

Strategic political emphasis, strategic capabilities and uncertainty

An exploratory assessment of managers in the United States

John Parnell

*School of Business Administration, University of North Carolina at Pembroke,
Pembroke, North Carolina, USA*

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Abstract

Purpose – With heightened regulations in many nations, increasing political influence, greater emphasis on government-business partnerships, and the rapid development of emerging markets, the notion of nonmarket strategy (NMS) is now widely viewed as a key component of a firm's overall strategic orientation. The purpose of this paper is to investigate factors associated with strategic political emphasis (SPE), a key part of NMS.

Design/methodology/approach – A survey instrument including items related to competitive strategy, environmental uncertainty, strategic capability, performance, and SPE was administered to 275 managers in the USA. Strategy along Porter's typology, strategic capabilities, uncertainty, and performance were measured via existing scales. Items were created to assess SPE.

Findings – Managers in firms with greater SPE also reported greater uncertainty about competition and markets, and lower capabilities with regard to management and technology. Managers in organizations with weaker market orientations (MOs) – including greater uncertainty about competition and markets, and lower capabilities in management and technology – emphasized greater SPE. Managers reporting lower capability levels in their firms were more likely to report higher SPE and to have increased SPE in the last decade. Select uncertainties and capabilities – not competitive strategy *per se* – appears to have prompted an increase in SPE in these firms.

Originality/value – An effective NMS is vital from the perspectives of both profit maximization for shareholders and the satisfaction of broader, social objectives. However, many executives are trained to excel in the market arena and may not have the skill set and temperament necessary for success in NMS and specifically, the political arena. Moreover, SPE and market strategies are not always consistent, challenging executives to integrate and balance the two orientations.

Keywords Nonmarket strategy, Corporate political analysis, Strategic capabilities, Strategic political analysis, Strategic political emphasis, Strategic uncertainty

Paper type Research paper

Introduction

Strategic management can be conceptualized as a three-phase process that includes: first, the analysis of external and internal environments; second, the formulation of strategies appropriate for the firm; and third, the execution and control of those strategies. Traditionally, successful businesses were viewed as those able to develop and execute strategies that utilize their resources to capitalize on opportunities in their external environments. Broadly speaking, this strategic approach can be viewed as a market orientation (MO), as it entails efforts to leverage market forces to achieve superior performance (Bach and Allen, 2010; Baron, 1995a).

Nonmarket concerns have been long recognized as related to the strategic management process, but have been historically relegated to the analysis stage (Aplin and Hegarty, 1980).



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During the past two decades, however, a non-MO has become more prominent within the formulation and execution stages. With heightened regulations in many nations, increasing political influence, greater emphasis on government-business partnerships, and the rapid development of emerging markets, the notion of nonmarket strategy (NMS) is now widely viewed as a key component of a firm's overall strategic orientation. In many instances, it is considered as a key driver of firm profitability (Doh *et al.*, 2012; Henisz and Zelner, 2012; Kingsley *et al.*, 2012; Sawant, 2012).

This paper examines how a key component of NMS – strategic political emphasis (SPE) – has changed in recent years, and how those changes are linked to perceptions of environmental uncertainty and the development of strategic capabilities. Specifically, it poses a key research question:

RQ1. Does the level of perceived environmental uncertainty (PEU) and the existence of strategic capabilities influence the level of SPE in an organization?

The remainder of the paper begins with an overview of extant NMS literature, with a focus on SPE. Hypotheses linking uncertainty and capabilities to SPE are proposed and assessed. Results with respect to both scholars and practitioners are discussed, followed by conclusions and suggested directions for additional research.

NMS

The notions of NMS and SPE are axiomatic when considered within the context of an evolving strategic management discipline. Early industrial organization (I/O) scholars emphasized the role of industry-level factors as the key drivers of firm profitability (Bain, 1956, 1964; Mason, 1939). Profit deviations from industry norms tend to be random, temporal, and largely unsustainable within the I/O perspective, while competitive advantage is fleeting and costly. The dominant emphasis in the field began to shift away from the industry level in the late 1970s, first to strategic groups and ultimately to the firm level. More recently, scholars within the resource-based and capability perspectives have acknowledged the role of industry factors while emphasizing firm attributes (Barney, 1996; Barney *et al.*, 2011).

Both the earlier industry and more recent firm perspectives view profitability from a MO (Cadogan *et al.*, 2002; van Raaij and Stoelhorst, 2008), the former through adaptation to the external environment and the latter through capability development and opportunity exploitation (Barney, 1996; Barney *et al.*, 2011); success is couched in terms of products and services, customers, and competitors. Nonmarket concerns – including political, economic, social, and technological forces – were acknowledged but not emphasized as the central driver of performance. This is changing with particular regard to the political realm, as business has become more global, and governments in developed nations have shifted toward mixed economic models that include greater regulation and closer governmental partnerships with profit-seeking organizations. As Bach and Allen (2010, p. 41) noted, the complexities of a global environment, stating, “sustained competitive advantage arises from tackling social, political and environmental issues as part of a corporate strategy—not just pursuing business as usual.” Put another way, strategic managers in firms today must be concerned with both market and nonmarket strategies if they are to perform well and sustain high performance over time (Singer, 2013).

The notion of NMS is grounded in stakeholder theory (Barney, 1996; Barney *et al.*, 2011). Traditionally, strategists emphasized the organization's fiduciary link to its

owners. Customers, employees, and/or competitors were also considered to the extent that they affected the firm's ability to maximize profits. Alternatively and from the broader stakeholder perspective, a firm should be managed with regard to the complex relationships among all of the entities that affect or are affected by its actions (Bosse *et al.*, 2009; Choi and Wang, 2009; Harrison *et al.*, 2010; Harrison and Wicks, 2013). Although a stakeholder orientation is widely accepted by many scholars and practitioners, whether and how it enhances firm profitability in the long term remains widely debated in the literature (Mason, 2007).

NMS has been investigated within several research traditions and from disparate perspectives. Baron (1995a) defined NMS as interactions between firms and external parties intermediated by the public, public institutions, government entities, the media, and other stakeholders. In a more narrow sense, strategic political management (SPM) refers to the strategic actions that firms plan and execute to extract profits directly or indirectly from the political environment. Corporate political activity encompasses SPM but also includes other activities as well (Hillman and Hitt, 1999; Hillman *et al.*, 2004; Hillman and Zardkoohi, 1999; Oliver and Holzinger, 2008). Each of these related constructs underscores the prominence of understanding and taking action with regard to the political arena, a firm's SPE.

While scholars and practitioners distinguish between MS and NMS, many have emphasized their overlap and integration (Baron, 1995a; dos *et al.*, 2012; Henisz and Zelner, 2012; Kingsley *et al.*, 2012; Sawant, 2012; Singer, 2013; Sun *et al.*, 2012). Following Doh *et al.* (2012), nonmarket and market strategies should be linked, in that NMS shares many of the theories and perspectives invoked to inform our understanding of MS. Indeed, market and nonmarket strategies overlap to some degree, but have clear distinctions (Doh *et al.*, 2012). Both MS and NMS share the same goal – superior firm performance – but there are a number of key distinctions (Porter and Kramer, 2002, 2006; Vázquez-Maguirre and Hartmann, 2013).

Table I compares and contrasts MS and NMS. The MS is crafted to position the firm effectively *vis-à-vis* customers, competitors, and suppliers. Broadly speaking, the MS emphasizes a MO and seeks competitive advantage through capability development in areas such as cost leadership and differentiation. In contrast, the NMS is primarily concerned with addressing political-legal and socio-cultural factors. Competitive advantage is sought primarily through nonmarket means, including private interests, industry influence, and collaboration with government entities. Whereas a greater emphasis on MS is prevalent in developed, market-oriented societies, a greater emphasis on NMS is more common in less developed, emerging, and socialist societies. Differences between the MS and the NMS aside, both strategies seek superior firm performance.

The societal concerns emanating from market and nonmarket strategies are challenging. From the MS perspective, managers cannot always be trusted, creating a host of ethical trepidations. Managers may be willing to engage in unethical behavior – from dishonest accounting to deceptive advertising – in pursuit of short-term profits. Some scholars have directly challenged the supremacy of the fiduciary, profit-centered relationship between the firm and its owners, arguing instead for nonprofit obligations as part of a broader corporate social responsibility (CSR) (Cartwright and Craig, 2006; Henisz, 2011; Tang *et al.*, 2012). Others view CSR as an inappropriate attention shift away from firm owners and customers, arguing instead for a stronger sense of managerial morality (Mackey, 2011; Parnell and Dent, 2009; Woiceshyn, 2011). Nonetheless, firms are increasingly being blamed for societal problems in an era when many have embraced the CSR concept (Porter and Kramer, 2011).

	Market strategy (MS)	Nonmarket strategy (NMS)	Opportunities for integration	Challenges and contradictions
Primary actors	Customers, competitors, suppliers	Political-legal and socio-cultural entities	Customers also engage in the political-legal and socio-cultural environments	Political entities do not always represent the interests of markets
Strategic emphasis	Market-oriented environmental scanning, resource development, revenue growth and profits through customer-oriented markets	Politically and socially oriented environmental scanning, resource development, revenue growth and profits through government policies and partnerships	Government intervention in markets typically require business cooperation	Government intervention creates additional regulatory requirements and costly obligations
Means	Competitive advantage through capability development in areas such as cost leadership, differentiation, and focus	Competitive advantage through private interests, industry influence, collaboration	Firms advance their MS interests through political and social involvement	Collaboration and collusion can detract firms from a more efficient market orientation
Societal concerns	Ethical concerns with regard to markets and corporate social responsibility (CSR)	Ethical concerns with regard to political entities, such as cronyism	An ethical orientation serves markets well and reduces societal demand for government intervention	An ethical orientation may reduce firm opportunities for performance maximization through collusion and corruption
Context considerations	Prevalent in developed, market-oriented societies	Prevalent in less developed, emerging, and/or socialist societies	Firms in emerging economies often shift emphasis from NMS to MS	Firms operating in diverse nations must address disparate environments with different strategies
Goals	Superior firm performance (e.g. survival, profits, growth)	Superior firm performance (e.g. survival, profits, growth)	Firms must balance emphasis on MS and NMS	The pursuit of conflicting goals can erode trust in organizations

Table I.
Comparing market and nonmarket strategies

The increased emphasis on NMS creates both opportunities and challenges for the organization. An effective NMS is vital to many firms from the perspectives of both profit maximization for shareholders and the satisfaction of broader, social objectives (Singer, 2013). However, many executives are trained to excel in the market arena and may not have the skill set and temperament necessary for success in the nonmarket domain (Bach and Allen, 2010; Vázquez-Maguirre and Hartmann, 2013). Moreover, nonmarket and market concerns are not always in concert, challenging executives to integrate and balance nonmarket and market approaches into a broader, comprehensive strategy for the firm (Baron, 1995a; Cavazos and Rutherford, 2012).

The need to integrate NMS considerations with the MS has been primarily viewed as an additional strategic emphasis. In other words, progressive firms should continue to craft and execute an effective MS, but should also develop a supporting NMS. Ostensibly, the NMS should complement the MS, but the extent to which this actually occurs varies across firms. Some overlap between the MS and the NMS notwithstanding, potential contradictions between the two strategies suggest that strategic managers must consider tradeoffs that might emphasize one at the expense of the other.

SPE

NMS includes all strategic concerns that do not have a direct MO. Chief among these are those in the political realm. SPE refers to a significant part of the NMS associated with the organization's relationships to government entities. SPE is often associated with overt activity such as lobbying politicians, or seeking government grants or loans. However, actions associated with SPE can also be subtle, such as basing product or market decisions on shifts in public policy (Bach and Allen, 2010; Baron, 1995b; Holburn and Vanden Bergh, 2008). Hence, both firms seeking and obtaining government funding to support alternative energy projects, and those modifying their product lines to include models less dependent on fossil fuels and exerting SPE.

SPE can be applied at various echelons (Doh *et al.*, 2012). At the industry level, groups of firms attempt to influence and manage broad government regulations in areas such as product safety, working conditions, and environmental protection (Porter and Kramer, 2002, 2006; Vázquez-Maguirre and Hartmann, 2013). At the organization level, firms seek to develop resources and capabilities to enhance their standings *vis-à-vis* legislation and agency enforcement; it is common for executives in large firms to network with their counterparts in other firms and with leaders in government (Aplin and Hegarty, 1980; Capron and Chatain, 2008; Holburn and Vanden Bergh, 2008; Oliver and Holzinger, 2008; Rival, 2012). At the strategic group level, select firms in an industry (e.g. small or large competitors) may work together to influence political actors and institutions (Frynas *et al.*, 2006; Mahon *et al.*, 2004).

The SPE domain also acknowledges the inherent reality that individuals cannot always be trusted, but its ethical concerns focus on links between executives and nonmarket actors, namely representatives of government entities. Some activities such as bribery are overt and are generally illegal. Other activities, such as forms of collusion with competitors, lobbying legislators, and negotiating with regulators, are more cunning and situational, and do not always have a clear legal standing (Cavazos and Rutherford, 2012; Kingsley *et al.*, 2012; Mantere *et al.*, 2009; Parnell and Dent, 2009; Parnell *et al.*, 2013; Rival, 2012; Vázquez-Maguirre and Hartmann, 2013). Broadly speaking, these concerns are more prevalent in emerging economies that lack appropriate legal frameworks and infrastructure (Barron, 2010; Holburn and Vanden Bergh, 2008; Lailani Laynesa and Mitsuhashi, 2013; Mantere *et al.*, 2009; Peng, 2003; Vázquez-Maguirre and Hartmann, 2013). In such a global context, uncertainty accentuates and drives both market and nonmarket strategies (Bonardi *et al.*, 2006; Delios and Henisz, 2003; Ghemawat, 2008). Nonetheless, there is anecdotal evidence and a growing consensus among scholars and practitioners that nonmarket concerns have become more prevalent in developed nations as well (Galang, 2012; Planet Plutocrat, 2014; Sun *et al.*, 2012).

Hypotheses

This paper tests two sets of hypotheses aimed at understanding factors that influence a firm's SPE. Both current SPE and the change in SPE in recent years are key considerations.

The hypotheses proposed address links between SPE and strategic uncertainties, and between SPE and strategic capabilities. The links hypothesized in this study are summarized in Figure 1. Broadly speaking, it is posited that a high level of SPE is in part a response to strategic uncertainty and is also more likely to occur in organizations with an inferior combination of strategic capabilities.

SPE and strategic uncertainty

The first set of hypotheses addresses links between strategic uncertainty and SPE. Managing uncertainty is a key strategic responsibility, but a distinction between objective and subjective uncertainty is warranted. Objective uncertainty is an industry-level phenomenon, and its existence infers that all certain factors are unpredictable for all firms. In contrast, subjective uncertainty, or PEU, invokes an enactment perspective (Dess and Davis, 1984; Leitner and Guldenberg, 2010; Milliken, 1987; Parnell, 2006). PEU is the perspective considered herein and describes the extent to which an organization's managers perceive the environment to be unpredictable (Leitner and Guldenberg, 2010; Nandakumar *et al.*, 2011; Stonehouse and Snowdon, 2007). PEU is a multi-dimensional construct (Lines, 2005, 2007; Milliken, 1987) and is divided into three dimensions in this study.

The existence of certain types of uncertainty in the environment can influence the strategy formulation process, and ultimately performance (Parnell *et al.*, 2012; Swamidass and Newell, 1987). Strategic managers craft strategies for their organizations in an attempt to shape the competitive environment and as one means of addressing strategic uncertainty (Jauch and Kraft, 1986; Sun *et al.*, 2009). Their choice of generic strategy and their emphasis on key strategic capabilities can be viewed as the means by which they address uncertainty and competitive challenges (Parnell *et al.*, 2012).

High levels of PEU tend to be negatively associated with organizational performance because they make it more difficult for strategic decision makers to develop market-oriented strategies that leverage a firm's capabilities *vis-à-vis* environmental opportunities and threats (Parnell *et al.*, 2000, 2012). As higher levels of PEU create challenges for the MS, strategic managers may begin to emphasize the NMS and increase SPE. For example, strategic managers confused by the direction of the markets in which their organizations compete may attempt to erect entry barriers through legislation, align their business activities with current political trends, or even seek direct assistance from governments through specific loans or grants. The first set of hypotheses tests for a link between three

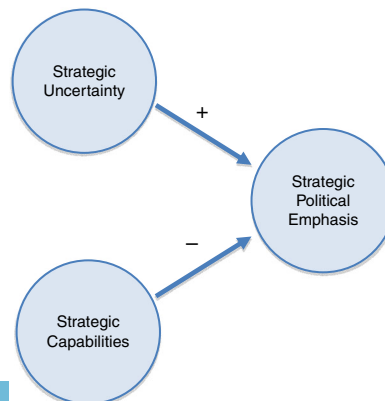


Figure 1.
Proposed model:
strategic uncertainty,
strategic capabilities,
and strategic political
emphasis

realms of uncertainty – market, technology, and competitive – and both the current level of and recent changes in SPE:

- H1a.* There will be a positive correlation between perceived uncertainty about markets and SPE.
- H1b.* There will be a positive correlation between perceived uncertainty about markets and the change in SPE in recent years.
- H1c.* There will be a positive correlation between perceived uncertainty about technology and SPE.
- H1d.* There will be a positive correlation between perceived uncertainty about technology and the change in SPE in recent years.
- H1e.* There will be a positive correlation between perceived uncertainty about competitors and SPE.
- H1f.* There will be a positive correlation between perceived uncertainty about competitors and the change in SPE in recent years.

SPE and strategic capabilities

The second set of hypotheses examines the link between SPE and strategic capabilities. Building on the resource-based view, strategic capabilities emphasize unique firm competencies and resources in strategy formulation rather than industry characteristics (Berchicci *et al.*, 2012; Peng, 2003; Peteraf *et al.*, 2013; Vogel and Güttel, 2013). Such capabilities are generally scarce, relatively immobile, and not easily copied by competitors (Desarbo *et al.*, 2005). Resources must be coupled with capabilities, complex bundles of skills and accumulated knowledge that enable organizations to coordinate activities and utilize their assets (Assudani, 2008; Teece *et al.*, 1997).

Market and nonmarket strategic decisions represent choices about resources and capabilities (Baron, 1995a; Certo *et al.*, 2006; Porter, 1981; Zajac and Shortell, 1989). While some degree of integration is possible, the MS and the NMS represent alternate paths to superior firm performance (Bach and Allen, 2010; Cavazos and Rutherford, 2012; dos Reis *et al.*, 2012; Henisz and Zelner, 2012; Lux *et al.*, 2011; Vázquez-Maguirre and Hartmann, 2013). Specifically, promoting SPE is expected to restrict the development of strategic capabilities in other areas. Moreover, managers in organizations with strong MO strategic capabilities are expected to emphasize the MS, whereas those in organizations with less developed capabilities may increase SPE to compensate for the shortcoming. Specifically, both the amount and the change in SPE in recent years is expected to be associated with decreased strategic capabilities in market, market-linking, technology, and management realms:

- H2a.* There will be a negative correlation between SPE in an organization and strategic capabilities in the market realm.
- H2b.* There will be a negative correlation between the change in recent years in SPE and strategic capabilities in the market realm.
- H2c.* There will be a negative correlation between the SPE in an organization and strategic capabilities in the market-linking realm.
- H2d.* There will be a negative correlation between the change in recent years in SPE and strategic capabilities in the market-linking realm.

- H2e.* There will be a negative correlation between the SPE in an organization and strategic capabilities in the technology realm.
- H2f.* There will be a negative correlation between the change in recent years in SPE and strategic capabilities in the technology realm.
- H2g.* There will be a negative correlation between the SPE in an organization and strategic capabilities in the management realm.
- H2h.* There will be a negative correlation between the change in recent years in SPE and strategic capabilities in the management realm.

Methods

Previously validated, five-point Likert scales were utilized in this study. Strategy along Porter's typology was assessed via scales developed by Zahra and Covin (1993) as reported in Luo and Zhao (2004). Scales developed and validated by Desarbo *et al.* (2005) were used to assess market environment uncertainty, competitive environment uncertainty, and technological environment uncertainty. Capabilities were considered within the context of four factors – marketing, market-link, technology and management – and were measured via scales developed by Day (1994) and Desarbo *et al.* (2005).

Several additional items were developed specifically for this study. Respondents were asked to rate current levels of strategic emphasis (i.e. low or high) their firms place on three factors related to political entities, customers, and competitors, as well as changes in strategic emphasis on these factors during the past decade. The first of these three items served as a direct measure for SPE. Five-point Likert scales were utilized for each of these items.

Although not addressed in either set of hypotheses, it was important to obtain a measure of organizational performance to provide context for the sample. Measuring organizational performance is always challenging, with several options available to scholars (Johnston and Pongatchat, 2008; Jusoh and Parnell, 2008; Sergio *et al.*, 2007; Van der Stede *et al.*, 2006). Quantitative measures are often utilized, but qualitative measures include subjective areas of performance such as satisfaction with financial returns, growth, and goal attainment. Hence, utilizing a qualitative approach can provide that may be lost when financial measures alone are employed (Ayadi *et al.*, 1998; Parnell *et al.*, 2006). In the present study, self-typing scales to assess relative competitive and objective performance were adopted from Ramanujam and Venkatraman (1987). A five-point Likert scale was utilized.

A survey instrument containing the uncertainty, capability, strategic emphasis, and performance items was administered to 275 managers enrolled in three post-graduate institutions in the USA. Only individuals employed as managers were included in the sample. Multiple levels, backgrounds, industries, and firm sizes were represented (see Table II). This sample is particularly insightful because it provides a cross-sectional gauge of management perceptions from individuals who have been exposed to a wide variety of strategic considerations. Specifically, the inclusion of middle managers informs the analysis, as they have begun to play a greater role in recent years in both strategy formulation and implementation (Balogun and Johnson, 2004; Raes *et al.*, 2011).

Factor loadings and coefficient alphas provided ample support for the scales, as summarized in Tables III-V. Factor scores were calculated via the regression method and served as surrogates for each of the multi-item scales in subsequent hypothesis

Variable	<i>n</i>	%	Exploratory assessment of managers
<i>Management level</i>			
Lower	55	20.0	
Middle	113	41.1	
Upper	107	38.9	
<i>Functional background</i>			
Accounting/finance	68	24.7	
General management/HR	97	35.3	
Marketing/sales	48	17.5	
Production/engineering	45	16.4	
Other	17	6.2	
<i>Gender</i>			
Male	157	57.1	
Female	118	42.9	
<i>Industry</i>			
Manufacturing	102	37.1	
Hospitality	69	25.1	
Services	102	37.1	
Other	2	0.7	
<i>Firm size</i>			
Micro (- 10 employees)	24	8.7	
Small (11-50 employees)	78	28.4	
Medium (51-250 employees)	88	32.0	
Large (251+ employees)	85	30.9	
<i>Firm ownership</i>			
US owned	246	89.5	
Non-US owned	29	10.5	

Table II.
Sample characteristics

Scale	Item	Factor loading
Cost ($\alpha = 0.732$)	Emphasis on efficiency of securing raw materials or components	0.635
	Emphasis on finding ways to reduce costs	0.711
	Level of operating efficiency	0.643
	Level of production capacity utilization	0.728
	Emphasis on price competition	0.754
Uniqueness of your products	Uniqueness of your products	0.749
	Targeting a clearly identified segment	0.813
	Offering products suitable for a high-price segment	0.798
	Offering specialty products tailored to a particularly group of customers	0.821
	Emphasis on using new methods and technologies to create superior products	0.727
Focus ($\alpha = 0.799$)	Emphasis on new product development or existing product adaptation to better serve customers	0.664
	Rate of new product introduction to market	0.674
	Emphasis on the number of new products offered to the market	0.750
	Intensity of your advertising and marketing	0.716
	Emphasis on developing and utilizing sales force	0.840
	Emphasis on building strong brand identification	0.855

Table III.
Factor analysis results: strategy scales

Table IV.
Factor analysis
results:
uncertainty scales

Scale	Item	Factor loading	
Uncertainty-markets ($\alpha = 0.826$)	In our kind of business, customers' product preferences change quite a bit over time	0.764	
	Our customers tend to look for new products all the time	0.827	
	Sometimes our customers are very price-sensitive, but on other occasions, price is relatively unimportant	0.799	
	New customers tend to have product-related needs that are different from those of our existing customers	0.676	
	We cater to many of the same customers that we used to in the past	0.587	
	It is very difficult to predict any changes in this marketplace	0.738	
	Uncertainty-technology ($\alpha = 0.943$)	The technology in our industry is changing rapidly	0.879
		Technological changes provide big opportunities in our industry	0.891
		It is very difficult to forecast where the technology in our industry will be in the next two to three years	0.890
		A large number of new product ideas have been made possible through technological breakthroughs in our industry	0.900
Technological developments in our industry are rather minor		0.843	
The technological changes in our industry are frequent		0.886	
Uncertainty-competition ($\alpha = 0.830$)		Competition in our industry is cutthroat	0.750
	There are many "promotion wars" in our industry	0.717	
	Anything that one competitor can offer can be matched readily by others	0.731	
	Price competition is a hallmark of our industry	0.811	
	One hears of a new competitive move almost every day	0.671	
	Our competitors are relatively weak	0.733	

testing. Harmon's single factor test was employed to test for common method bias. Variance explained for one factor was 27.9, 25.3, and 28.9 percent for the strategic emphasis, capabilities, and uncertainty items, respectively, suggesting that common method bias was not a concern.

Findings

Several tests were performed to ascertain the context before the hypotheses were examined. Analysis of variance tests were conducted to identify any differences that might exist in either the degree of strategic emphasis on political factors or the change in emphasis across management level, functional background, gender, industry, or firm size. No significant differences (at the 0.05 level) were found in either variable in any of the tests.

It is also useful to understand any links between a firm's SPE and recent change in SPE, and overall performance. There was a significant, positive correlation between SPE and change in SPE. The correlation was not high, only 0.126, but significant at the 0.036 level. Other correlations are provided in Table VI.

SPE was not significantly associated with performance, but there was a significant, negative correlation (-0.152 , significant at the 0.011 level) between the recent change in SPE and perceptions about firm performance. In other words, there is no evidence that a heightened SPE necessarily benefits organizations in terms of overall performance, and doing so could be detrimental, *ceteris paribus*.

Scale	Item	Factor loading	Exploratory assessment of managers
Capabilities-marketing ($\alpha = 0.930$)	Knowledge of customers	0.863	51
	Knowledge of competitors	0.877	
	Integration of marketing activities	0.844	
	Skill to segment and target markets	0.871	
	Effectiveness of pricing programs	0.864	
Capabilities-market linking ($\alpha = 0.888$)	Effectiveness of advertising programs	0.844	
	Market sensing capabilities	0.774	
	Customer-linking (i.e. creating and managing durable customer relationships) capabilities	0.835	
	Capabilities of creating durable relationship with our suppliers	0.754	
	Ability to retain customers	0.798	
Capabilities-technology ($\alpha = 0.925$)	Channel-bonding capabilities (i.e. creating durable relationship with channel members such as wholesalers and retailers)	0.805	
	Relationships with channel members	0.844	
	New product development capabilities	0.879	
	Manufacturing processes	0.820	
	Technology development capabilities	0.852	
Capabilities-management ($\alpha = 0.892$)	Ability of predicting technological changes in the industry	0.840	
	Production facilities	0.852	
	Quality control skills	0.874	
	Integrated logistics systems	0.775	
	Cost control capabilities	0.810	
	Financial management skills	0.857	
	Human resource management capabilities	0.831	
	Accuracy of profitability and revenue forecasting	0.831	
	Marketing planning process	0.730	

Table V.
Factor analysis results: capability scales

Organizational performance as perceived by the respondents was positively associated with strategic emphasis on cost leadership, differentiation, competitors, and customers. This finding is consistent with previous work (Dess and Davis, 1984; Gopalakrishna and Subramanian, 2001; Nandakumar *et al.*, 2011) and sets the stage for additional hypothesis testing (Leitner and Guldenberg, 2010; Nandakumar *et al.*, 2011; Stonehouse and Snowdon, 2007). With this preliminary analysis as background, attention shifts to the hypotheses.

Table VII summarizes the results of hypothesis tests. The first set of hypotheses was partially supported. Uncertainty about markets was positively associated with both current SPE (*H1a*) and the change in that emphasis over the past decade (*H1b*). Uncertainty about technology was also positively associated with both SPE (*H1e*) and the change in that emphasis over the past decade (*H1f*). However, uncertainty about competitors was not associated with either current SPE (*H1c*) or the change in that emphasis over the past decade (*H1d*).

The second set of hypotheses was also partially supported. Emphasis on the development of marketing capabilities was negatively associated with current SPE (*H2a*), but not with a change in SPE (*H2b*). Likewise, emphasis on the development of market-linking capabilities was negatively associated with current SPE (*H2c*), but not with a change in SPE (*H2d*).

Emphasis on the development of technological capabilities was not associated with current SPE (*H2e*), but was negatively associated with a change in SPE (*H2f*).

Table VI.
Correlations

Variable	S-Cost	S-Diff	S-Focus	U-Mkt	U-Tech	U-Com	C-Mkt	C-Link	C-Tech	C-Mgt	Perf	SPE	SPE-Ch
Strat-Cost	1.00												
Strat-Differ	0.030	1.00											
Strat-Focus	0.217*	0.271	1.00										
Unc-Markets	-0.049	0.045	0.080	1.00									
Unc-Tech	0.088	0.375*	0.195*	0.053	1.00								
Unc-Compet	0.116	0.230*	0.179*	0.188*	0.217*	1.00							
Cap-Markets	0.071	0.267*	0.039	0.050	0.200*	0.076*	1.00						
Cap-Linking	0.181*	-0.073	0.080	-0.024	-0.101	0.089	0.162*	1.00					
Cap-Tech	-0.013	0.224*	0.049	-0.047	0.016	0.120*	0.179*	0.139*	1.00				
Cap-Mgt	0.241*	0.241*	0.123*	0.075*	0.126*	0.093	0.159*	0.177*	0.084	1.00			
Performance	0.276*	0.189*	0.304	0.103	0.052	0.103	0.332*	0.315*	0.227*	0.409*	1.00		
SPE	0.003	0.110	0.042	0.134*	-0.006	0.141*	-0.129*	-0.220*	-0.019	0.005	-0.057	1.00	
SPE Change	-0.040	-0.077	-0.025	0.194*	-0.004	0.231*	-0.086	-0.094	-0.151*	-0.161*	-0.191*	0.126*	1.00

Note: *Significant at 0.05 level

Hypothesis	Variables	Hypothesized direction	Supported (correlation/signif.)
<i>H1a</i>	Uncertainty about markets and emphasis on political-legal forces	Positive	Yes (0.134/0.027)
<i>H1b</i>	Uncertainty about markets change in emphasis on political-legal forces	Positive	Yes (0.194/0.001)
<i>H1c</i>	Uncertainty about competitors and emphasis on political-legal forces	Positive	No (-0.006/0.917)
<i>H1d</i>	Uncertainty about competitors and change in emphasis on political-legal forces	Positive	No (-0.004/0.942)
<i>H1e</i>	Uncertainty about technology and emphasis on political-legal forces	Positive	Yes (0.141/0.019)
<i>H1f</i>	Uncertainty about technology and change in emphasis on political-legal forces	Positive	Yes (0.231/0.000)
<i>H2a</i>	Emphasis on political-legal forces and marketing capabilities	Negative	Yes (-0.129/0.086)
<i>H2b</i>	Change in emphasis on political-legal forces and marketing capabilities	Negative	No (-0.086/0.155)
<i>H2c</i>	Emphasis on political-legal forces and market-linking capabilities	Negative	Yes (-0.220/0.000)
<i>H2d</i>	Change in emphasis on political-legal forces and market-linking capabilities	Negative	No (-0.094/0.120)
<i>H2e</i>	Emphasis on political-legal forces and technological capabilities	Negative	No (-0.019/0.750)
<i>H2f</i>	Change in emphasis on political-legal forces and technological capabilities	Negative	Yes (-0.151/0.012)
<i>H2g</i>	Emphasis on political-legal forces and management capabilities	Negative	No (0.005/0.940)
<i>H2h</i>	Change in emphasis on political-legal forces and management capabilities	Negative	Yes (-0.161/0.007)

Table VII.
Summary of
hypothesis tests

Likewise, emphasis on the development of management capabilities was not associated with current SPE (*H2g*), but was negatively associated with a change in SPE (*H2h*).

Regression analysis was employed to gain greater insight into the linkages identified in the previous tests. Tables VIII and IX summarize the results of a hierarchical regression via the stepwise method with change in SPE as the dependent variable. Control variables included years of management experience, years of organizational experience, management level, gender, number of employees in the firm, ownership status (i.e. USA or non-USA), and age of the firm. Potential independent variables included factor scores for each of the three strategies (cost leadership, differentiation, and focus), the three uncertainties, and the four capabilities. The optimal model – with all significance values below 0.010 – included four independent variables: uncertainty about competition, uncertainty about markets, management capabilities, and technology capabilities. None of the rejected variables was close to inclusion, with significance values ranging from 0.205 to 0.672. Tolerance statistics for each dependent variable exceed 0.9 and the VIF for each dependent variable is close to 1.0, suggesting that multicollinearity was not a concern. The Durbin-Watson statistic of 2.133 suggests that autocorrelation is unlikely.

Discussion

This paper sought to determine if and to what extent the level of PEU and the existence of strategic capabilities influence the level of SPE in an organization. The partial support for both hypotheses and the results of the regression analysis suggest that both factors influence current SPE and the change in SPE in specific ways.

The partial support for *H1* is intriguing. Both the current SPE and the change in that emphasis are positively linked to uncertainties about markets and about technology, but not to uncertainty about competitors. One explanation for this link is that executives who do not understand markets and technology turn to nonmarket (i.e. political) means of pursuing superior performance, while those that do not understand their competitors turn to traditional, market-oriented means (i.e. cost leadership, differentiation, or competitor analysis). The inverse represents another possibility; managers whose firms whose success is tied to nonmarket factors lose their ability to interpret how changes in markets and technology affect their organizations. A clear direction of the link cannot be identified, however.

The partial support for *H2* is also intriguing. Managers in organizations with higher levels of marketing and market-linking capabilities reported less emphasis on SPE and did not report any change in SPE in recent years. Meanwhile, organizations with greater technology and management capabilities were neither more nor less likely than their counterparts to increase SPE, but their managers reported that their firms' SPE has declined in recent years. Broadly speaking, firms in weaker competitive

Table VIII.
Multiple regression
model summary^a

Model	Independent variable added	R	R ²	Adjusted R ²	SE
1.	Control variables	0.122	0.015	-0.011	1.573
2.	Uncertainty-competition	0.264	0.070	0.042	1.531
3.	Capabilities-management	0.322	0.104	0.073	1.506
4.	Uncertainty-markets	0.363	0.132	0.099	1.485
5.	Capabilities-technology	0.393	0.155	0.119	1.468

Note: ^aDependent variable (DV): change in strategic political emphasis

Table IX.
Multiple regression
results (model 5)

Variable	Unstandardized coefficients		Standard coefficient	t-value	Significance
	B	SE	β		
Constant	3.492	0.732		4.771	0.000
<i>Control variables</i>					
Years Management Experience	-0.002	0.027	-0.006	-0.089	0.929
Years Organizational Experience	-0.022	0.027	-0.051	-0.830	0.407
Management Level	0.120	0.125	0.057	0.964	0.336
Gender	0.299	0.183	0.095	1.630	0.104
Number of Employees in Firm	8.260 E-6	0.000	0.062	1.064	0.288
Ownership (Domestic/Foreign)	-0.118	0.293	-0.023	-0.404	0.687
Firm Age	-0.001	0.003	-0.017	-0.295	0.768
<i>Independent variables</i>					
Uncertainty-competition	0.389	0.094	0.248	4.153	0.000
Capabilities-management	-0.290	0.090	-0.185	-3.225	0.001
Uncertainty-markets	0.260	0.092	0.166	2.810	0.005
Capabilities-technology	-0.245	0.092	-0.156	-2.656	0.008

positions – those reporting lower capability levels – are more likely to report higher levels of SPE today and are more likely to have increased their SPE in recent years.

The regression results were particularly insightful. Managers in firms placing greater strategic emphasis on political factors tended to report greater uncertainty about competition and markets, and lower capabilities with regard to management and technology. If SPE is viewed as a reflection of how managers in an organization perceive the environment, then those with weaker MOs – greater uncertainty about competition and markets, and lower capabilities in management and technology – appear to pursue SPE instead of a more market-oriented approach, at least to some extent.

Neither cost leadership nor differentiation was included in the final regression model. This is especially intriguing given that organizational performance was positively associated with both measures (see Table III), but negatively associated with change in SPE ($r = 0.164$, $\text{sig} = 0.006$). Put another way, it appears that select uncertainties and capabilities – not competitive strategy *per se* – prompt a shift in SPE, but the subsequent link to performance is less clear and beyond the scope of this paper. Several explanations are possible, however. The increase in SPE could drive down performance, low performance could prompt an increase in SPE, both variables could interact with other unidentified variables, or some combination of the three.

Implications for managers

The links among strategic uncertainty, strategic capabilities, and SPE suggest several implications for managers. It is possible for firms to aggressively pursue both market- and nonmarket-oriented strategies. Nonetheless, strategies reflect choices and managers in most high-performing firms appear to consciously opt out of some strategic alternatives in order to develop resources and capabilities aligned with others (Berchicci *et al.*, 2012; Parnell, 2011; Theodosiou *et al.*, 2012; Wu *et al.*, 2012). Hence, while strategic managers should consider both market and nonmarket factors, priorities are appropriate. Put another way, top managers must answer a fundamental question: Should we seek high performance for our organization primarily through market-oriented factors, through nonmarket-oriented factors, or through some combination of the two? Each option is considered in kind.

Traditionally, managers at most firms have prioritized market factors when crafting strategies, emphasizing products and services, markets, and competitive positioning. Indeed, most strategy-performance studies have focussed predominantly or exclusively on such factors (Dess and Davis, 1984; Parnell, 2010; Rashidirad *et al.*, 2013; Ray *et al.*, 2004; Stonehouse and Snowdon, 2007; Zajac and Shortell, 1989). Much is known about how different approaches to MO and their alignment with organizational capabilities impacts performance (Day, 1994; Theodosiou *et al.*, 2012; Wu *et al.*, 2012). Firms have a significant amount of direct control over the development of products and services, and revenues from such offerings ultimately drive profitability. From this perspective, invoking SPE at the expense of MO appears unsound.

A case can be made for deemphasizing market factors and increasing SPE, however. Political considerations have always been prominent in emerging economies and there is mounting evidence that political and regulatory oversight has increased throughout the developed world as well (Hillman and Hitt, 1999; Hillman and Zardkoohi, 1999; Oliver and Holzinger, 2008; Ozer, 2010). The increase in complex regulations, calls for government-business partnerships, greater public concerns about issues of CSR, and the heightened influence of corporate and industry lobbyists appears to have weakened

the market strategy-performance nexus in many industries (Doz, 1980; Mantere *et al.*, 2009; Porter and Kramer, 2006; Singer, 2013). When one considers the relatively large amount of unexplained performance variance in most academic studies, managers could reasonably conclude that SPE can heighten firm performance. This notion can even be placed in traditional strategic vernacular by considering the development of politically oriented strategic capabilities or the extent to which certain types of SPE can promote sustainable competitive advantage.

Broadly speaking, the compromise position is one of balancing MO and SPE. Proponents of this approach highlight positive links between nonmarket factors such as a firm's social orientation, environmental awareness, or proactive approach with regard to impending legislation, and the MS. For example, prior to the signing of the Affordable Care Act in 2010, executives in insurance and pharmaceutical companies had to decide if and how to influence the legislation even though it was widely viewed as a net negative for most firms in both industries. Pfizer and other firms decided to negotiate with political proponents of the bill – trading support for influence – while also beginning to modify their offerings to align with impending government requirements. The long-term performance outcome of this combination MO-SPE approach remains to be seen, but many analysts believe it was in the best interest of the firms involved, given the situation (Fera, 2013; ObamaCare's Secret History, 2012).

Although the findings presented herein do not resolve this dilemma, they provide a key insight. The positive link between uncertainties about both competitors and markets, and SPE suggests that some top managers may seek the ostensible security of SPE because they simply do not understand the direction in which their competitors and primary markets are headed. In a similar vein, the negative link between strategic capabilities in both management and technology, and SPE suggests that some top managers may promote SPE because key capabilities necessary to pursue market opportunities are not sufficiently developed. For these managers, the impetus for promoting SPE appears to be a position of weakness. SPE is mostly likely to benefit a firm when pursued from a position of strength (Bach and Allen, 2010). Such managers should allocate the resources necessary to improve their understanding of the environment and reduce critical uncertainties, and develop appropriate capabilities.

Conclusions and future directions

This paper assessed factors associated with a firm's shift in SPE. Organizations with weaker MOs appear to utilize nonmarket means of pursuing higher performance. Managers reporting lower capability levels in their organizations are more likely to report higher SPE and to increase that emphasis over time. Multiple regression results suggest that managers in firms with higher SPE reported greater uncertainty about competition and markets, and lower capabilities with regard to management and technology. Although cost leadership and differentiation measures were positively associated with performance, and change in SPE was negatively associated with performance, neither of the strategy measures remained in the optimal regression model. It appears that select uncertainties and capabilities – not competitive strategy *per se* – prompt a shift in SPE.

From a broader perspective, increased attention to NMS and SPE has rekindled a decades-old debate in the strategic management field. Scholars have long evaluated the relative influence of industry and firm-specific factors on firm performance. The complex resolution of this debate is linked to the shift from I/O to organizational resources and capabilities over the past few decades (Barney, 1996; O'Regan *et al.*, 2011).

The rising prominence of nonmarket factors – particularly SPE – has created new questions: To what extent do political actors influence a given industry structure and ultimately, the performance of firms in that industry? To what extent can firms gain and sustain competitive advantage through SPE instead of traditional MO factors? How can firms manage the ostensible tradeoffs between emphases on market and political factors?

Several limitations should be noted. First, the sample included only managers presently enrolled in post-graduate business programs. Although the sample was diverse and included managers from multiple manufacturing and service industries, it does not allow for the precise assessment of industry-specific relationships and is not necessarily representative of all firms in the USA.

Second, the present study employed self-typing scales to assess relative competitive and objective performance (Ramanujam and Venkatraman, 1987; Venkatraman and Ramanujam, 1986). While this approach offers key advantages for cross-industry samples, additional work that also considers objective measures of capabilities and performance may provide additional insight.

Third, the study asked about changes in strategic emphasis over time instead of attempting to measure such emphasis at different points in time. This approach is more streamlined because it does not depend on a longitudinal design, but it also relies more heavily on perceptions and memory of the individual respondents.

Several key questions remain. First, a clearer explanation of the negative association between the shift in SPE – and more broadly speaking, the NMS – and organizational performance is required. Perhaps poor performing firms emphasize the NMS when the MS does not appear to be working, or those that have chosen to emphasize the NMS over the MS have not attained a desired level of performance. The data available in the present study lends credence to one or both possibilities, but is not sufficient to resolve this conundrum.

Second, the integration of a nonmarket and market perspectives expands the potential for stakeholder conflict. The present study suggests a general shift in favor of developing and emphasizing NMS. However, success in the nonmarket arena depends on the satisfaction of nonmarket entities such as politicians, regulatory agencies, and interest groups (Bach and Allen, 2010; Henisz and Zelner, 2012; Lux *et al.*, 2011; Rui, 2010). Although some scholars suggest that entities and goals can be aligned over the long term, an ongoing debate remains (Bach and Allen, 2010; Parnell and Dent, 2009; Sakakibara and Dodgson, 2003; Singer, 2013).

Third, while some firms appear to benefit through an increased SPE, the ostensible existence of a net collective benefit to heightening SPE remains unresolved. Each firm's managers have an incentive – and perhaps a fiduciary responsibility – to craft and implement strategies that consider political factors. However, such emphasis detracts time, energy, and resources away from MO factors such as customers, competitors, and technology. It could be argued that even firms with a high SPE might perform better if they emphasized MO factors instead. Moreover, if some firms are better resource-equipped than others to address nonmarket factors, then those best resource-equipped to address market factors may not be the best performers in a given industry.

The conundrum is underscored by numerous calls in the popular and business press to end cronyism. *The Economist* created and publishes its own “crony-capitalism index,” ranking nations based on its percentage of “crony sectors” in the economy. In 2014, Hong Kong was at the top of the list; the USA was ranked 17 and China was

ranked 19 (Planet Plutocrat, 2014). Investigations in other nations that seek to link uncertainty, capabilities, and SPE are appropriate.

Finally, the findings presented in this paper highlight two key questions at the macro level: Is an increased SPE positive for the economy and society in general because it reflects an expansion of consideration beyond markets? Alternatively, is an increased SPE negative because employs scarce resources in areas that are not market oriented? These questions can be probed from strategic, marketing, social, and philosophical perspectives (Baron and Diermeier, 2007; Leroux and Goerdel, 2009; Oliver and Holzinger, 2008; Ozer, 2010; Sun *et al.*, 2012; Vaara and Durand, 2012).

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Corresponding author

Dr John Parnell can be contacted at: john.parnell@uncp.edu

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