Constituency building goes beyond providing information to the target large-scale audience to sway their rational thought processes but, more importantly, often requires building connections with the audience and appeal to them at a personal or emotional level—this is essentially an emotion-based mechanism to influence the target audience. This individual appeal helps firms win popular support, which requires a different set of skills and capabilities than persuading an individual (or a small group of) politicians through information provision. Specifically, the firm must be able to connect with individual society members and groups to form stakeholder coalitions, to advertise its preferred policy position to align its interests with those of the broader group so that it can win popular support, and to engage the media to build positive public opinion. That opinion, to a large extent, depends on firms' ability to appeal to the “hearts,” or the emotional side, rather than to the “heads,” or the intellectual side, of the target audience with comprehensive and sophisticated

information.³ For example, the U.S. public accounting profession effectively engaged in public relation campaigns and advocacy advertising, including running advertisements in major newspapers, to inform the general public and certified public accountants (CPAs) of the liability issues facing the profession in order to push for liability reform legislation (Roberts, Dwyer & Sweeney, 2003).

Building Political Capabilities from Market Capabilities

The political capabilities that are needed to successfully utilize a political tactic may be gained in multiple ways. Two main mechanisms by which firms may develop political capabilities in using political tactics include (1) prior experience using a particular political tactic to equip the firm with the skills needed to use the same tactic in the future, and (2) market capabilities to generate the underlying abilities that can be applied in the political arena to assist in the execution of relevant political tactics.

Research has found that prior political experience in using political strategies increases the effectiveness of using such strategies in the future (e.g., Bonardi, Holburn & Vanden Bergh, 2006; Frynas, Mellahi & Pigman, 2006) because firms learn to better use political strategies from their own experience (Holburn & Zelner, 2010). Therefore, developing the political capability to utilize a particular political tactic is similar to building a market capability, as described in research on organizational learning and the RBV (e.g., Leiblein & Miller, 2003). The more frequently a firm engages in a particular activity, the better it tends to become at performing that activity. The value of direct experience has been established in a wide variety of fields (e.g., Cyert & March, 1963; Levitt & March, 1988; Delios & Henisz, 2003; Holburn & Zelner, 2010)

³ Firms, in some cases, use a combination of tactics to achieve their political goals instead of only one (Keim & Zeithaml, 1986). Here, we examine each individual political tactic as a first step in understanding how a firm's market capabilities affect the effectiveness of political tactics.

and typically forms the basis on which RBV scholars determine which firms have stronger capabilities. That is, firms with more experience in a particular activity are thought to have greater capabilities in that area. Therefore, firms develop capabilities in using a particular political tactic as they gain direct experience in using that tactic.

While experiential learning clearly occurs in the context of political strategy, we focus on the alternative means by which firms develop their political capabilities—the influence of the firm’s market capabilities and market resources, which we argue offer greater potential to provide a sustainable competitive advantage because imitating a firm’s market capabilities and market resources is more difficult than simply gaining experience with a particular tactic. A firm’s capabilities and skills that have accumulated through its market operations are likely to influence its political capabilities to utilize specific political tactics. Building on the firm’s existing market capabilities not only leads to more advanced political capabilities but also enables the firm to build such capabilities more quickly and potentially more cost effectively than if it were starting without a relevant underlying skill set from the related market capability.

Building political capabilities from firms’ market capabilities has another advantage. Political activities and market activities compete for limited internal resources (Bonardi, 2008); thus, if a firm can build on existing market capabilities to develop a political capability, as compared to developing an unrelated political capability, the relatedness of the market capability with the political capability decreases the cost of developing the political capability, as fewer resources are necessary for the task. This in turn alleviates concerns about resource constraints. Therefore, building political capabilities that draw upon existing market capabilities enables firms not only to build stronger political capabilities but also to develop these capabilities in a more cost effective manner than if it had to develop an unfamiliar underlying knowledge base.

While we investigate how market capabilities generate the underlying abilities that can be applied in the execution of relevant political tactics, we do *not* assume that policymakers have exactly the same needs as a firm's customers. For example, policymakers value attributes such as fiscal revenue, local employment, and investment, which are different from the quality and price of products and services that customers value. While policymakers and customers may value different things, the key is the similar skills and capabilities that are used to persuade them to adopt a particular course of action.

Information provision

The capabilities that are needed for effective information lobbying may be different depending on the type of information that is provided. We argue that the capability to provide information through lobbying about technical aspects of the business is directly related to a firm's technical capabilities associated with the development of R&D. Successful development of R&D typically calls for firms to know how to conduct research to generate the information and technologies needed to meet their customers' need. Moreover, it also calls for the skills of translating their technical knowledge into the information that their customers can understand and appreciate. For example, firms with strong technical capabilities typically rely on experienced product managers to bridge the gap between technical knowledge and customers' needs, which enables the firms to take full advantage of their strength in R&D.

Strong technical abilities associated with R&D experience make information lobbying, particularly providing information on the technical aspects of the firm's business, a more natural option to meet the firm's political needs, for the following reasons. First, the aforementioned experience associated with successfully developing R&D gives the firms deep knowledge of the

technologies and the contexts that are integral to building strong capabilities in information provision. For example, firms with greater technological capabilities tend to be more experienced in conducting or commissioning the research projects that are needed to generate results that are relevant to policy making and in generating technical reports to influence policy makers. Second, the experience of successfully generating and applying technical knowledge to meet clients' needs teaches these firms to not simply put an engineer in a room with a politician (as they would not do to a client); rather, they have the engineer work with personnel who are more skilled in communication to help bridge the gap between the knowledge of the engineer and the knowledge of the politician (as their product managers do with a client). Finally, extensive experience and strong technological capabilities also shape the firm's perspectives on political issues, because prior experience and focus may have a cognitive imprinting effect that shapes the firm's analysis of future situations (e.g., Holburn & Zelner, 2010). Therefore, we generate the first proposition.

Proposition 1: Firms with greater technical capabilities associated with research and development (R&D) tend to have stronger political capabilities in utilizing information provision related to policies that would affect the technical aspects of their business than firms with weaker technological capabilities.

While greater technological capabilities enable firms to more effectively target political decision makers by generating highly relevant and in-depth information related to the technical aspects of their business, the effectiveness of utilizing these political tactics will be further enhanced if the firm can also communicate technical information to the target audience in the most accessible way.

First, if a firm has strong capabilities in marketing, this is a strong signal that it is capable of explaining the products that are created by its engineers to its customers. For example, Intel has complemented its strong R&D capabilities with well-developed marketing and sales

capabilities. Pharmaceutical firms have not only strong R&D capabilities but also strong capabilities in distribution and sales (i.e., relationships with doctors and healthcare organizations) that allow them to take full advantage of their technological strengths. The combined capabilities of these firms, that is, the strong technological capabilities with the complementary skills that are needed to successfully translate the technical skills into a competitive advantage, will facilitate the use of information provision to influence political outcomes.

Second, firms with a competitive advantage related to marketing are more likely to be experienced in identifying the needs of customers, in designing a compelling product to fit those needs, and in determining the business impact of technological innovations. This further helps to effectively communicate and pitch the technologies to the target policy audience.

Third, effective communication becomes particularly important as some political decision makers whom firms target by utilizing information provision have less technological expertise and are less able to handle technical information than others (Hillman and Keim, 1995). When political decision makers are less familiar with the technical aspects of a firm's business, an ability to clearly communicate with the target audience when reporting commissioned research results, testifying as an expert witness, and presenting position papers and technical reports will strengthen the effectiveness of the firm's information lobbying.

Finally, a firm's experience in marketing provides it with greater expertise to effectively communicate with its customers, a process that is not a one-way provision of information from the firm to its customers. Instead, firms need to collect inputs from customers and to reiterate modifications to prototypical products and services based on feedback from representative samples of customers (e.g., Kotler and Keller, 2008); in recent years, with the increased prevalence of social media and online tools, user-generated content and direct engagement with

consumers has greatly enhanced two-way communication between firms and customers in marketing (e.g., Scott, 2010). These underlying capabilities enable a firm to more effectively communicate with its target audience in the political arena, by responding to questions and requests raised by policy makers in an iterative process, which helps to further convince the policy makers. Therefore, a stronger capability in marketing, coupled with stronger technological capabilities, will further enhance the effectiveness of utilizing information provision related to policies that affect technical aspects of the firm's business.

Proposition 2: *The positive relationship between firms' technological capabilities and their political capabilities in utilizing information provision related to policies that would affect technical aspects of their businesses is stronger when firms have greater marketing capabilities.*

Some information lobbying may focus on the social and political impact of policies on firms and on other stakeholders. Instead of relating the critical technical information that is relevant to policy makers, under some circumstances, lobbying firms may have to focus on the social and political aspects of their business and public policies, such as arguments centered on how a firm's success in a local district may affect jobs and local economic growth. The capabilities and skills underlying a firm's effective use of information provision on the social and political aspects of its business can be driven by the firm's extensive experience in business-to-business (B2B) marketing.

Although marketing capabilities, in general, enable firms to more effectively communicate with their customers to influence customer purchasing behavior and decisions, different skills matter differentially to effectively convince different types of target audiences. For example, some firms with capabilities in marketing directly to consumers understand the psychology of purchase decisions and how to use a variety of tactics (e.g., how to play on emotions and build a bond between the consumer and the product) to influence customers'

behavior (for a review, see Rucker and Petty, 2004). Other firms often need to target large corporate clients and have thus developed the ability to persuade a particular powerful entity to make a purchase or take a course of action in B2B settings. We argue that the logic behind the link between strong marketing capabilities and the use of information provision regarding the social and political aspects of firms' business further rests on the skills that firms develop in persuading corporate clients in B2B marketing, based on the following reasoning.

Firms that focus on B2B transactions are more likely to be accustomed to communicating with (and convincing) business customers by presenting information to suit their customers' specific business contexts. It is critical to understand that B2B firms' extensive experience with selling to industrial buyers typically involves a data-driven sales process in which firms need to not only communicate the technical information of their products and services, but also consider the social and political factors that affect their corporate clients' purchasing decisions. A corporate purchasing decision is rarely just about the product. Instead, a variety of other socio-political factors can influence corporate purchasing decisions; these factors include disputes over who has the authority to make the decision, hidden agendas about what is actually required, and a requirement that a firm must convince the decision maker that the decision will not have negative consequences in the long term. As an example, in the early to mid-1980s, Apple computers were more powerful and easier to use than those made by IBM, but corporations tended to stick with IBM not because of the computer's performance reasons but because of risk aversion. There was an old saying in the information technology world—"no one ever got fired for buying an IBM." There was simply too much risk in buying then-unknown Apple computers, despite the superiority of the product.

Firms that sell to other corporations typically become skilled at addressing these issues. These skills in marketing are based on knowing how to persuade a decision maker who represents an organization to make a significant purchase decision after considering various technical, social, and political factors within the organization. These skills have much in common with firms' ability to gain support from the key political decision makers whom they must convince of the social and political aspects of public policies and their businesses. Persuading a potential customer to buy a product is similar to persuading a politician to support (or oppose) a particular policy. Although customers and policy makers demand different things and may have different decision criteria, an ability to understand a decision maker's needs and constraints, and a plan for how to address them in a way that creates value for the decision maker is a capability that can generalize beyond marketing to influencing policy makers in the political arena. For example, two U.S. firms bid on a contract to build a new refueling tanker for the U.S. government: Boeing and Northrop Grumman. Part of Boeing's successful strategy in securing the contract was to position the Northrop Grumman bid as being spearheaded by EADS, a European entity, creating the appearance of a U.S. versus foreign bid for a U.S. Defense Department contract. This strategy was implemented even though Northrop Grumman would have been the lead contractor and Boeing also had foreign partners as part of its bid. Boeing was also able to get governors of states where it had facilities to lobby the U.S. government on its behalf by convincing them that the contract would result in additional jobs for their states. The marketing capabilities that Boeing gained in part from selling commercial aircraft to airlines around the world served them well in persuading a large political entity to decide in their favor.⁴

⁴ To further elaborate this example, Boeing has a commercial aviation business in which they sell to other corporations while Northrop Grumman only operates in the defense industry (multiple segments of it—but all in defense) and sells almost exclusively to the US government (with some very small sales to select foreign governments). Thus Boeing has capabilities in B2B marketing to support the sale of their aircraft and maintenance

Along the same vein, when Boeing selected suppliers and subcontractors for the Dreamliner (787), one criterion was whether the country that the supplier was from had a large commercial aviation business, making it more likely to purchase the final product. Having local suppliers is a good selling point when dealing with airlines in many countries. While these examples involve purchase decisions, the same issues hold for policy decisions related to issues such as energy, import constraints, and patents (e.g., Baron, 2012).

Therefore, the underlying capabilities and skills of marketing to a specific powerful entity developed through B2B marketing will facilitate a firm's ability to effectively lobby to a few key political decisions makers with respect to the social and political impacts of public policies.

Proposition 3: Firms with greater B2B marketing capabilities tend to have stronger political capabilities in utilizing information provision related to policies affecting social or political aspects of their business than firms with less expertise in B2B marketing.

Constituency Building

Building constituency is another popular and important political tactic that firms can employ to gain political influence (Walker, 2014). Constituency building requires firms to call upon various stakeholders, such as employees, suppliers, industry associations, community leaders, and individual shareholders, to influence public policy decision makers (e.g., Bayinger, Keim, & Zeithaml, 1985; Aplin & Hegarty, 1980). To effectively obtain the support of an informed and motivated constituency, firms must have the political capabilities to identify appropriate target groups that may be most affected by the specific public policies that the firm supports or opposes, to communicate with members of the constituency, to motivate them to support the firm's

services to airlines and air freight companies around the globe, while Northrop Grumman lacks these capabilities because their marketing and sales efforts are exclusively focused on the (US) government. Thus we think this represents a strong example of two firms that operate in the same industry but the different scopes of the firms indicate different capabilities in B2B marketing because only one firm has a B2B business.

positions, and to educate constituents regarding how to increase their direct contact with elected officials (Keim, 1981; Baysinger, Keim, & Zeithaml, 1985).⁵

These political capabilities share many common traits with a firm's ability to market to individual consumers (B2C). Firms that focus on B2C marketing have extensive experience in communicating with individual consumers through advertising and have accumulated significant knowledge about how to motivate consumers to take certain actions, both of which are necessary for gaining popular support. Although constituency building entails mobilizing a wider range of stakeholders than just the firm's customers—customers are sometimes, but not always deemed an effective interest group to mobilize in the political process—it is the underlying capabilities of psychological motivation and persuasion that are developed through interacting with customers in the market, rather than the direct contacts with a specific customer base, that facilitate a firm's ability to effectively execute constituency building.

First, successful B2C marketers have extensive experience in identifying the right customers, and this ability may help firms identify the most effective constituents. Not all interest groups are ideal candidates to help a firm exert political influence on political decision makers (Keim, 1981), and it would be costly and less rewarding for the firm to target the wrong stakeholders who have limited political incentives and capacities. Therefore, the ability to identify the right constituency greatly enhances the effectiveness of a firm's political efforts in constituency building.

Moreover, firms with capabilities in B2C marketing not only have extensive experience in communicating with individual consumers through various channels, such as advertising, but also excel at making emotional appeals to influence the decisions and attitudes of a vast and

⁵ We acknowledge that we focus on mobilizing individuals. The political capabilities required by mobilizing non-government organizations (NGOs) can be quite different.

diverse audience. Experienced B2C marketers deeply understand the psychology of consumer purchasing decisions and how to use a variety of tactics (e.g., play on emotions, build a bond between the consumer and the product) to influence customers' behavior. Firms' abilities in this regard facilitate the key step in constituency building: appealing to the members of the constituency and educating them regarding how they may be affected by a public policy and why their support for the firm's stance is important. In particular, an emphasis on understanding and influencing the psychology of members of the constituency enhances the effectiveness of constituency building, as many of the constituents are also individuals, such as employees and individual shareholders (Baysinger et al., 1985).

Furthermore, B2C marketing capabilities may also help firms to educate and mobilize constituents to take actions that exert political pressure on elected officials. Firms with stronger marketing capabilities have accumulated extensive knowledge about how to motivate consumers to take certain actions. This experience may translate into a firm's ability to mobilize a political stronghold consisting of effective interest groups and stakeholders and to thus obtain voter support, which is highly valued by politicians.

Finally, extensive experience and capabilities in B2C marketing activities and market campaigns may shape the firm's understanding of possible solutions to current political issues and may induce a firm to consider constituency building to be an effective political tactic. For example, the internet-based high-tech firms, such as Facebook, Wikipedia, and Craigslist, are particularly successful at motivating and utilizing grass root support, in terms of "winning the battle for public opinion, using their websites and communication platforms to launch campaigns, urging consumers to lobby their representatives over the proposals."⁶ This preference over

⁶ For example, over 10,000 internet sites successfully coordinated a "black out day" to use the social media power to protest the antipiracy legislation lobbied by traditional media companies. As a result, thousands of voters contacted

motivating grass root support seems consistent with these firms' strong customer orientation and adroit maneuver of the social media in their businesses (e.g., Walker, 2014).

We do not suggest that firms mainly motivate and use their own customers in constituency building, but that firms with strong capabilities in B2C marketing know how to influence individuals and that they can use these capabilities to mount effective constituency-building campaigns that are not simply focused on their own customer base. It is the underlying capability of knowing how to use psychology to influence individual behavior and motivate actions (usually purchase decisions but also political actions) that results from having strong B2C marketing capabilities. This is consistent with the observations in public affairs consultancy that firms of well-known household brands are the most active in conducting grass root campaigns whereas firms that supply business buyers and are less-known to the vast individual customers are rarely observed to employ the constituency building tactics (Walker, 2014). Therefore, we propose the following proposition.

Proposition 4: *Firms with greater B2C marketing capabilities tend to have stronger political capabilities in utilizing constituency building to influence political decision making than firms with less expertise in B2C marketing.*

SUSTAINABILITY OF POLITICAL ADVANTAGE

Internal Alignment

In addition to creating advantages for firms through political strategies, researchers are taking the next step to examine the sustainability of these advantages. The concept of sustainability of political advantages refers to whether the political advantages that are gained by a firm are long

their representatives, disrupting phone and email systems in Congress. "The groups have seized on a cautiously worded White House statement Saturday offering partial support for their cause and quickly joined a brewing blackout plan, outflanking the traditional media industry," according to "New, Old Media Battle Over Net Rules," *The Wall Street Journal*, January 18, 2012. Also see, e.g., "Lobbying campaign scuttles US piracy bills," *Financial Times*, January 20, 2012.

lasting or only temporary. A key factor in the political market that could diminish the political advantages that a firm has gained is competition (or retaliation) from other firms (Capron and Chatain, 2008). Although this research area is still in its infancy, we build on one of the foundational articles in this area, Capron & Chatain (2008), who examine the situations in which the advantages gained by the focal firm's attacking competitors in the factor market and the political markets may be less sustainable. In this section, we examine how the fit between a firm's market capabilities and its political capabilities influences the sustainability of advantages gained through the use of political tactics.

Much has been written about the sustainability of competitive advantage within markets (e.g., Ghemawat, 2009). In the political arena, the sustainability of advantages gained from using particular political tactics can be addressed by considering how difficult it is to develop the focal firm's political capabilities. If political capabilities are easy to develop, then we would expect the advantages gained from them to be short lived. However, if differences exist in political capabilities between various firms, then we predict that there would be significant differences in competitive advantage across firms and potentially more enduring competitive advantages among firms with greater political capabilities. The issue then becomes determining what contributes to the development of greater political capabilities that are difficult to imitate.

We propose that the alignment between a firm's market capabilities and the political tactics for which it develops expertise is an important element in the sustainability of political advantage. Specifically, we argue that when a firm develops political capabilities that are aligned with its market capabilities (i.e., the two kinds of capabilities are built on the same knowledge base or underlying skill set), the political advantages gained through these capabilities will be

more sustainable because it will be more difficult for rivals to imitate the focal firm's political capabilities.

Imitation is a key driver that threatens the sustainability of the gains arising from a firm's political strategies. Capron and Chatain (2008) argue that when a firm's actions in the political market are easy to imitate, the economic rents gained through these actions are less sustainable. Because we have stressed that the effective utilization of two key political tactics (i.e., information provision and constituency building) critically depends on a firm's relevant political capabilities, we argue that the difficulty of imitating such political capabilities lies at the heart of whether imitation is likely to occur. For example, for a firm that has successfully used constituency building, a rival firm that lacks the capability to mobilize consumers en masse poses a relatively weak threat to the sustainability of any advantage that the first firm gained through political means.

Firms that try to build political capabilities can do so by increasing their experience in using particular political tactics; however, their rate of learning is likely to be slower if their market capabilities do not benefit from using that particular tactic, than if their market capabilities can facilitate building political capabilities. That is, if the firm's market capabilities require the same types of underlying skills that are required to successfully employ the political tactic being used to achieve a particular outcome, then the firm's related experience in developing the market capabilities is likely to lead to the development of greater political capabilities compared to firms that seek to develop the same political capabilities without the complementary market capabilities.

When market capabilities and political capabilities are integrated (i.e., closely support each other), this complementary relationship leads to the development of greater political

capabilities. In turn, when a firm has greater political capabilities, it is much more difficult for rivals to achieve different, and possibly conflicting, political goals because the level of political capabilities will play a key role in determining the policy outcome.

Proposition 5: *When a firm uses a political tactic that draws on the same underlying skills as its market capabilities (i.e., the internal alignment between market capabilities and political capabilities), the resulting advantage gained through political means is more sustainable than if the political tactic and the firm's market capabilities are not aligned.*

External Alignment

Research in competitive strategy argues that the fit between external environmental factors, such as industry structures, and a firm's strategy and strategic positioning influences the sustainability of the firm's competitive advantage (e.g., Porter, 1980; Ghemawat, 1991). Following this line of thought, the fit between the political capabilities that a firm develops in using particular political tactics and the relevance of those tactics to the policies that the firm seeks to influence will enhance the sustainability of the advantages gained from using the political tactic. As with internal alignment between market capabilities and political capabilities, external alignment between the firm's political capabilities and the tactics best suited to achieve the firm's political goals enhances sustainability.

In some cases, there are policy outcomes that firms could pursue equally effectively by using different political tactics; in such a situation, there is no real external alignment because any tactic, if used effectively, may be successful at achieving the desired policy outcome. However, not all political tactics are equally effective tools for addressing a certain political issue. For example, when facing widespread denunciation of their practices before and during the financial crisis, many major banks sought to seal their information by lobbying behind closed doors, holding private meetings with politicians to try to sway strengthened regulations because

the banks' unpopularity would have made it impossible, if not detrimental, for them to use constituency building to garner public and widespread voter support for their political goals.⁷ When the political issues are difficult to be communicated to the public or framed in a way to appeal to the public, corporations tend to conduct "quiet politics" behind closed doors with policymakers without involving constituents (Culpepper, 2010).

Institutional contexts may also render certain policy outcomes to be more effectively achieved through one type of political tactics than others. Considering the value of internal alignment in two distinct situations in which one political tactic may be more likely to achieve a desired policy outcome will better illustrate our point in this regard. Consider the case in which the focal firm's internal alignment leads to a strong capability in constituency building that has helped it achieve a particular advantage via political means. In Country A, by virtue of the issue and the motives of policy makers, constituency building is the tactic that is best suited for influencing policy outcomes, and neither information provision nor financial contribution is likely to have as great of an impact on policy related to this issue (such environmental conditions are often specific to certain issues). In this situation, firms seeking to diminish the political advantage gained by the focal firm must develop constituency-building capabilities; however, the focal firm is far ahead as a result of the close links between its market capabilities and the skills that are required for constituency building.

In Country B, by contrast, the policy makers are less concerned with the views of their constituents (which is often the case in less democratic regimes), and it is more likely that political advantages would be gained through information provision. In this case, a focal firm with strong capabilities in using constituency building will have a more difficult time achieving

⁷ "Banks Return With a Goal: Pushing Back," *Wall Street Journal*, January 26, 2011.

its desired policy outcomes because it must either use an unfamiliar tactic or use a tactic that is less likely to have a strong impact on policy.

Indeed, the institutional environments of different types of modern democracies shape how businesses interact with governments. For example, Hillman and Keim (1995) suggest that the political institutions in the parliamentary systems of countries such as Britain and Germany make information lobbying more desirable than those in the presidential-congressional systems of countries such as the U.S. where constituency building is a more effective option.

Thus, we argue that when firms use tactics that are aligned with the needs of the policy environment and the specific policy outcome that they seek, they are more likely to gain a sustainable advantage from their political strategy.

Proposition 6: *When a firm uses the political tactic that is best suited to bring about the needs of the desired policy outcome (i.e., external alignment between the political tactic used and the needs of the political environment), the resulting advantage is more sustainable.*

Consistency of Internal and External Alignments

Propositions 5 and 6 concern the benefits of internal and external alignment in achieving sustained advantage from political strategy. A key issue arises, however, when these two factors push a firm in different directions.

A firm is in a difficult position if it has capabilities that lend themselves to the use of a particular tactic but the policy outcome that they seek in the political arena requires a different tactic. For example, firms with strong B2B marketing skills might be able to convince relevant politicians that a particular policy is a good idea, but if it is in a highly visible area where individuals (voters) have strong views about the policy, then constituency building may be necessary to convince the politicians that supporting the policy that the firm desires will not

adversely affect their chances for re-election. Likewise, capabilities in constituency building for policies with little public visibility or impact might not be as useful in influencing policy makers as the persuasion tactics used by firms with capabilities developed through extensive experience with B2B marketing. When there is a misalignment between the needs of the policy environment and the firm's internal capabilities in using particular tactics (based on their market capabilities), then the firm is less likely to build a sustainable advantage from political strategy.

However, the internal alignment between a firm's market capabilities and its political capabilities is particularly valuable for creating sustained advantage when it fits the needs of the political environment. If the political tactic that is employed by the focal firm is clearly the most effective mechanism by which to influence a particular outcome, then the firm's political advantage will be more sustainable than if the policy outcome could be effectively influenced by firms wielding a wide array of political tactics.

Proposition 7: *When the political tactic that is most suitable to bring about the desired policy outcome (i.e., external alignment) is also one that is aligned with the firm's internal capabilities (i.e., internal alignment), the advantaged gained from the firm's political strategy will be more sustainable.*

DISCUSSION

Understanding how to more effectively manage political strategies to facilitate business activities in a particular business environment is an important part of an overall business strategy. A firm's business strategy can rarely be isolated from its non-market environment and non-market activities, which are composed of social, legal, and political structures (Baron, 1997; Ring, Bigley, D'Aunno, & Khanna, 2005). A firm's strategies and actions in non-market domains shape market competition and influence the returns to many market activities. In this paper, we have focused on a firm's political environment and how it builds capabilities in using different

political tactics to achieve its political goals. To gain and sustain a competitive advantage, firms need to consider how their market capabilities influence their political capabilities in using particular tactics and thus how their market capabilities affect the effectiveness of their political strategy. Therefore, integrating market strategies with the political strategies is important for firms to establish an overall competitive advantage (Baron, 1995a, 1995b, 1997, 2001).

Although a firm's political activities—actions targeting governments and other players in the political system that firms use to advance their private ends—have been found to considerably affect the firm's overall economic performance (Hillman et al., 1999; Peng & Luo, 2000; Li & Zhang, 2007), we are among the first to explore the complementarity between its market activities and these political activities. If firms make any effort to integrate their political activities and their market activities, then their market-oriented capabilities may influence both their incentives for pursuing political strategies and their capabilities in implementing political strategies. When studying political strategies and political capabilities in isolation, we may miss important complementarities between a firm's market capabilities and its political capabilities that can influence the success and sustainability of its political endeavors.

Can Firms Entirely Replace Political Capabilities with Outsourcing?

One may wonder why firms need to develop their own political capabilities rather than outsourcing political activities altogether. For example, firms in many industries use professional lobbyists who have both extensive experience and knowledge in the relevant industry and strong political clout to persuade regulators and politicians to adopt favorable positions on a broad range of legislative and regulatory issues⁸ (for an example of outsourcing lobbying by

⁸ “The Power Brokers: Fifteen Regulators, Lawmakers, and Lobbyists Shaping the Torrent of Regulations,” *Bloomberg Business Week*, January 24 – 31 issue, 2011.

universities, see de Figueiredo and Silverman, 2006), or hire professional public relations firms to engage the mass grass-root population. The topic of the “make” or “buy” decisions in building political capabilities is quite nascent and has not received much attention in the literature (with the exception of de Figueiredo and Tiller, 2001), but we provide some arguments about why we believe that in most cases, firms still need to develop certain political capabilities even though they have the option to contract with external talents to conduct political activities.

First, recent research has debunked the notion that money buys political victory (for a review see Walker and Rea, 2014), such that firms can rarely expect to achieve success from entirely outsourcing political activities without any corporate involvement. A key reason is that, when using external talents to conduct political activities, firms still need to integrate the external political tools with the deep knowledge of their own business operations for which the political activities intend to create value (Baron, 2012). To enhance the overall firm value, political activities should fit in the larger picture of the overall firm strategy (King and Walker, 2014), and the firm managers are in a better position than external professionals to know where and how political activities should be connected with other key elements of the firm’s operations, because external professionals specialize in utilizing political tools and tend to have less comprehensive and less in-depth knowledge of the firm’s overall operations. Therefore, the firm still needs to contribute a certain amount of internal resources and knowledge to facilitate the political activities that are led or helped by external professionals. For example, there is more to the capability of information provision than simply hiring the right lobbyists. Firms must work with their lobbyists to provide the right types of information and steer a dynamic process toward the desired outcome, which still requires that the firm possess abilities similar to those discussed above. Therefore, many political activities conducted by external lobbyists can be made more

effective if firms are involved to work with the lobbyists, rather than adopting a hands-off approach by entirely outsourcing these activities.

Moreover, firms need to possess a reasonable amount of political knowhow in order to gain the awareness of politically sensitive issues or potential policy influence, without which firms will be slow to realize and react when new needs to engage in politics and to undertake political strategies arise (Baron, 2012). This is possibly why firms that are generally active in pursuing political activities almost always have their in-house public or government affairs offices (Meznar and Nigh, 1995).

Third, unlike the cases of economic production where consumers typically care only about the end products but not the process of producing the products, many key audiences of political activities—such as policymakers and wary constituents—are mindful of the *process* or the manners in which political activities are conducted. Firms' involvement becomes a signal of greater accountability, genuineness, and reliability, whereas some may view lobbyists as simply utilizing political connections to engage in rent-seeking with policymakers, and public relations professionals simply as skillful with PR stunts and tricks. For example, although many corporations hire professional grass root lobbying firms to engage in constituency building, the corporations themselves are often closely involved rather than adopting an arms-length transitional approach (for examples see Walker, 2014).

Finally, if the firms completely outsource their political activities and develop little political knowledge or political capabilities of their own, then they face the risks of becoming over-dependent on the lobbyists or PR professionals, in which case external lobbying or PR professionals can hold up the firm and extract most of the rents gained by political activities.

Firms are also reluctant to outsource when lobbying involve proprietary information (de Figueiredo and Tiller, 2001).

Therefore, we believe that political capabilities remain highly relevant to firms even though some talents of conducting political activities can be hired from the market. Many observations are consistent with this conclusion. Firms increasingly strengthen their in-house lobbying operations or internal government affairs divisions, such as by hiring political activity professionals as employees, while continuing to utilize external professionals (Baron, 2012). Moreover, political activities of firms are usually controlled by the senior management rather than a functional office such as the human resource office (Walker and Rea, 2014)

Of course, there exists variation among firms. For example, the consideration of “make” or “buy” may be moderated by other factors, such as the frequency of political activities; the above analysis may be more relevant for firms that need to engage in political activities reasonably often rather than in a one-off situation. The overall topic of outsourcing political activities calls more extensive future investigation.

How Far Can Capabilities Travel Within the Firm?

One may question how far capabilities can travel inside a firm. We build, to a degree, on the insight of the literature on corporate diversification about the degree of relatedness in that more closely related industries generally result in more successful diversification attempts because the capabilities and resources are more applicable (e.g., Silverman, 1999). We are looking at the underlying capabilities required, in a general sense, in marketing and technology capabilities, and B2B versus B2C customer focus, and seeing how those might be best deployed to the purpose of political influence. The relatedness of skills is the foundation for our

statements about the applicability of capabilities that appear more relevant to marketing versus technological, and B2B versus B2C strategies to different types of political influence tactics.

We argue that the context-specific aspects of market and political arenas should not stop knowledge transfer of relevant underlying capabilities that can be applied in both areas. Just as Philip Morris bought 7UP and Miller Beer to utilize its advertising capabilities built for the cigarette business, firms can apply capabilities built for the market to political influence. Just as capabilities can cross industry boundaries, we argue that they can cross market to political spheres of influence as well.

Meanwhile, we acknowledge that the mechanisms through which capabilities “travel” within a firm from marketing or R&D divisions to the divisions that handle political matters may be shaped by certain organizational factors. First, the structure of the organization may play a role in facilitating or obstructing internal transfer of capabilities. In some lobbying cases, personnel from functional areas such as the R&D or marketing may be consulted when political affairs staff prepare for their arguments, such as being called upon to help with developing technical papers. The ease for the talents and capabilities to travel between divisions—thus the extent to which the firm could draw on the capabilities developed in market activities to assist the implementation of political tactics—would be critically shaped by the organizational structure and the relationships amongst different divisions in the firm. Second, corporate culture also plays an important role. As discussed earlier, anecdotes suggest that many high tech firms in the Silicon Valley seem very proud and avid in motivating grass root support through social media, which is possibly bolstered by their successful experience of directly interacting with mass individual customers, but they tend to treat the idea of working with lobbyists with aversion or even disdain in some cases. Therefore, a firm’s corporate culture developed in business

activities can shape how its staff approaches political affairs.

Theoretical Contributions

The theoretical insights developed in this paper advance the research on “integrated strategy,” that is, how non-market strategies—firm actions in the context of social, legal, and political environments—should be integrated with market strategies to maximize overall returns (Baron, 1995a, 1995b, 1997, 2001), a perspective that Hillman, Keim, & Schuler (2004: 852) consider to be “the most promising” for studying corporate political activities. Although researchers in related areas have shown increasing interest in integrated strategy, such research is still in its infancy. Existing studies report that weaker firms in the market are more active than stronger firms in pursuing political strategies to insulate themselves from market competition (e.g., Lenway, Morck, & Yeung, 1996; Morck, Sepanski, & Yeung, 2001). However, a firm’s market capabilities do not always crowd out a firm’s political activities. We propose that a firm’s market capabilities may complement its political activities by increasing its political capabilities for utilizing certain political tactics. Our arguments are focused on the impact of a firm’s market capabilities on political activities. To be more effective in the political arena, firms must utilize political tactics such as information provision and constituency building; we examined how the political capabilities that are needed to effectively utilize each political tactic can be accumulated through the firm’s capabilities in marketing or R&D and in its customer focus (B2B or B2C). These capabilities enhance the skills that are required to effectively utilize a particular political tactic.

Prior research has explored how firms formulate their political strategies and how external and internal conditions influence the deployment of various corporate political tactics

(e.g., Hillman & Hitt, 1999; Shaffer & Hillman, 2000; Oliver & Holzinger, 2008). Although many firms are assumed to have political strategies, how a firm's ability to utilize specific political tactics is influenced by the firm's market capabilities has received little attention in the literature. We examine how a firm's ability to use such tactics is built and how it influences the sustainability of a firm's advantages gained through political means. Knowing when political tactics are used is important, but when determining the ability of political action to achieve economic rents (i.e., some advantages for the firm), it is also important to know when such attempts are more likely to be successful because of the firm's capabilities in using particular tactics, and to understand the needs of the political environment.

We also contribute to the emerging body of research on firms' political capabilities. Prior research has examined the general nature of firms' political capabilities, the influence of prior political activities on multinational firms' political capabilities, and the home country's sociopolitical influence on the development of firms' political capabilities (e.g., Holburn and Zelner, 2010; Henisz & Delios 2002; Garcia-Canal & Guillen, 2008). This analysis constitutes a new addition to the emerging body of literature on firms' political capabilities, which has focused primarily on how prior experience with political activities in both home countries and host countries increases the likelihood of success of future political activities. In this paper, we are able to significantly increase our theoretical understanding of political capabilities, by maintaining a sharp focus on the link between market capabilities and political capabilities. Political capabilities should not be viewed in isolation; although some firms may isolate political activity from all market activities, more experienced firms recognize that if the skills that underlie their market capabilities can help them to compete more effectively in the political arena, they should integrate their market and political capabilities, at least to some degree. At a

minimum, firms should draw on their stock of applicable knowledge and skills to provide a strong foundation for their political capabilities.

In addition, firms are more likely to sustain their success with political strategies if they develop the capabilities to use political tactics that build on their existing capabilities than if they develop political capabilities that are completely disconnected from their market capabilities. Just as related diversification is more attractive than unrelated diversification, firms will have more success in developing political capabilities in areas that are related to their market capabilities than they would in areas in which the firm has no relevant skills (i.e., a political capability unrelated to a firm's market capabilities such that the two capabilities do not draw on any kind of common knowledge or skill set).

The sustainability of political advantage is an important but nascent concept and an important research area with many implications for corporate political strategy and political tactics (e.g., Capron and Chatain 2008). This paper adds new insights in this area by discussing how market capabilities require underlying skills that contribute to particular political tactics; that is, internal alignment increases the sustainability of the advantage that the firm gains from its political efforts by making imitating the political capability more difficult. Moreover, external alignment with the institutional environment also enhances the sustainability of a firm's political advantage. We highlight the need for both internal alignment (between the firm's market capabilities and political tactic) and external alignment (between the political tactic utilized and the needs of the political environment). Political advantage is most sustainable when the tactic that is best suited to the policy environment is also the tactic that is aligned with the firm's market capabilities. When there is a mismatch between what a firm is capable of doing and what is most suited to the environment, the firm faces an unenviable choice. It can use a political tactic with

which it is relatively unfamiliar and that does not draw closely upon its market capabilities, or it can apply what it knows how to do in an environment in which such a tactic is unlikely to influence policy outcomes. Most firms in this situation are likely to seek to develop capabilities in using the most relevant political tactic, but such skills are not general and can take time to develop, especially in the context of most political environments with highly specific rules (formal and informal) by which firms must abide.

Limitations and Future Research

The paper has several limitations and may open new avenues for future research. First of all, this paper develops theories that have clear implications for testable hypotheses, so systematic empirical tests of the theories are needed. In addition, while we have collected anecdotal evidence about the outcome of political activities of firms, we have obtained fewer direct observations on the mechanisms—how firms deploy resources such as human capital internally to allow capabilities developed in market operations be used in conducting political activities. It is typically very difficult to collect fine-grained data on firms' internal operations at a systematic level across a large number of firms, so we consider in-depth case analysis to be appropriate in the circumstances.

Second, we have examined two general types of political tactics: information provision and constituency building, but there are other ways to categorize political tactics based on different dimensions. For example, firms may decide to be leaders or followers or to stay inactive with respect to political issues (Lenway & Rehbein, 1991), or they may choose to take political actions collectively or individually (Hillman & Hitt, 1999). According to Hillman and Hitt (1999), firms choose to engage in political activities at two levels—the individual level and

the collective level, and at each level firms may choose to deploy generic political tactics (information provision, constituency building, and financial contribution). The existing literature on political capabilities, including this paper, has placed greater focus on individual-based political strategies. The knowledge gained about the political capabilities required by individual-based political strategies is important because individual-based political capabilities are highly prevalent and common—political activities are *not* first and foremost collective-based.⁹ For example, individual political activities are preferred in pluralist countries (Hillman and Hitt, 1999) and institutional contexts where the state has greater redistributive power (Jia, 2014); they are also preferred by firms of certain characteristics such as owning greater financial resources (Hillman and Hitt, 1999) and seeking to “bend the rules” instead of “changing the rules” (Harstad and Svensson, 2011). One may question if the knowledge developed in this paper is relevant to collective political strategies. We consider this paper relevant because to successfully implement collective political activities, firms also need to possess certain political capabilities—firms cannot entirely free ride on other firms in the political coalition. Nevertheless, the political capabilities critical to collective political strategies may comprise of different elements, such as an ability to manage collective action and align the interest of all firms that participate in the political coalition. For example, it is possible that a strong ability to manage alliances could transcend to help the firm gain collaborative skills to manage collective political activities, which is an interesting topic to investigate in the future.

Third, some basic assumptions underlying the theory developed here are largely based on the institutional environment in developed countries, such as the United States and Europe. The

⁹ Recent research has questioned the notion that the unity of collective action of businesses necessarily generates more political power (for a review, see Walker and Rea, 2014). For example, research has shown that business political power in the United States becomes increasingly fragmented (Vogel 1996, Martin 1999, Drutman 2010, Mizruchi 2013) and specific business interests are increasingly cited in policy debates (Baumgartner, Berry, Hojnacki, Leech, and Kimball, 2009).

institutional environment in emerging economies, however, may have dramatically different characteristics. For example, political economy scholars have extensively discussed the government's role in the economy as a "grabbing hand" in many countries where the market-supporting institutions are underdeveloped, that is, in countries where governments have the power to expropriate firms without legal basis because checks and balances on government behavior are ineffective (e.g., Frye & Shleifer, 1997). Therefore, firms in such environments may pursue additional political goals that are not common in the U.S. In addition, the political tactics that are common in the United States and Europe may not be equally prevalent in other parts of the world. For example, because China has no structured lobbying system, formal information lobbying, which is important for firms in North America, is not yet deemed an important political strategy in that country (e.g., Kennedy, 2005).¹⁰ Chinese laws also prohibit campaign contributions (e.g., Li, Meng, & Zhang, 2006). It would be interesting for future studies to expand the scope of the political goals that firms intend to achieve and the range of political tactics available to gain a more comprehensive understanding of integrated strategy in the international setting.

Finally, we examined the sustainability of the gains of using political strategies from the perspective of aligning firm market capabilities and political capabilities and described how this relationship is moderated by the requirements of the policy environment. The sustainability of the competitive advantage gained in a non-market setting is a subject of critical importance in the development of theories on corporate political strategies and requires additional examination that is beyond the scope of this paper. For example, political rivalry may also diminish the benefits

¹⁰ Formal information lobbying is becoming increasingly more accessible and important to firms in China because it is being progressively facilitated by institutional reform initiatives, including the recent Legislation Law, which attempts to endorse a more open and consultative legislative process to encourage wider citizen participation in the legislative process (Paler, 2005).

that a firm gains from political ties with politicians who have lost their political power (e.g., Fisman, 2001; Siegel, 2007).

CONCLUSION

We propose that this research represents an important extension of the literature on corporate political activities and the relationship between political and market strategies. The literature on corporate strategy puts market capabilities on center stage—and does so appropriately, as the market is the primary battleground for competition among firms. We propose, however, that the role of political strategy and its importance in shaping the rules of the game under which markets operate will require more theoretical and empirical attention if we are to better understand the critical interplay between markets and political strategy, because market capabilities influence a firm's ability to more effectively implement political tactics. The interplay between market capabilities and political capabilities is critical; although further research is necessary, this paper constitutes an important step toward addressing this topic.

ACKNOWLEDGEMENT

We would like to thank Edward Walker, David Primo, and the participants of the 2015 Annual Conference of the International Society for New Institutional Economics (ISNIE) for helpful comments.

REFERENCES

- Alpin JC, Hegarty WH. 1980. Political Influence: Strategies Employed by Organizations to Impact Legislation in Business and Economic Matters. *Academy of Management Journal* **23**(3): 438-450
- Barney JB. 1986. Organizational Culture: Can It be a Source of Sustained Competitive Advantage? *Academy of Management Review* **11**(3): 656–665
- Barney JB. 1991. Firm Resources and Sustained Competitive Advantage. *Journal of Management* **17**(1): 99-120
- Baron DP. 1995a. Integrated Strategy: Market and Nonmarket Components. *California Management Review* **37**: 47-65
- Baron DP. 1995b. The Nonmarket Strategy System. *Sloan Management Review* **37**(1): 73-85
- Baron DP. 1997. Integrated Strategy and International Trade Disputes: The Kodak-Fujifilm Case. *Journal of Economics & Management Strategy* **6**(2): 291-346
- Baron DP. 2001. Private Politics, Corporate Social Responsibility, and Integrated Strategy. *Journal of Economics & Management Strategy* **10**(1): 7-45
- Baron DP. 2012. *Business and the Environment, 7th Edition*. Prentice Hall: New Jersey
- Baumgartner F, Berry J, Hojnacki M, Leech B, Kimball D. 2009. *Lobbying and Policy Change: Who Wins, Who Loses, and Why*. Univ. Chicago Press: Chicago, IL
- Baysinger B. 1984. Domain Maintenance as an Objective of Business Political Activity: An Expanded Typology. *Academy of Management Review* **9**(2): 248-258
- Baysinger BD, Keim GD, Zeithaml CP. 1985. An Empirical Evaluation of the Potential for Corporate Constituency Programs with Shareholders. *Academy of Management Journal* **28**(1): 180-200
- Bonardi, J.-P. 2008. The Internal Limits to Firms' Nonmarket Activities. *European Management Review* **5** 165-174.
- Bonardi J-P, Holburn GLF, Vanden Bergh RG. 2006. Nonmarket Strategy Performance: Evidence From U.S. Electric Utilities. *Academy of Management Journal* **49**(6): 1209-1228
- Bonardi J-P, Keim GD. 2005. Corporate Political Strategies for Widely Salient Issues. *Academy of Management Review* **30**(3): 555-576
- Capron L, Chatain O. 2008. Competitors' Resource-Oriented Strategies: Acting On Competitors' Resources Through Interventions in Factor Markets and Political Markets. *Academy of Management Review* **33**(1): 97–121
- Culpepper PD. 2010. *Quiet Politics and Business Power: Corporate Control in Europe and Japan*. Cambridge University Press
- Cyert RM, March JG. 1963. *A Behavior Theory of the Firm*. Prentice-Hall: Englewood Cliffs, NJ
- de Figueiredo, J.M., B.S. Silverman. 2006. Academic Earmarks and the Returns to Lobbying. *49* **2**(597-625).
- de Figueiredo, J.M., E.H. Tiller. 2001. The Structure and Conduct of Corporate Lobbying: How Firms Lobby the Federal Communications Commission. *Journal of Economics & Management Strategy* **10**(1) 91–122.
- Delios A, Henisz WJ. 2003. Political Hazards, Experience, and Sequential Entry Strategies: The International Expansion of Japanese Firms, 1980–1998. *Strategic Management Journal* **24**(11): 1153–1164
- Drutman L. 2010. The business of America is lobbying: the expansion of corporate political activity and the future of American pluralism, Vol. Ph.D. Dissertation. Univ. Calif., Berkeley

- Fisman R. 2001. Estimating the Value of Political Connections. *The American Economic Review* **91**(4): 1095-1102
- Fremeth AR, Shaver JM. 2014. Strategic Rationale For Responding To Extra-Jurisdictional Regulation: Evidence From Firm Adoption Of Renewable Power In The US. *Strategic Management Journal* **35**: 629–651
- Frye T, Shleifer A. 1997. The Invisible Hand and the Grabbing Hand. *The American Economic Review* **87**(2): 354-358
- Frynas EG, Mellahi K, Pigman GA. 2006. First Mover Advantages in International Business and Firm-Specific Political Resources. *Strategic Management Journal*(27): 321–345
- Garcia-Canal E, Guillen. MF. 2008. Risk and the strategy of foreign location choice in regulated industries. *Strategic Management Journal* **29**(10): 1097-1115
- Ghemawat P. 1991. *Commitment: The Dynamic of Strategy*. Free Press: New York
- Ghemawat P. 2009. *Strategy and the Business Landscape* (3rd ed.). Pearson Prentice Hall: New Jersey
- Grier KB, Munger MC, Roberts BE. 1994. The Determinants of Industry Political Activity, 1978-1986. *The American Political Science Review* **88**(4): 911-926
- Harstad B, Svensson J. 2011. Bribes, Lobbying, and Development. *American Political Science Review* **105**(1): 46-63
- Henisz WJ, Delios A. 2002. Learning about the institutional environment. In P Ingram, B Silverman (Eds.), *New Institutionalism in Strategic Management (Advances in Strategic Management)*, Vol. 19: 339-372. Elsevier
- Henisz WJ, Zelner B. 2012. Strategy and Competition in the Market and Non-Market Arena. *Academy of Management Perspectives* **26**(3): 40 - 51
- Hillman A, Keim G. 1995. International Variation in the Business-Government Interface: Institutional and Organizational Considerations. *Academy of Management Review* **20**(1): 193-214
- Hillman AJ, Hitt MA. 1999. Corporate Political Strategy Formulation: A Model of Approach, Participation, and Strategy Decisions. *Academy of Management Review* **24**(4): 825-842
- Hillman AJ, Keim GD, Schuler D. 2004. Corporate Political Activity: A Review and Research Agenda. *Journal of Management* **30**(6): 837–857
- Hillman AJ, Zardkoohi A, Bierman L. 1999. Corporate Political Strategies and Firm Performance: Indications of Firm-Specific Benefits from Personal Service in the U.S. Government. *Strategic Management Journal* **20**(1): 67-81
- Holburn GLF, Vanden Bergh R. 2008. Making Friends in Hostile Environments: Political Strategy in Regulated Industries. *Academy of Management Review* **33**(2): 521-540
- Holburn GLF, Vanden Bergh RG. 2002. Policy and Process: a Game-Theoretic Framework for the Design of Non-market Strategy. *Advances in Strategic Management* **19**: 33-66
- Holburn GLF, Zelner BA. 2010. Policy Risk, Political Capabilities and International Investment Strategy: Evidence from the Global Electric Power Industry. *Strategic Management Journal* **31**(12): 1290-1316
- Jia N. 2014. Are Collective and Private Political Actions Substitutes or Complements? Empirical Evidence from China's Private Sector. *Strategic Management Journal* **35**(2): 292-315
- Keim GD. 1981. Foundations of a Political Strategy for Business. *California Management Review* **23**(3): 41-48
- Keim GD, Zeithaml CP. 1986. Corporate Political Strategy and Legislative Decision Making: A Review and Contingency Approach. *Academy of Management Review* **11**(4): 828-843

- Kennedy S. 2005. *The Business Lobbying in China*. Harvard University Press: Cambridge, MA
- King BG, Walker ET. 2014. Winning hearts and minds: Field theory and the three dimensions of strategy. *Strategic Organization* **12**(2): 134-141
- Kotler P, Keller K. 2008. *Marketing Management, 13th edition*. Prentice Hall
- Leiblein MJ, Miller DJ. 2003. An Empirical Examination of Transaction- and Firm-Level Influences on the Vertical Boundaries of Firms. *Strategic Management Journal* **24**: 839–859
- Lenway S, Morck R, Yeung B. 1996. Rent Seeking, Protectionism and Innovation in the American Steel Industry. *The Economic Journal* **106**(435): 410-421
- Lenway SA, Rehbein K. 1991. Leaders, Followers, and Free Riders: An Empirical Test of Variation in Corporate Political Involvement. *Academy of Management Journal* **34**(4): 893-905
- Levitt B, March JG. 1998. Organizational Learning. *Annual Review of Sociology* **14**: 319-338
- Li H, Meng L, Zhang J. 2006. Why Do Entrepreneurs Enter Politics? Evidence from China. *Economic Inquiry* **44**(3): 559-578
- Li H, Zhang Y. 2007. The Role of Managers' Political Networking and Functional Experience in New Venture Performance: Evidence from China's Transition Economy. *Strategic Management Journal* **28**: 791-804
- Li Y, Peng M, Macaulay C. 2013. Market-political Ambidexterity during Institutional Transitions. *Strategic Organization* **11**(2): 205–213
- Martin C. 1999. *Stuck in Neutral: Business and the Politics of Human Capital Investment Policy*. Princeton Univ. Press: Princeton, NJ
- Meznar M, Nigh D. 1995. Buffer or bridge? Environmental and organizational determinants of public affairs activities in American firms. *Academy of Management Journal* **38**: 975–996
- Mizruchi M. 2013. *The Fracturing of the American Corporate Elite*. Harvard Univ. Press: Cambridge, MA
- Morck R, Sepanski J, Yeung B. 2001. Habitual and Occasional Lobbyers in the U.S. Steel Industry: An EM Algorithm Pooling Approach. *Economic Inquiry* **39**(3): 365-378
- Oliver C, Holzinger I. 2008. The Effectiveness of Strategic Political Mmanagement: A Dynamic Capabilities Framework. *Academy of Management Review* **33**(2): 496-520
- Paler L. 2005. China's Legislation Law and the Making of a More Orderly and Representative Legislative System. *The China Quarterly* **182**(June): 301-318
- Peng MW, Luo Y. 2000. Managerial Ties and Firm Performance in a Transition Economy: The Nature of a Micro-Macro Link. *Academy of Management Journal* **43**(3): 486-501
- Peteraf MA. 1993. The Cornerstones of Competitive Advantage: A Resource-Based View. *Strategic Management Journal* **14**(3): 179–191
- Porter ME. 1980. *Competitive Strategy*. Free Press: New York
- Ring PS, Bigley GA, D'Aunno T, Khanna T. 2005. Perspectives on How Governments Matter. *Academy of Management Review* **30**(2): 308-320
- Roberts RW, Dwyer PD, Sweeney JT. 2003. Political strategies used by the US public accounting profession during auditor liability reform: The case of the Private Securities Litigation Reform Act of 1995. *Journal of Accounting and Public Policy* **22**: 433–457
- Rucker DD, Petty RE. 2004. Emotion Specificity and Consumer Behavior: Anger, Sadness, and Preference for Activity. *Motivation and Emotion* **28**(1): 3-21
- Schuler DA. 1996. Corporate Political Strategy and Foreign Competition: The Case of the Steel Industry. *Academy of Management Journal* **39**(3): 720-737

- Schuler DA, Rehbein K, Cramer RD. 2002. Pursuing Strategic Advantage through Political Means: A Multivariate Approach. *Academy of Management Journal* **45**(4): 659-672
- Scott D. 2010. *The new rules of marketing and PR: how to use social media, blogs, news releases, online video, and viral marketing to reach buyers directly*. John Wiley & Sons, Inc.: Hoboken: NJ
- Shaffer B, Hillman AJ. 2000. The Development of Business-Government Strategies by Diversified Firms. *Strategic Management Journal* **21**(2): 175-190
- Siegel J. 2007. Contingent Political Capital and International Alliances: Evidence from South Korea. *Administrative Science Quarterly* **52**: 621–666
- Silverman, B.S. 1999. Technological Resources and the Direction of Corporate Diversification: Toward an Integration of the Resource-Based View and Transaction Cost Economics. *Management Science* **45**(8) 1109-1124.
- Vogel D. 1996. *Kindred Strangers: The Uneasy Relationship Between Politics and Business in America*. Princeton Univ. Press: Princeton, NJ
- Walker ET. 2014. *Grassroots for Hire: Public Affairs Consultants in American Democracy*. Cambridge University Press
- Walker ET, Rea CM. 2014. The Political Mobilization of Firms and Industries. *Annual Review of Sociology* **40**: 281–304
- Wernerfelt B. 1984. A Resource-Based View of the Firm. *Strategic Management Journal* **5**(2): 171–180