

# THE EFFECTIVENESS OF STRATEGIC POLITICAL MANAGEMENT: A DYNAMIC CAPABILITIES FRAMEWORK

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We present a dynamic capabilities framework to explain the effective strategic management of the political environment. We argue that the effectiveness of political strategies will be a function of firms' dynamic political management capabilities and propose four firm-level strategies—proactive, defensive, anticipatory, and reactive—for managing the political environment effectively. We develop propositions to explain how particular dynamic capabilities are associated with the effectiveness of alternative political strategies and conclude with suggestions for future research into effective strategic political management.

Strategic political management refers to the set of strategic actions that firms plan and enact for the purpose of maximizing economic returns from the political environment. Strategic political management enhances a firm's potential to improve its performance or competitive advantage by providing "a means of competing not permitted by the pure market pursuit of objectives" (Gale & Buchholz, 1987: 39). For this reason, strategic political management may be an important component of overall firm strategy.

The increasingly pervasive influence of government on firm activities and outcomes (Lenway & Rehbein, 1991), as well as rapidly growing business involvement in public policy making (Blau & Harris, 1992; Keim & Baysinger, 1988), has led to a growing academic interest in the reasons firms engage in political activities (Bonardi, Hillman, & Keim, 2005; Getz, 1997; Hillman & Keim, 1995; Shaffer, 1995). The literature on corporate political action has also led to a relatively comprehensive inventory of the various political tactics, such as lobbying, advocacy advertising, constituency building, financial contributions, and coalition formation, that firms undertake to manage their political environment (Bonardi et al., 2005; Hillman & Hitt, 1999; Hillman, Keim, & Schuler, 2004). However, in spite of growing interest in the reasons and motivations that impel firms to formulate corpo-

rate political actions, the organizational literature and strategic management literature have paid limited attention to strategic political management as a source of value creation. Firm relations to government have been viewed primarily as a cost for or an institutional constraint on firms (DiMaggio & Powell, 1983; Pfeffer & Salancik, 1978; Scott, 2001), rather than a set of opportunities for leveraging firms' strategic assets and competencies to earn economic rents. The broader literature on corporate political action and business-government relations has also paid less attention to the effectiveness of firm-level strategies and outcomes than to the reasons firms engage in political activity and the macroinfluences of public policy on industries, communities, and societies (Shaffer, 1995).

Heeding the call for "research into firm resources and capabilities that aid political activities" (Hillman et al., 2004: 851), we adopt a firm-level dynamic capabilities approach (Teece, Pisano, & Shuen, 1997) to corporate political activity to explain the strategies firms use to influence the political environment and the conditions under which these strategies are likely to be effective. The dynamic capabilities perspective is a rapidly expanding area of strategy theory and research (Blyler & Coff, 2003; Eisenhardt & Martin, 2000; Helfat & Peteraf, 2003; Helfat & Raubitschek, 2000; Teece et al., 1997; Zott, 2003). Dynamic capabilities refer to the ability of firms to maintain or create firm value by developing and deploying internal competencies that maximize congruence with the requirements of a

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changing environment (Teece et al., 1997). Value refers to the economic rents that a firm accrues in political or market environments (Makadok, 2001). We define value creation as the invention or reconfiguration of firm assets or competencies that constitute an original or unique addition to firm rents. We define value maintenance as the preservation of those firm assets and competencies that constitute the foundation of firm rents.

We apply a dynamic capabilities framework to strategic political management to address two questions: What are the alternative strategies that are likely to be effective in influencing public policy? Under what conditions will these strategies be most effective in leading to higher performance and competitive advantage? Thus, in this paper we attempt to contribute to the literature on political activity and strategic management by examining the strategies firms undertake to create or maintain value in political environments and the dynamic capabilities that contribute to their effectiveness. By exploring predictors of effective strategic political management from the perspective of value creation, we also add new insights into the causes of competitive and market advantages that emerge from nonmarket rather than market sources (Boddewyn, 2003).

Although Yoffie (1987) has observed that a majority of firms adopt a free-rider strategy and never become politically active, recent evidence suggests that corporate political action is increasing significantly (Getz, 1997; Hillman et al., 2004). Consistent with Hillman and Hitt (1999), we argue that as political environments become more complex and influential, firms that engage in political strategies may be more likely to strengthen their competitive advantage than firms that are passive or politically inactive. Our theoretical premise is that successful firms will tend to view political environments as opportunity sets within which they face choices about what objectives to pursue and how to pursue them in a way that best serves the firm. Framing political strategy as an opportunity set, rather than a set of constraints, suggests that firms may actively seek value from government interaction or seek to protect the value they possess, as opposed to accepting the inevitability and potential disadvantages or costs of government influence.

Based on the assumption that leveraging dynamic capabilities is crucial to successful political strategies in changing political environments, we propose a four-quadrant typology of dynamic capabilities in which firms choose between compliance and influence strategies and in which objectives in political environments differentiate between maintaining or protecting firm value (e.g., lobbying to maintain existing entry barriers that favor the firm) and increasing firm value (e.g., influencing public agencies to obtain government contracts). Dynamic political management capabilities therefore are defined here as the dynamic processes by which a firm influences or complies with its political environment for the purpose of generating future value or protecting the current value of the firm from future loss or erosion.

The concept of dynamic capabilities is particularly relevant to the management of political environments for several reasons. First, dynamic capabilities focus on the variation in firms' abilities to adapt quickly to rapidly changing environments (Teece et al., 1997). Evidence suggests that political changes, whether in terms of public policy changes, privatization and deregulation (De Castro & Uhlenbruck, 1997; Uhlenbruck & De Castro, 2000), the pace of regulatory amendments, or competitors' speed of response to regulatory changes, are accelerating (McWilliams, Fleet, & Cory, 2002). Therefore, firms are likely to need increasingly dynamic capabilities to cope with political change.

Second, dynamic capabilities "affect profitability by enhancing the productivity of the other resources that the firm possesses" (Makadok, 2001: 317). Oberman has defined political activities as "the attempted transformation of political resources, the ultimate aim of which being an increase (or prevention of a decrease) in the actor's stock of formal institutional resources" (1993: 216). Political activity as a dynamic capability thus resonates with approaches to political activity that emphasize its transformational or facilitative contribution to the current or future value of a firm's resources.

Third, although the literature on corporate political behavior provides important insights into the ways in which firm and environmental characteristics lead firms to engage in political action, it has tended to neglect the firm-specific internal processes and capabilities that relate to the effectiveness of political strategies (Hill-

man et al., 2004). In this way, a dynamic capabilities perspective can draw attention to the crucial role of internal competencies in enabling firms to execute political strategies successfully.

Finally, contrary to the view that government intervention is inevitably costly to individual firms (Hahn & Hird, 1991), a dynamic capabilities perspective suggests that the costs of government influence need to be evaluated against the potential opportunities for value creation or protection. Favorable subsidies, the reduced threat of market entry, greater firm legitimacy, the reduced threat of product substitutes, and the potential for increased market share (Caeldries, 1996; Dean & Brown, 1995; Schuler, 1996; Shaffer, 1995; Shaffer, Quasney, & Grimm, 2000) are all potential outcomes of managing one's political environment effectively. Therefore, an understanding of variation in firms' political strategies as a set of opportunities for creating value may contribute new insights into the heterogeneity of firm performance and competitive advantage (Barney, 1991, 2001; Oliver, 1997).

The paper begins with a review of the literature on the antecedents of political activity. We then propose a dynamic capabilities framework that identifies four alternative strategies for managing political environments effectively and the dynamic capabilities that we predict will determine their effectiveness. We discuss the positive outcomes associated with each strategy as a means of illuminating the extent to which dynamic political management bestows a competitive advantage on firms. We conclude with some suggestions for future research.

## LITERATURE REVIEW

### Strategic Political Management

Four theoretical perspectives have addressed the topic of strategic political management. These include scholarly work in the areas of public policy, the economics of political and collective action, stakeholder management, and corporate political behavior. As explained below, although all of these approaches offer unique and highly insightful explanations of how and why firms opt to manage their political environment, none of them consider the management of political environments from the per-

spective of internal capabilities or value creation.

Although in prior work in the public policy, economic, and stakeholder management literature researchers have examined important aspects of firms' relations to their political environment, much of their work has focused more on broad issues of public interest than on firms' strategic alternatives in managing their political environments. Public interest theorists suggest that public policy is the outcome of interest group competition and that business tends to undermine public interests and democratic processes (Lowi, 1969). From this perspective, business works collectively as a common social class to secure its own interests, often to the exclusion of competing interest groups that are not a part of the corporatist framework (Epstein, 1980; Francis, 1993; Getz, 1997). Business is viewed as a monolithic interest group, uniformly affecting, and affected by, its political environment. By focusing on a collective level of analysis, public interest theorists have drawn valuable attention to business as an influential player in the political arena. Because of the aggregate level of analysis, these theorists have not addressed public policy from the perspective of individual firms or the opportunities and options available to firms for increasing profitability or gaining an advantage over rivals (Shaffer, 1995; Useem, 1980).

Economic theorists have proposed that political activity is acquired or captured by industry and used for its benefit through direct subsidies and control over entry, prices, and the rules that determine substitutes (Stigler, 1971). According to these theorists, corporations and policy makers exchange inducements, such as votes and political contributions, for favorable public policy in order to maximize respective self-interests (Shaffer, 1995). Like public interest theory, this perspective has tended to treat business as a single coalition (Oster, 1982), but the intent of public policy is not to correct market failures but, rather, to transfer favors that are supplied by policy makers and demanded by industry (Caeldries, 1996). According to Stigler (1971), public policy is designed for industry's benefit, and all industries with sufficient political power will seek to manipulate the state and obtain governmental favors.

At a collective level, the key challenge that firms confront in political environments is the

threat of free riding during collective action. Insofar as the benefits obtained from influencing public policy are collective goods, free riding will be problematic (Olson, 1965). Although research results concerning the link between industry size and evidence of free riding are mixed (Cook & Fox, 2000; Getz, 1997), collective action theory suggests that political activity will be less costly in small, concentrated industries where the potential for free riding is lower (Olson, 1965). Overall, the economic perspective explains the influence of firms on policy makers and the challenges firms face in acting collectively and in exchanging inducements for favors in a political context. It does not tend to focus on the potential for political benefits to be rivalrous or for firms to seek differential value or competitive advantages through political strategies (Hersch & McDougall, 2000).

The literature on stakeholder management has examined the broad set of environmental and interest group pressures exerted on firms by the media, public opinion, consumers, advocacy groups, employees, shareholders, and government, as well as the ways in which firms are structured to identify, analyze, and address pertinent external issues (Donaldson & Preston, 1995; Greening, 1992; McWilliams & Siegel, 2001). This approach emphasizes the importance of social and political issues to a given company as key factors that motivate political strategy (Mitchell, Agle, & Wood, 1997; Vogel, 1996). As emphasized in stakeholder theory (Freeman, 1984; Frooman, 1999; Hillman & Keim, 2001; Mitchell, Agle, & Wood, 1997; Rowley & Moldoveanu, 2003; Wood, 1991), the importance of a political issue to a constituent is largely a function of the constituent's dependence on the stakeholder. Beginning with Stigler (1971) and Pfeffer and Salancik (1978), numerous researchers have emphasized the role of dependence in motivating political action (Blumentritt, 2003; Getz, 1997; Griffin & Dunn, 2004; Hillman et al., 2004). According to resource dependence theory, firms that are highly dependent on government, such as firms with a high proportion of sales to or contracts with the federal government (e.g., defense contracts), or with heavy cost burdens imposed from public policy (Hillman et al., 2004), are more likely to engage in political action to shape public policy (Hansen & Mitchell, 2000; Hart, 2001; Schuler, 1999; Schuler, Rehbein, & Cramer, 2002). Stakeholder management and re-

source dependence perspectives focus more on predicting the conditions under which firms will be motivated to engage in political influence (e.g., for reasons of dependency, stakeholder pressures), rather than on the conditions under which different political strategies will be effective in improving firm performance.

The most developed area of relevance to strategic political management is the growing work on corporate political behavior (Baron, 1995; Bonardi et al., 2005; Getz, 1993, 1997; Hillman & Hitt, 1999; Hillman et al., 2004; Shaffer, 1995). The predominant focus in this literature pertains to the reasons for and conditions under which firms will choose to engage in corporate political action (Getz, 1997; Hillman & Hitt, 1999). Different scholars have hypothesized that firms formulate political strategy to make their interests known to government (Keim & Baysinger, 1988), to gain collective or private benefits (Olson, 1965), to access resources from political institutions (Hillman, 2003), to purchase government policy or secure government inaction (Keim & Zeithaml, 1986), to reduce costs (Kaufman, Englander, & Marcus, 1993), to stop unwanted regulation (Yoffie, 1987), and to increase firm control and autonomy (Getz, 1993).

Recent reviews of the corporate political behavior perspective reveal developing consensus around some of the particular factors at the organizational and industry levels of analysis that cause firms to engage in political action (Getz, 1997; Hillman et al., 2004; Shaffer, 1995). At the firm level, firms' material interest, size, and issue salience have been shown to increase the likelihood that they will participate in political actions. Boies (1989) demonstrated that differences among firms in their material interests affected the level of their political activity significantly. Firm size has also been shown to predict political strategy formation, because large firms are more likely to possess the necessary resources to commit to political activity (Epstein, 1980; Meznar & Nigh, 1995; Yoffie, 1987). Firm size has been shown to correlate with corporate political influence and activity in the wood products, electronics, steel, and petroleum industries (Salamon & Siegfried, 1977; Schuler, 1996; Ungson, James, & Spicer, 1985). Schuler and Rehbein (1997) have argued that firms will also decide whether to engage in political activity by estimating a political issue's salience—that is, its estimated net impact on their competitive



performance and strategy (Hillman et al., 2004). Several studies support this proposition (Cook & Barry, 1995; Magee, 2002).

At the industry level, firms that engage in corporate political activity tend to be "part of industries that are . . . strongly affected by macro economic policies or other government decisions (Epstein, 1969; Yoffie, 1987)" (Getz, 1993: 249). Thus, the scope or stringency of political pressures imposed on the industry tends to determine whether firms engage in political strategies. Industry concentration has also been shown to increase the likelihood of political action (Zardkoohi, 1985). While firms in concentrated industries would be expected to exhibit less political action insofar as their uncertainty is also relatively low (Munger, 1988), studies show that firms in concentrated industries tend to be more politically active because the costs of organizing concentrated industries are low relative to organizing fragmented industries (Lenway & Rehbein, 1991; Olson, 1965), opportunities to free ride are more limited, and the dominant firms have the potential to obtain a disproportionately larger benefit from collective political outcomes. Pittman (1988), for example, in a study of 600 U.S. firms across multiple industries, found that federal government purchases and regulation were positively related to the level of firm political contributions in concentrated industries. Schuler and colleagues (2002) also found that firms in concentrated industries were more likely to engage in lobbying and campaign contributions than those in fragmented industries.

To summarize, previous theory and research on business-government relations have focused primarily on macrolevel public policy effects on industry and on the propensity of business as a unified class or industry to shape or undermine political objectives. Scholarship in the area of corporate political action has also contributed important insights into the causes of political behavior and the competitive nature of political action. Table 1 summarizes prior research on the determinants of corporate political behavior.

In contrast, we still know very little about (1) the capabilities that relate to the strategic management of firms' political environments and (2) firm-level outcomes of strategic political behavior (Hillman et al., 2004; Zott, 2003). In addition, research on political strategies has generated more industry-specific lists of political tactics,

such as lobbying or campaign contributions, than generic typologies of strategic political activities (Baysinger, 1984; Boddewyn & Brewer, 1994) that might be generalizable across a broad range of industries and contexts. Moreover, by focusing on the risks and costs of political strategies (e.g., the burdens of compliance to public policy, the problem of free riders, the costs of organizational adaptation to changing political demands), previous literature has tended to neglect the potential for strategic political management to serve as an important source of value creation (Keim & Baysinger, 1988; Shaffer, 1995).

### **Toward a Dynamic Capabilities Perspective: The Resource-Based View**

The resource-based view of the firm has received a great deal of attention in the strategic management literature (Deephhouse, 2000; Hansen, Perry, & Reese, 2004; Powell, 2001). This perspective suggests that firms that are able to develop and deploy unique, inimitable, and valuable capabilities will earn above-average returns and gain a competitive advantage (Barney, 1991, 2001; Moran & Ghoshal, 1999; Wernerfelt, 1984). Recent developments of the resource-based view have emphasized the importance of dynamic capabilities to organizational performance in complex or changing environments (Blyler & Coff, 2003; D'Aveni, 1994; Nelson, 1991; Teece et al., 1997; Thomas, 1996; Verona & Ravasi, 2003). Although the resource-based dynamic capabilities perspective has not been applied directly to the topic of corporate political strategy, we argue below that this perspective can help to explain both the motives of political strategy—value creation and maintenance—and the effects of political strategy on firm performance and competitive advantage.

**Value creation and maintenance.** According to the resource-based view, firms seek to generate value or protect the value they possess as a way to gain or maintain a competitive advantage (Anand & Khanna, 2000; Makadok, 2001; Priem & Butler, 2001). Value refers to economic rents that arise from internal resources or resource combinations that exploit opportunities and/or neutralize threats in a firm's environment (Barney, 1991). In the strategy literature, value seeking as a motivation for firm action has been examined in competitive environ-

**TABLE 1**  
**Summary of Research on the Determinants of Corporate Political Behavior, 1985–2005**

Authors	Purpose	Findings
Blau & Harris (1992)	Examination of the strategic uses of regulation to influence line-of-business restrictions in the U.S. telecommunications industry	Forces of competition explain both the economic and political strategies of firms; authors conclude that, if cost effective, firms will engage in political activity to gain comparative advantage
Blumentritt (2003)	Examination of factors that influence foreign subsidiaries' political corporate activity	Subsidiary top managers' orientation toward political activities influences level of subsidiary political activity
Boies (1989)	Examination of factors (availability of resources, free-rider problems, material interests, previous activity, industry membership) that predict a firm's engagement in political action committees	Material interest, when associated with an ongoing relationship with the state, was found to be a consistent and important determinant of engagement in political action committees
Burris (2001)	Comparison of campaign contributions of corporate political action committees and individual capitalists	Individual capitalists are more interested in bolstering the election prospects of favored candidates, whereas firms are more concerned with buying influence with incumbents
Buyse & Verbeke (2003)	Evaluation of the relationship among the level of proactive political activity, regulation, and the level of importance of issues to a firm's stakeholders	Firms pursuing proactive political strategies attach more importance to regulatory pressures than those with a reactive political strategy; level of proactiveness increases with broader and deeper stakeholder coverage
Cook & Fox (2000)	Comparison of the political activity of small- and medium-size firms	Medium-size firms have a lower frequency of political activity than smaller firms, a higher success rate, and more political influence when they are politically active; small-size firms are more likely to participate in collective political activity
Greening (1992)	Investigation of the impact of environmental and organizational factors on firms' structure and processes, including issue management	Interest group pressures are related to firm resource allocation strategies and internal structures; top management involvement is an important predictor of successful management of external dependencies and issues and design of firm structures
Grier, Munger, & Roberts (1991)	Analysis of the relationship between industry concentration and the level of corporate political activity	The relation between concentration and political activity is polynomial: the level of concentration has an increasing then a decreasing effect on political activity
Hersch & McDougall (2000)	Examination of the relationship between the level of a firm's political activity and the level of political activity of its rivals	Support for the rival effect—a firm's level of activity is influenced by the political activity of its competitors; free-rider argument not supported

(Continued)

**TABLE 1**  
**(Continued)**

Authors	Purpose	Findings
Hillman (2003)	Examination of the determinants of political strategies used by U.S. multinationals in Europe; use of institutional theory and the resource-based view of the firm to examine institutional-, firm-, and industry-level determinants of the choice of corporate political strategies	Institutional variables explain the choice of corporate political activity strategy (approach, participation level, and strategy)
Koza (1988)	Exploration of the relationship between regulation and the organizational environment, structure, and processes	Regulation, as an attribute of an organization's environment niche, produces incentives that motivate organizations to respond by adapting their structures and processes
Lenway & Rehbein (1991)	Identification of firm-specific determinants of corporate political activity and their relationship to the choice of a firm's strategy	Organizational slack is identified as an important determinant of political activity; firm profit influences the choice of political strategy; findings do not support market concentration or strategic dependence arguments
Masters & Keim (1985)	Exploration of the determinants of political action committee participation	A firm's resource base, employment base, magnitude of assets, unionization, and the size of its industry are significantly related to political action committee participation
Meznar & Nigh (1995)	Examination of the antecedents of public affairs buffering and bridging strategies, including environmental uncertainty, firm size, visibility, and resource importance	Environmental uncertainty, size, and the importance of a resource are identified as important antecedents of political activity
Mitchell, Hansen, & Jepsen (1997)	Test of the antecedents of political action committee formation and the magnitude of committee contribution	Visibility, countervailing power, and the impact of government involvement in firms play a significant role in political action committee formation
Mizruchi & Koenig (1986)	Examination of the link between interindustry political consensus and campaign contributions of political action committees	Negative relationships between strong ties and consensus and between volume of transactions and consensus are identified
Munger (1988)	Investigation of the impact of various industry and firm characteristics on political action committee contributions	Some firm characteristics (e.g., government contracts, number of employees) positively affect political action committee contributions, whereas industry concentration does not
Pittman (1988)	Test of the argument that market concentration leads to a higher level of political activity	The level of potential rents in the environment evokes rent-seeking behavior from firms, but only in concentrated industries
Rehbein & Lenway (1994)	Examination of the importance of external signals as determinants and predictors of success of an industry's political action strategies	An industry's choice of external signals and appropriate selection of political tactics and actions influence the industry's political action strategies

(Continued)

**TABLE 1**  
**(Continued)**

Authors	Purpose	Findings
Schuler (1996)	Examination of the political strategies of U.S. steel firms lobbying for trade protection	The steel industry's largest firms dominated political influence efforts to protect the industry from foreign competition
Schuler, Rehbein, & Cramer (2002)	Identification of factors and conditions that predict a firm's choice of multiple political tactics during the initial decision to become politically active	Firms making the initial decision to become politically active are more likely to adopt a multiple-tactic strategy; politically active firms' choices to employ a multiple-tactic strategy are driven by industry concentration, industry political activism, the existence of an industry congressional caucus, firm size, and material interests; no support for effects of industry unionization or availability of free cash flow resources on political activity was found
Shaffer (1992)	Analysis of the impact of regulation on the evolution of a firm's political position	A firm's strategic response to regulation includes political action integrated with and complemented by the firm's overall strategy for sustained competitive advantage
Shaffer & Hillman (2000)	Use of grounded theory to explore conflicts in political strategies among units of diversified firms	Several different distinct types of conflict exist within firms over the formulation of political strategies
Ungson, James, & Spicer (1985)	Exploration of the performance effects of organizations' ability to modify and adapt internal structures and processes in response to regulation	Government regulatory agencies differ from other task environment factors in how they influence organizational goal-setting and planning activities and are perceived to be the least controllable and predictable; organizational adjustments vary depending on the type of task environment sectors
Zardkoohi (1985)	Identification of the economic determinants of firms' political activity	Regulation, dependence on government contracts, market share, industrial diversification, rate of return on contributions, and employment influence a firm's political activity; market concentration argument not supported

ments, whereby firms engage in a relentless search for new ways to create and realize value as a way to fend off competitors or to provide unique products or services in rapidly changing environments (Ghoshal & Moran, 1999). We advance the proposition that firms may also be motivated to create value in political environments; in other words, value seeking may be a determinant of firms' decisions to engage in political strategies.

For example, in undertaking political strategies, a firm might influence legislators to restrict the use of a resource by competitors in the hopes of raising the value of its own resources. In this way, the anticipation of greater firm value motivates the firm's decision to take political action. Firms may also be motivated to lobby government as a means of increasing value. Lockheed Martin, for example, spent \$55 million on political lobbying between 1999 and



2006, during which time it won defense contracts valued at \$90 billion (Miller, 2006).

The argument that firms in political environments are motivated to create value overlooks those situations, however, in which value maintenance rather than value creation serves a useful strategic purpose. Where firms have already established a significant value base, in the form of distinctive or inimitable resources or competencies, they may be motivated to protect the value they already possess from loss or competitive erosion. Microsoft, for example, acted aggressively to protect its value base against government efforts to erode its extraordinary market advantage in computer software. Similarly, Harley-Davidson successfully lobbied the U.S. government to implement trade protection in the 1980s to protect and maintain the firm's value base built on its dominance in the U.S. motorcycle market (*Fortune*, 1989).

Therefore, from a resource-based perspective, value creation and value maintenance are both potential drivers of strategic action. This is consistent with Baysinger's (1984) distinction between domain management and domain defense, and with the assumption in the recent political strategy literature (Bonardi et al., 2005; Hillman & Hitt, 1999; Shaffer et al., 2000) that both political and market strategies represent "a concerted pattern of actions taken in the [market or nonmarket] environment to create value by improving economic performance" (Baron, 1997: 47).

**Dynamic capabilities.** In addition to their focus on value creation, proponents of a resource-based view also propose that heterogeneity in firms' performance is caused by the internal resources firms possess and the processes by which they deploy those resources. The dynamic capabilities view elaborates the resource-based view by introducing evolutionary arguments. According to the dynamic capabilities view, it is not sufficient for firms to simply possess resources; they must be able to develop, recombine, and deploy internal competencies that maximize congruence with the requirements of changing environments (Bowman & Ambrosini, 2003; Eisenhardt & Martin, 2000). Dynamic capabilities allow a firm to leverage its internal assets, not only to satisfy current environmental demands but also to influence environmental demands so that these demands correspond with the firm's strengths or requirements.

While much of the literature on dynamic capabilities remains directed toward theory development, a number of studies support the importance of dynamic capabilities in product development and knowledge management and their role in enhancing firm performance. For example, in their in-depth case study of Oticon A/S, a leading hearing aid manufacturer, Verona and Ravasi (2003) showed that dynamic capabilities related to knowledge management led to superior product innovation. More specifically, the authors demonstrated how the company used capabilities embedded in actors, structures and systems, physical resources, and the organization's culture to remain innovative over time. Furthermore, Oticon was able to influence the state of knowledge in the field by actively exchanging research results with the outside environment. In another study Adner and Helfat (2003) found that the dynamic capabilities of managers in the petroleum industry had a positive effect on business profitability over time. Firms that developed and deployed dynamic managerial capabilities, including human capital, social capital, and managerial cognition, were better able to effectively respond to changes in the external environment. Taken together, growing theory and evidence indicate that dynamic capabilities may play an important role in contributing to firm effectiveness, particularly in changing environments.

We argued earlier that the political environment has become more complex and dynamic over time owing to increased political action by constituents. Hence, a dynamic capabilities view may shed light on the ability of firms to effectively develop strategies to manage the political environment. In the next section we develop a model of effective political strategy that is based on firms' motivation to create or maintain value and in which the extent of effectiveness is expected to depend on the firms' dynamic capabilities.

## THE EFFECTIVENESS OF POLITICAL STRATEGIES

### Antecedents of Political Strategy

We argued in the previous section that value creation or maintenance may be motives that drive the decision to undertake strategic political management. These motives are depicted in

the model in Figure 1. In addition, as the above review of the literature on corporate political strategy demonstrates, firm and industry characteristics also play an important role in strategy formation (Getz, 1997; Hillman et al., 2004; Shaffer, 1995). Accordingly, the model in Figure 1 suggests that firms choose to engage in political strategies to create or maintain their value and that these firms are significantly more likely to do so when they possess particular firm characteristics—specifically, when they are large, are dependent on the political environment, possess material interest in the public policy in question, and view a political issue as particularly salient. In terms of environmental characteristics, the literature review shows that firms are more likely to engage in political action when they operate in industries that are concentrated and impose significant political pressures on them. (These previously investigated relationships that are not the focus of this paper are represented by dotted-line arrows in Figure 1.) The framework in Figure 1 adopts an individual firm-level perspective rather than a collective industry-level perspective because the intent of the framework is to explain firm-level differences in the effectiveness of strategic political management.

### A Typology of Political Strategies

Proponents of the resource-based perspective view strategy as a set of opportunities for creating value and deploying dynamic capabilities to obtain a competitive advantage. When firms are mo-

tivated to create or maintain their value in political environments, there are two means by which they can take advantage of political opportunities: (1) they can actively influence their political environments, or (2) where influence is impossible or not desired, they can actively comply with public policies or regulations with the intent of deriving as much value from such compliance as possible. A resource-based view of political environments suggests, therefore, that a firm's political strategy is likely to be grounded in both its value perspective (whether to maintain or create value) and its strategic orientation (whether to influence or comply with public policies and regulations).

Political compliance strategies are defined here as firm-level actions undertaken in conformity with political requirements and expectations for the purpose of maintaining or creating value by anticipating or adapting to public policy. Political influence strategies are firm-level actions undertaken for the purpose of mobilizing support for the firm's interests. This distinction between compliance and influence is consistent with a stakeholder management perspective (Freeman, 1984; Mitchell, Agle, & Wood, 1997; Rowley & Moldoveanu, 2003), with Boddewyn and Brewer's (1994) emphasis on compliance as a distinct form of political behavior from influence, and with the growing body of literature on responses to sustainable development regulation (Gladwin, Kennelly, & Krause, 1995; Shrivastava, 1995), which has increasingly stressed the "distinction between firms that are compliance-driven . . . and those that adopt more proactive environmental strategies" (Buysse & Verbeke, 2003: 453).

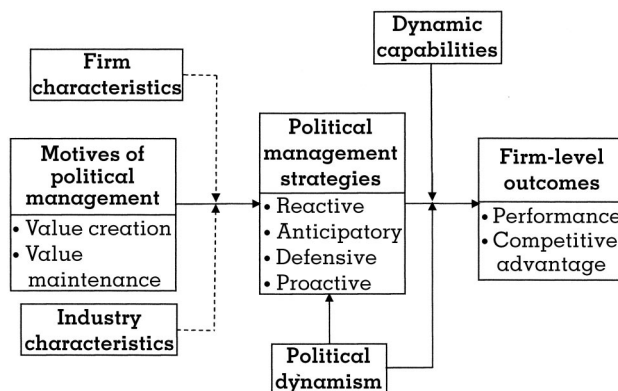
Figure 2 provides a  $2 \times 2$  matrix that demonstrates the typology's grounding in the distinctions among value creation, value maintenance, influence strategies, and compliance strategies. This typology suggests that firms motivated to maintain or create firm value will be likely to engage in one or more of four strategies to manage their political environment: reactive, anticipatory, defensive, or proactive strategies.

Next, we suggest that the effectiveness of these strategies will depend on firm-specific dynamic capabilities.

### Dynamic Capabilities and Effective Political Management

Proponents of a dynamic capabilities view argue that firms' dynamic capabilities, such as

**FIGURE 1**  
**A Dynamic Capabilities Model of Effective Political Management**



**FIGURE 2**  
**Alternative Political Management Strategies**

		Value perspective	
		Value maintenance	Value creation
Strategic orientation	Compliance	<b>Reactive strategy</b> Focus: Internal capabilities Examples: <ul style="list-style-type: none"> <li>• Developing efficient pollution control processes to meet standards</li> <li>• Rapidly realigning structures</li> </ul>	<b>Anticipatory strategy</b> Focus: Internal capabilities Examples: <ul style="list-style-type: none"> <li>• Establishing best practices in anticipation of public policy change</li> <li>• Hiring government experts</li> </ul>
	Influence	<b>Defensive strategy</b> Focus: External capabilities Examples: <ul style="list-style-type: none"> <li>• Lobbying to increase entry barriers</li> <li>• Actively advocating the status quo</li> </ul>	<b>Proactive strategy</b> Focus: External capabilities Examples: <ul style="list-style-type: none"> <li>• Redefining constituents' norms</li> <li>• Establishing standards that redefine current legislation</li> </ul>

continually evolving technical literacy, continuous updates to their knowledge base, and ongoing environmental scanning, can create value by allowing the firms to match and even create change in market environments (Eisenhardt & Martin, 2000; Verona & Ravasi, 2003; Zott, 2003). Similarly, as political environments become more complex and dynamic, the theoretical rationale for the importance of dynamic capabilities in political environments is that dynamic capabilities may allow firms to capitalize quickly on political opportunities and to generate unique sources of economic rent as opportunities arise from changes in public policy or regulations. The firm that is most rapid in implementing an innovative process capability that meets new environmental regulations, for example, may not only set the standard for environmental responsiveness to which other firms must eventually comply but may also create barriers to entry for future competition if the cost of imitating the firm's unique capabilities is prohibitive. In this way, a firm's dynamic political capabilities may be inextricably linked to firm performance (Shaffer et al., 2000) and competitive advantage (McWilliams et al., 2002). Therefore, as Figure 1 shows, we predict that a firm's dynamic capabilities will play an important role in determining whether political strategies are effective—that is, whether they improve the firm's performance or competitive advantage.

Table 2 outlines the four alternative political strategies and how they differ in terms of dynamic capabilities, sources of effectiveness, and the nature of the effectiveness achieved. This table suggests that firm capabilities affect performance and competitive advantage by allocating priority to organizational resources that improve the firm's ability to adapt to the political environment. Compliance-oriented political strategies use internal capabilities to achieve or anticipate an optimum fit with political requirements. Influence-oriented political strategies use externally oriented capabilities to achieve maximum control in shaping public policy requirements to fit organizational needs and interests. We also argue later in the paper that these strategies will tend to vary in the extent to which they are a source of sustainable competitive advantage for the firm.

We propose that performance will be enhanced or sustained by dynamic capabilities that operate to improve the efficiency, positioning, or credibility of the firm. Specifically, dynamic capabilities that increase efficiency and legitimacy, enhance first mover advantages and firm reputation, protect current assets and market position, or redefine the institutional definitions of political demands and policies to match firms' interests will predominate in explaining the effectiveness of reactive, anticipatory, de-

**TABLE 2**  
**Typology of Political Management Strategies**

Dimensions of Dynamic Capabilities	Type of Political Management Strategy			
	Compliance Strategies		Influence Strategies	
	Reactive Political Strategy	Anticipatory Political Strategy	Defensive Political Strategy	Proactive Political Strategy
Nature of political strategy	Actions undertaken to efficiently align one's internal processes with political demands	Actions undertaken to gain a first mover advantage by anticipating future public policy	Actions undertaken to thwart unwanted political changes and protect the status quo	Actions undertaken to shape and control the way that norms and public policies are defined
Source of effectiveness	Internal capabilities	Internal capabilities	External capabilities	External capabilities
Dynamic capability	Flexible organiza- tional architecture	Scanning and predictive capabilities	Political social capital deployment	Institutional influence capabilities
Underlying process of capability effectiveness	Continual structural and process realignment to match political changes	Timely and continuous scanning of political environment to anticipate changes	Continuous cultivation of social ties to influence government to maintain current policies	Influencing the norms and beliefs of stakeholders to shape how political standards are defined
Nature of effectiveness achieved	Efficiency and legitimacy	First mover advantages and enhanced reputation	Protection of current assets and market position	Redefinition of public policy to fit firm's strengths or interests
Firm competitive advantage	Short-term duration	Short- to medium- term duration	No change	Medium- to long- term duration
Examples of political action	Rapid, low-cost reconfiguration of internal processes to meet political demands; investment in training, resource, and skill innovations to accelerate and improve compliance with public policy	Continuous investment in environmental scanning; hiring ex-government experts; training and investment in knowledge of impending public policy changes	Advocacy of entry restrictions; activating social networks to defend current public policies; lobbying to reduce the threat of substitutes; lobbying to maintain protective pricing structures	Aggressive constituency building to create shared norms; cooperation with governments to create new rules; alliance formation to change the rules of political compliance

fensive, and proactive political strategies, respectively. In the next section we outline each of the four proposed strategies and the dynamic capabilities associated with each that might be expected to improve their effectiveness.

### The Effectiveness of Alternative Political Strategies

**Reactive strategies.** From a dynamic capabilities perspective, firms motivated to protect or

increase the value of their strategic assets (see Figure 1) will not be passively resigned to impending political changes but, rather, consciously purposive in their efforts to maximize value from compliance by aligning their internal processes efficiently and effectively with public policy demands. For value-driven reactive strategists, the overall cost of compliance is less the focus of firm effort than the active assessment of the most efficient and low-cost means of accommodating the firm's internal

processes to public policy to maximize return on investment. For example, firms in a number of highly regulated industries, such as pharmaceuticals, aerospace, and financial services, are seeking compliance leadership in developing verifiable processes, data integrity, and rapid information access and retrieval in response to political demands.

We propose that reactive strategies will depend, for their effectiveness, on internal dynamic capabilities in realigning or reconfiguring structural and technical process architecture (Henderson & Cockburn, 1994), such as efficient data processing systems for assessing a firm's compliance with regulatory standards, timely production of compliance information for regulators, and improvements in structures and processes that directly reduce the costs of compliance. Research indicates that decision speed and efficiency determine how effective realignment capabilities will be in the face of pressures to change (Baum & Wally, 2003; Eisenhardt, 1989). The speed and efficiency of these capabilities, as determinants of effectiveness, can be measured, for example, by a firm's timeliness and flexibility in investing in training and resource and skill acquisition to meet compliance standards or by the introduction of incentive systems that accelerate the speed and quality with which public policy demands are implemented.

Dynamic capabilities that lead to effective reactive compliance might also be measured by the depth of investment or innovation in efficient or accelerated information control systems that respond quickly and cost effectively to data requests from political agencies. The effectiveness of architectural reconfiguration as a dynamic process is also measurable by firms' ongoing product and process innovations to develop the most sophisticated and cost-effective methods of installing technologies or procedures to meet public policy demands. Barclays, for example, has taken the lead in developing information technology to manage and retrieve data required for compliance with Basel 2 and Sarbanes-Oxley regulation, which, in turn, has led to substantial savings for the bank (Nicolle, 2004).

These reconfiguration capabilities are expected to generate not only efficiency benefits but legitimacy benefits as well, thus further enhancing the potential for higher firm perfor-

mance. Institutional theorists have demonstrated that compliance or conformity with institutional pressures, such as social and political standards, confers performance or survival advantages on organizations by increasing their legitimacy and social support (Bansal & Roth, 2000; Baum & Oliver, 1991; Deephouse, 1996; Suchman, 1995). The social legitimacy conferred on compliant firms that respond quickly and efficiently to political changes or amendments may pay off in terms of increased consumer approval and product demand, enhanced access to resources, or more favorable relations with policy makers in the future. In their study of public affairs departments, Griffin and Dunn (2004) observed that proficiency in bringing internal departmental practices into line with external rules and regulations helped firms gain legitimacy. Heugens, Van Den Bosch, and Van Riel (2002) found that Dutch food processing organizations that exhibited willing compliance with informal government influence over their biotechnology practices acquired significant sociopolitical legitimacy with a range of stakeholders. Architectural reconfiguration capabilities as the operational mechanism of effective compliance are therefore likely to be important to firm legitimacy in political environments. Thus, we suggest the following.

*Proposition 1a: The effectiveness of reactive political strategies will depend on a firm's structural and process reconfiguration capabilities.*

*Proposition 1b: The speed, efficiency, and innovativeness of architectural reconfiguration capabilities will determine the extent of their effectiveness.*

*Proposition 1c: Effective reactive political strategies will result in higher efficiency and legitimacy for the firm.*

**Anticipatory strategies.** Like reactive strategies, anticipatory political strategies involve compliance with public policy, but unlike reactive strategies, which rely on more inward-focused processes, anticipatory capabilities combine and reconfigure internal and external resources to enhance external scanning and timely knowledge acquisition. Anticipatory strategies are efforts to anticipate imminent policy changes and gain first mover advantages in



adopting innovative operational routines by possessing superior knowledge of future changes.

The dynamic capabilities that we predict will determine the effectiveness of this strategy are scanning and predictive capabilities that give firms early knowledge of impending or potential legislative or public policy changes, as well as the ability to respond appropriately before those changes are implemented. Research has shown that frequency, innovativeness, timeliness, and breadth of scanning are linked to higher organizational performance in scanning and anticipatory knowledge acquisition (Garg, Walters, & Priem, 2003; Thomas, Clark, & Gioia, 1993; Yasai-Ardekani & Nystrom, 1996). In a study of successful environmental management initiatives, Andersson and Bateman (2000) found that frequent scanning was significantly related to successful environmental championing episodes.

Dynamic scanning and predictive capabilities can be operationalized in a number of ways—for example, ongoing investment in scanning processes or employee training to increase scanning and knowledge acquisition capabilities, periodic hiring of ex-government officials with the most current knowledge of impending policy changes, continual development and refinement of management systems for ongoing assessment of the implications of public policy developments, proactive attendance at industry and environmental conferences, and early investments in technologies to gain a first mover advantage in adjusting to regulatory revisions. Both Toshiba and Hitachi, for example, gained first mover advantages in anticipating regulatory changes in the worldwide battery industry by acquiring and deploying early designs in acid-free and renewable batteries. These anticipatory moves resulted in batteries that were more economical and reduced the firms' compliance costs (Shrivastava, 1995).

In addition to the economic advantages of being a first mover, we hypothesize that firms making use of anticipatory strategies may also benefit from reputational effects (Fombrun, 1996; Mahon, 2002). Much of the compliance literature has focused on the negative reputational effects of noncompliance (Fombrun, 1996; Raymond, 2004). In this literature, researchers consider complying with public policy the norm and therefore as having no reputation effects. Anticipatory compliance, however, can have direct

and indirect positive effects on a firm's reputation. In terms of direct effects, a firm that anticipates public policy changes may be perceived as highly responsive, alert, or a trendsetter by its customers, suppliers, competitors, government, or the public at large. Indirect reputational effects are created through the actions of stakeholders who are in a position to influence the firm's relationship with its key stakeholders, such as the government, the media, and public interest groups. In the case of anticipatory political management, the government and media, for example, may publicly praise a firm that anticipates forthcoming changes in the political environment and complies more rapidly than its competitors. This provides information about the firm's reputation to stakeholders lacking direct experience with the firm, thereby further enhancing the firm's reputation with that group of stakeholders (Mahon, 2002). The foregoing arguments suggest the following.

*Proposition 2a: The effectiveness of anticipatory political strategies will depend on a firm's scanning and predictive capabilities.*

*Proposition 2b: The frequency, breadth, innovativeness, and timeliness of scanning capabilities will determine the extent of their effectiveness.*

*Proposition 2c: Effective anticipatory political strategies will result in first mover advantages and enhanced reputation for the firm.*

**Defensive strategies.** In contrast to the foregoing compliance strategies, defensive political strategies are influence strategies that firms adopt to thwart unwanted changes in the political environment and to protect what they view as a favorable status quo. British tobacco companies, for example, stepped up the legal backlash against tobacco regulations with a challenge to regulatory restrictions in the Republic of Ireland on the grounds that smoking restrictions were contrary to EU law and potentially unconstitutional (*Marketing Week*, 2004). When political change is perceived as a threat or an institutional constraint on firms' ability to sustain their competitive advantage, they may exhibit vigorous influence efforts to protect the future value of their current strategic assets and

competencies (Amit & Schoemaker, 1993; Boddewyn, 2003). Such firms may reject evolving public policy frameworks as acceptable benchmarks for firm conduct and may work instead to maintain current regulations and policies, often because they possess core rigidities that constrain their ability to exploit change (Leonard-Barton, 1992) or because current assets and competencies under threat from potential future legislation are considered rare and valuable as a current source of competitive advantage. The New York Stock Exchange, for example, was slow to discard its defensive strategy of protecting floor traders and specialist services against electronic communication networks on the grounds that these specialist services were seen, rightly or wrongly, as providing rare and nonsubstitutable value to the Exchange (Tully, 2005).

The strategic orientation of defensive political strategies is to exert influence on policy makers or those who might persuade government to sustain current regulations (Shaffer et al., 2000). Effective defensive strategies reflect the development of dynamic capabilities, not in reconfiguring internal processes (reactive political strategies) or environmental scanning competencies (anticipatory political strategies), but in cultivating and utilizing relations to government and/or indirect ties to or networks with those who influence policy makers for the purpose of protecting the organization's interests. The literature on social ties and networks provides compelling evidence that such ties serve as important conduits of influence and can be a critical source of social capital (Burt, 1992; Gulati, 1998; Gulati & Gargiulo, 1999; Koka & Prescott, 2002; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998). Social capital, which refers to "the ability of actors to secure benefits by virtue of membership in social networks" (Portes, 1998: 6), enhances an actor's ability to gain the trust of the other actor(s) in a social network, to exert influence over other network actors, and to secure favors or rewards. We define political social capital as benefits that firms secure through direct or indirect social ties to policy agents that facilitate government lobbying in favor of current firm interests.

We therefore propose that social capital appropriation is a crucial dynamic capability in establishing influence with external actors in order to defend a firm's current market position or strategic assets (Blyler & Coff, 2003). Social

capital appropriation and utilization as dynamic capabilities can be defined as fluctuating arrangements in the social structure of influence or bargaining power with government for the productive use by firms in maintaining and protecting their current interests (Coleman, 1990; Sandefur & Laumann, 1998). These capabilities are reflected in the development of common understandings between a firm and political agents about the necessity of enforcing and sustaining agreed-upon rules and accepted procedures that are mutually beneficial to both public and private interests. Firms that are able to build trust and relational associations (Dyer & Singh, 1998; Hillman & Hitt, 1999) with political agencies will be most likely to succeed in using social capital effectively, because trust reduces the cost of ascertaining and using reliable information (Gulati, 1998; Gulati & Gargiulo, 1999). As Hillman and Hitt's (1999) distinction between transaction and relational political strategies makes clear, these external relationships are more likely to be effective as sources of influence if they are relational in nature—that is, characterized by a degree of trust and openness (Adler & Kwon, 2002; Inkpen & Tsang, 2005).

Defensive strategy examples include advocating entry restrictions, influencing policy makers to retain rules favorable to the firm, advocating a reduction in the threat of substitutes, and lobbying to maintain protective pricing structures. As Boddewyn and Brewer have observed with respect to foreign market entry, firms operating in foreign markets may also exit a particular foreign political environment or attempt to circumvent it through illegal means as part of a defensive strategy, if "the benefits of such behavior exceed the legitimacy costs" (1994: 128). Exit or circumvention behaviors will be less likely to occur to the extent that firms already possess political social capital (e.g., previous ties to government officials) in the markets in which they are operating. Firms adopting defensive strategies are also likely to be more common in industries where exit costs are high. Overall, the greater a firm's social capital with policy makers and the greater the firm's capability in utilizing this capital through the development of trust-based and relational ties with government and those who influence government, the more effective the firm will be in defending and protecting its current assets and market position.

*Proposition 3a: The effectiveness of defensive political strategies will depend on a firm's capabilities to appropriate and use political social capital.*

*Proposition 3b: The breadth and depth of trust and relational bonds in social contacts with government and with constituents who can influence government will determine the extent to which the deployment of political social capital is effective.*

*Proposition 3c: Effective defensive political strategies will result in the protection of the current assets and market position of the firm.*

**Proactive strategies.** Proactive political strategies are strategies that shape the fundamental nature of how public policies are defined or developed. Institutional theory suggests that power flows to those organizations with the greatest capacity to shape and manipulate the underlying values and beliefs of important constituents in their institutional environment (DiMaggio & Powell, 1983; Oliver, 1991, 1997; Scott, 2001). From this perspective, organizations can serve as sources of cognitive or normative influence by creating practices that others are motivated to imitate or by actively engaging in professional associations, public media activities, or coalition and constituency building for the purpose of redefining the legitimacy of extant institutional rules, norms, or practices (DiMaggio & Powell, 1983).

The dynamic capability to exert institutional influence involves the ability to define or shape the norms, standards, and beliefs of an industry or to reframe public perceptions about the social acceptability of a firm's practices. A firm's ability to exert institutional influence is critically dependent on its social legitimacy. As Suchman argues, legitimacy may allow firms to manipulate environments and to "actively promulgate new explanations of social reality" (1995: 591). Several authors have noted how social legitimacy may increase a firm's competitive advantage by elevating its capacity to influence important stakeholders, including government, and to obtain greater access to resources and information (Aldrich & Fiol, 1994; Oliver, 1991, 1997; Pfeffer & Salancik, 1978).

Researchers have pointed out that the institutional context shapes political activity (Bodewyn & Brewer, 1994; Hillman & Hitt, 1999; Murtha & Lenway, 1994). Firms capable of appropriating or shaping the institutional framework of an industry are able to acquire more favorable rulings or opinions. Clougherty's (2003) analysis of the determinants of successful antitrust reviews, for example, suggests that a firm's ability to shape policy makers' opinions about the positive international competitive effects of a proposed domestic merger is an important determinant of the firm's ability to gain positive antitrust reviews. Similarly, Yoffie and Kwak (2001) have described how Intel responded adroitly to the threat of increased antitrust scrutiny through strong institutional influence. The success of this strategy has its source in the capacity of a firm to persuade institutional constituents that its practices and interests are an optimal or ideal match with public policy standards and expectations.

An additional example is British Petroleum (BP), which exhibited a proactive political management strategy in the late 1990s when it aggressively moved to actively shape industries' and public policy makers' beliefs about what constitutes an acceptable regulatory standard for pollution. By departing from shared industry rules and beliefs and going well beyond regulatory requirements to establish more laudable and stringent guidelines and practices, BP redefined the norms of acceptable standards in such a way as to place it in the most advantageous position to meet the very regulations it had sought to define. Furthermore, by raising institutional expectations for the entire industry, BP created significant costs for its rivals, who were unprepared for compliance with the newly established norms (McWilliams et al., 2002).

The dynamic capability to exert institutional influence over the norms and standards of public policy can be measured by intense firm involvement in industry associations to shape political expectations, the proactive influence of the media and a proportionately intense investment in lobbying or public relations, aggressive coalition- and constituency-building efforts to shape stakeholder beliefs about socially appropriate business behavior, the development of best practice solutions to policy problems that redefine industry standards, or the judicious formation of selective strategic alliances for the

purpose of demonstrating innovative political actions. For example, in forming an alliance with Greenpeace to identify sustainable sources of timber supply, IKEA was able to reshape institutional definitions of acceptable sourcing practices in its industry (Buysse & Verbeke, 2003).

The institutional power to influence the beliefs of those affecting or affected by public policy is therefore a core dynamic capability that is likely to lead to a competitive advantage for firms. The range or breadth of a firm's embeddedness in its economic and institutional environments (Uzzi, 1997; Uzzi & Gillespie, 2002; Uzzi & Lancaster, 2004) also determines the potential reach of the firm's influence and, thus, the probability that proactive influence attempts will be successful. In a review of firms' success in obtaining corporate welfare—that is, benefits such as grants or tax breaks—Dawkins (2002) noted that firms such as General Electric were among the most successful in gaining special government subsidies because of their ability to mobilize a wide range of institutional connections and to broadly influence the debate on issues that affected them. The relational competence of firms reflects their ability to embed themselves in networks of relations that they can mobilize or influence to shape public opinion and public policy.

*Proposition 4a: The effectiveness of proactive political strategies will depend on the scope of a firm's institutional influence capabilities.*

*Proposition 4b: The breadth and depth of a firm's embeddedness in its economic and political environment will determine the effectiveness of the firm's institutional influence capabilities.*

*Proposition 4c: Effective proactive political strategies will result in a closer perceived fit between a firm's actions and public policy requirements than the actions of the firm's rivals.*

### **Dynamic Capabilities and Sustainable Competitive Advantage**

Several theorists have argued that dynamic capabilities are a source of competitive advantage

(Makadok, 2001; Teece et al., 1997; Verona & Ravasi, 2003), whereas others have suggested that such capabilities may not be a source of sustainable competitive advantage (Eisenhardt & Martin, 2000) because, though often valuable, they may be equifinal and, hence, neither inimitable nor immobile (Zott, 2003). Our argument with respect to political environments combines these positions on the basis that different firms undertake political management for different reasons. Firms do not always take political action to gain a competitive advantage, and among those firms that do, the length of time before such an advantage is likely to be competed away will vary depending on whether the firms' goals are to comply with public policy, to gain first mover advantages in anticipation of changes in the political environment, or to influence the nature of the public policies themselves.

We argue, therefore, that while all four strategies will tend to sustain or enhance a firm's economic performance, the duration of a firm's competitive advantage from strategic political management will vary depending on the extent to which the strategy generates unique firm resources and competencies that are valuable, inimitable, and imperfectly mobile across firms (Amit & Schoemaker, 1993; Barney, 1991). A defensive strategy may sustain a firm's performance, but it is likely to generate little or no sustainable competitive advantage because the firm's dynamic capabilities reside not in seeking new economic rents but in retaining and employing the strategic assets and competencies it already possesses, thereby protecting the firm's current position but not necessarily improving it. As the political environment changes over time, through the influence of various stakeholders, including creative actions by challengers, the advantage derived through the use of defensive strategies will inevitably be competed away in a process of creative destruction (Schumpeter, 1950). Hence, any competitive advantage gained through a defensive strategy will be minimal and short-lived.

A reactive strategy is likely to confer only a short-term advantage on firms relative to rivals. The competitive advantage achieved through a reactive strategy stems from the higher efficiency and legitimacy of swift compliance and will largely be competed away once all competitors in the industry have achieved compliance



with the public policy in question. An anticipatory strategy has the capacity to confer a longer competitive advantage on firms than a reactive strategy because it gives firms a distinct first mover advantage in adapting to the political environment relative to rivals (Lieberman & Montgomery, 1988). Research has demonstrated a moderate sustainability of first mover and early mover advantages (Makadok, 1998), but such advantages will be eroded by eventual increases in compliance among rivals. Given the increasingly dynamic nature of the political environment, the competitive advantage attainable from anticipatory strategies is therefore likely to be of only short to medium duration.

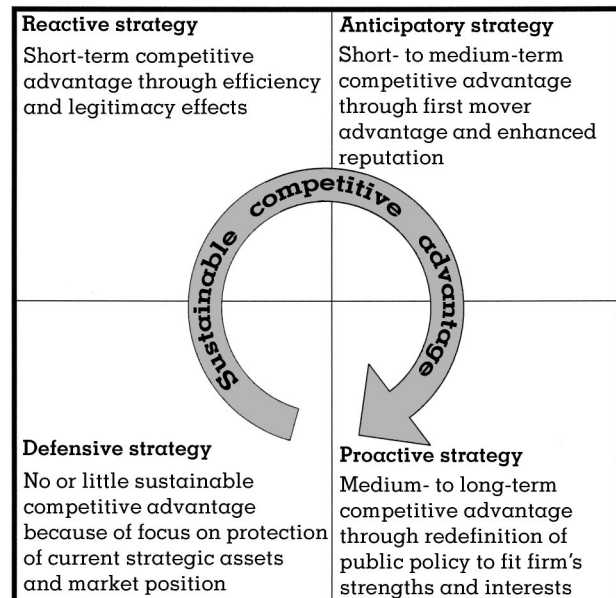
Proactive political strategies are likely to be the most promising of the four strategies for generating more sustainable economic rents, because proactive political strategies help to define what constitutes successful public policy in the first place, and, thus, they are able to shape public policy to fit a firm's own unique advantages and interests. Proactive political strategies also give firms the greatest opportunities to craft resources and competencies that are unique, intangible, or difficult to imitate, because such firms define the nature of the resource or competency needed to qualify as acceptable in political terms. Dean and Brown (1995) have cited the example of Henkel, the German detergent manufacturer, which developed a detergent ingredient that reduced phosphates by 50 percent, leading the government to require phosphate reductions of that amount across the industry and rendering Henkel the sole possessor of a valued innovation that gave it a competitive advantage over rivals for several years.

The following proposition summarizes the foregoing arguments. Figure 3 also illustrates this proposed relationship between the alternative political strategies and competitive advantage.

*Proposition 5: Political strategies will tend to differ systematically in the duration of their competitive advantage: defensive, reactive, anticipatory, and proactive strategies, respectively, will generate an increasingly sustainable competitive advantage.*

Political dynamism—that is, the number and pace of business-relevant public policy changes

**FIGURE 3**  
**Political Strategies and Sustainable Competitive Advantage**



and political amendments passed each year by federal and state or provincial governments—creates the need for strategic political management (as illustrated by the vertical arrow in Figure 1). This dynamism is also likely to influence effectiveness of the political strategies (as indicated by the moderating effect shown in Figure 1). Reactive and defensive political strategies should be more effective in slower-moving political environments than in more dynamic political environments. Less asset intensive or costly than anticipatory or proactive political strategies, these strategies will generate higher economic returns owing to their lower execution costs. In highly dynamic political environments, the risk of failure will be higher if anticipatory or proactive strategies are not implemented. With respect to anticipatory and proactive strategies, Gavetti and Levinthal (2000) have argued that in slower-moving environments firms can look more to past experience to remain competitive, but in highly dynamic environments firms gain significantly more from forward-looking and proactive explorations. Hence, the higher costs associated with these more asset-intensive strategies may be offset by the potential for higher returns and lower risk of failure in dynamic environments.



*Proposition 6a: The differential effectiveness of defensive, reactive, anticipatory, and proactive strategies will depend on the rate of change in a firm's political environment.*

*Proposition 6b: Reactive and defensive strategies will be less effective than anticipatory and proactive strategies in dynamic political environments.*

## DISCUSSION AND CONCLUSIONS

The dynamic capabilities perspective has extended the resource-based view to the realm of evolving capabilities that vary in competitive value depending on the pace of environmental change (Miller, 2003). We have argued that, in view of the evidence that political and competitive environments are becoming more dynamic, firms operating in changing political environments may need to develop capability trajectories in managing political action that reflect the pace and complexity of contemporary political and competitive environments. It has been hypothesized that the effectiveness of political strategies will be a function of firms' internally and externally oriented dynamic capabilities, that these capabilities are grounded in knowledge and influence acquisition and use, and that their effectiveness will vary with the rate of environmental change. Based on the assumption that the point of departure for effective political strategies is a firm's motive to enhance or protect the value of its strategic assets and competencies, we developed a typology of political strategies that identifies the dynamic capabilities that firms develop and deploy to leverage political advantage for economic or competitive gain.

Consistent with Keim and Baysinger's observation that "serious students of business political activity still know very little about the effectiveness of various business efforts to affect political decision-making" (1988: 164), we have sought to initiate an examination of the relationships that link political strategies, dynamic capabilities, and firm effectiveness, based on the premise that a firm's internal capabilities may provide a partial explanation of firm heterogeneity in their strategic ability to improve firm performance or to gain a competitive advantage

through political action. To this end, we proposed that firm-specific dynamic capabilities—specifically, capabilities in structural and process reconfiguration, scanning and anticipatory knowledge acquisition, social capital deployment, and institutional influence processes—are likely to serve as the key drivers of effective political management in undertaking reactive, anticipatory, defensive, and proactive strategies, respectively. We also proposed the factors most likely to determine the effectiveness of these dynamic capabilities (i.e., decision speed, frequency of scanning, breadth of social contacts, degree of embeddedness), as well as the firm-level outcomes expected to result from their implementation (legitimacy, first mover advantages, protection of market position, congruence with firm interests).

Political influence theorists have argued that the most neglected area of study pertains "to those efforts to better understand internal procedures and routines related to effective implementation of CPA [corporate political activity]" (Hillman et al., 2004: 846). We have suggested that firms' internal dynamic capabilities offer a promising line of future inquiry into such internal procedures and routines. One area of future research might be to link the functionality of dynamic capabilities to firms' specific day-to-day processes and routines to understand how firms overcome inertial tendencies and core rigidities that limit their capacity to continually acquire new knowledge regarding the political environment or to seek new means of political influence (Hannan & Freeman, 1984; Leonard-Barton, 1992). To gain a better understanding of dynamic capabilities, it might also be useful to conduct case studies of effective firms in highly political environments in order to determine how they embed their knowledge of coping with political change into ongoing operating routines so as to guide future continuous learning and organizational flexibility.

A second area of future research might be to compare the influence of different political strategies on rivals' costs. In contrast to the conventional economic wisdom that firms outcompete rivals by offering higher-quality or lower-priced products, a dynamic capabilities resource-based perspective would suggest that firms may also outcompete rivals by employing strategies that shift the supply curve of rivals upward (McWilliams et al., 2002). Proactive lobbying efforts

that result in public policies preventing rivals from using substitute resources for those valued resources possessed by the lobbying firm (e.g., a new pollution control production technology) constitute a shift in the industry's supply curve that can raise rivals' costs or erode their competitive advantage. Therefore, research on the impact of different political strategies on product or process substitutability may contribute to resource-based theory and generate new insight into the role of process innovation in shaping public policy changes that create differential economic rents among competitors.

A third area of future research concerns the breadth of a firm's strategic repertoire. We have suggested four distinct types of political strategies. However, firms may elect to use more than one type of strategy concurrently, depending on the costs of allocating resources to multiple strategies simultaneously and the extent to which unique capabilities are incompatible or redundant. For example, Hewlett-Packard's recent investment in its e-waste recycling infrastructure—an anticipatory strategy—has precluded its need to join other computer and television manufacturers in lobbying to maintain the status quo—a defensive strategy (Woellert, 2006). At the same time, however, combining multiple dynamic political strategies simultaneously may enhance firms' effectiveness by increasing the flexibility with which they adapt to changes in the political environment and rendering it more difficult for rivals to imitate them.

In addition, combinatory deployment of multiple capabilities can create synergies that magnify the effectiveness of any single capability. Returning to the example above, Hewlett-Packard combined its investment in e-waste recycling infrastructure—an anticipatory strategy—with successful lobbying to force other computer manufacturers to recycle their electronic refuse—a proactive strategy (Woellert, 2006). As a second example, several brand name pharmaceutical companies in the 1980s lobbied intensely against proposed generic substitution laws—a defensive strategy—but simultaneously began moving aggressively into the generic market—an anticipatory strategy—as a way to respond dynamically and flexibly to potential changes in their political environment (Oster, 1990). Furthermore, a number of researchers have noted that the use of dynamic capabilities in combination facilitates rent creation and

competitive advantage (Blyler & Coff, 2003; Eisenhardt & Martin, 2000; Makadok, 2001; Miller, 2003; Teece et al., 1997). Therefore, future research on the nature and advisability of using a combination of strategies simultaneously may help to explain the conditions under which political strategies are most likely to be effective.

Fourth, "the pattern of effective dynamic capabilities depends upon market dynamism"; in stable markets, "effective dynamic capabilities rely heavily on existing knowledge" (Eisenhardt & Martin, 2000: 1110). In this paper we have proposed that the four strategies will be heterogeneous with respect to their effectiveness in creating a competitive advantage for firms and that this effectiveness will depend on the pace of environmental change. However, one issue specific to political environments is the speed with which competitive advantage can be eroded by the potential for collective or industry-level political action through leveling the competitive playing field and distributing benefits evenly across a range of firms in an industry. While we have focused on firm-level strategies in dynamic environments, future researchers might also investigate the extent to which collective industry-level political action slows the rate of change in political environments or undermines the efficacy of firm-level strategies. Studies of the degree to which collective action marginalizes the capacity of any single firm to obtain a competitive advantage through political strategies might help strategic decision makers to understand the trade-offs between the benefits of industry-wide political action and political entrepreneurship. By studying this trade-off, firms may gain new insights into the conditions under which firm-level strategies are likely to be more profitable than conformity to the will of the industry as a whole.

The application of a dynamic capabilities framework to a collective level of analysis also has implications for the classic argument that the greater the number of firms in an industry, the more likely it is firms will free ride (Olson, 1965). Some evidence suggests that industries with many members are more likely to free ride, whereas other research results have found no such effect for free riding (Getz, 1997). Here we suggest that the likelihood of free riding may depend less on industry size or concentration than on industry dynamism. Where competitive and political environments are highly dynamic,

free riding may not be a viable option, because a given firm will not have the luxury of waiting for other industry players to shape the political environment to its own particular advantage. Instead, firms will be forced to leverage some of their own capabilities to keep pace with the demands of their environment. Thus, the passivity of a free-riding strategy may be inappropriate when political or competitive environments are dynamic or unpredictable.

The political environment of firms can be viewed as a political marketplace in which firms engage with policy makers to execute political strategies that exploit valued dynamic capabilities most likely to generate firm advantages that are costly for competitors to imitate or avoid. The identification of firm-specific strategic assets and capabilities that best predict the likelihood of political management effectiveness encourages a more long-term focus and commitment to building appropriate political approaches. Further investigation into the dynamic capabilities that optimize firms' future value may help firms to develop competitive and political strategies that serve both public and private interests.

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