

**A RESOURCE-BASED PERSPECTIVE OF CORPORATE POLITICAL
CAPABILITIES: WHAT ARE THEY AND WHERE CAN THEY COME FROM?**

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Abstract

The policy environment is a non-market domain with the power to systematically impact the firms' market competition and firm value. Therefore, companies have the pressing need to develop political capabilities, defined as the firm's ability to satisfy its political goals by assessing and managing the policy environment to help sustain their competitive advantage. However, the entry barriers of the political sphere make the implementation of corporate political activities (CPA) a costly pursuit. How can firms attain a position of political influence in face of their resource constrains? Drawing on the resource-based view (RBV) and in-depth analysis of political and market capabilities, I argue firms can increase the cost-effectiveness of developing political capabilities through the integration of market-related resources, processes and capabilities towards the satisfaction of political goals. The underlying complementary between market and political capabilities offer a unique way for firms to attain and sustain competitive advantage in the long term. This paper offers a novel analysis of a taxonomy of political capabilities and their impact on the cost-effectiveness of CPA, and a framework on how market capabilities, including market-sensing and customer-linking capabilities, enable political skills in stakeholder identification, knowledge acquisition, and stakeholder communication and engagement.

INTRODUCTION

Research of business organizations recognizes that political actors such as legislators and regulators shape the “rules of the game” of the firms’ primary markets and determine firms’ profitability (Baron, 2016; Bonardi, Hillman, & Keim, 2005; Holburn & Bergh, 2008; Shaffer, 1995). Furthermore, given public and private interests are greatly interdependent (Mahoney, McGahan, & Pitelis, 2009), firms have the incentive to develop connections with their political stakeholders. As a result, companies implement political tactics, such as corporate political activities (CPA), with the aim of influencing the policy-making process towards their competitive advantage (Henisz & Zelner, 2012; Hillman & Hitt, 1999; Keim, 1981). However, the costly entry barriers to compete in the regulatory arena deters many firms from engaging in CPA, leaving them in a position competitive disadvantage compared to the larger firms, which are more politically active (Hansen & Mitchell, 2000; Mezner & Nigh, 1995; Schuler, 1996). Furthermore, even when firms do pursue CPA, the level of success of their implementation tends to vary significantly (e.g., Hadani & Schuler, 2013). Some attribute the variation to differences in firms’ political capabilities, that is, the firm’s ability to satisfy its political goals by assessing and managing the risks of the policy environment (Holburn & Zelner, 2010).

Although researchers commonly agree that political capabilities are critical to determining the success of CPA which, in turn, increases firm value, we still have limited knowledge of specifically what constitutes these political capabilities, and the specific mechanisms that enable firms to build them. If the primary purpose of a capability is to enhance the productivity of the resources that the firm possesses (Barry, 1991; Makadok, 2001), then we should start by analyzing the potential political value of the assets that are already owned by the firm. Recent developments in strategic management theory point towards how various capabilities that a firm develops and

demonstrates in markets (Barney, 1986, 1991; Peteraf, 1993; Porter, 1980,1985) may enable the firm to develop political capabilities (Henisz & Delios, 2002; Holburn & Zelner, 2010) in assisting the firm to attain competitive advantage (Jia & Mayer, 2016; Li, Peng & Macaulay, 2013). Despite the potential appeal of this approach, the connection between market and political capabilities remains under-developed, particularly with regard to the CPA research (Mellahi, Frynas, & Siegel, 2016). How can organizations effectively develop political capabilities by exploiting their market capabilities? Answers to this question will enable firms to explore the most cost-effective ways to develop political capabilities.

I argue that market-based capabilities positively influence how firms develop their political capabilities via two mechanisms: by increasing the cost-effectiveness of engaging in CPA and by capturing the value firm-level specific competencies. First, market-based capabilities increase the cost-effectiveness of CPA engagement in three ways. They lower the opportunity-cost of implementing different CPA (by providing more resources towards specific CPA implementation and generating the possibility of implementing preemptive tactics); they reduce the time of CPA implementation within the policy-making process; and they increase the influence capacity of the CPA over the policy-maker's decisions. Second, corporate political capabilities can only lead to a sustainable competitive advantage if they are supported by firm-level specific competencies (Barney, 1991; Mahoney & Pandian, 1992; Rugman & Verbeje, 2002). By integrating the unique configuration market-related resources and processes into its political strategy, the firm accelerates, extends and establishes its sustained competitive advantage in both the market and policy environment.

Specifically, the theoretical framework I develop to illustrate these mechanisms and how they function consists of the following key components. First, I draw on the CPA literature and

relevant research in political science to provide a novel taxonomy of corporate political capabilities, along with predictions over their effect on the CPA implementation. The components of political capabilities consist of (1) the *political sensing capability*, which facilitates the identification of regulatory/legislative risks and opportunities; (2) the *political access capability*, which facilitates the connection with key political stakeholders; and (3) the *political exchange capability*, which facilitates the provision of relevant political goods in exchange for the political stakeholders' support of the firm's interests. Each of these political capabilities enable the firm to carry out certain activities that shape how firms design and implement their CPA.

Second, I develop the theory on how two capabilities, developed by participating in market competition, enable the firm's skills required to build the political capabilities introduced above. I focus on the firm's market-sensing and customer-linking capabilities, and develop in-depth analysis of how they enable firms to better engage in the processes of stakeholder identification, knowledge acquisition, and stakeholder communication and engagement. These processes positively impact the firm's responsiveness to changes in the policy environment, the firm's ability to connect with its political stakeholders and the firm's ability to influence specific legislation.

This paper makes the following contribution for management scholars and practitioners interested in how firms sustain competitive advantage through their CPA. First, this study engages with, and further develops, an emerging body of literature that highlights that firm's market capabilities can influence its decision to undertake political actions, as well as the effectiveness of their execution (Bonardi, 2006; Jia & Mayer, 2016). Although this literature offers a general idea that political and market capabilities may be related, it falls short of identifying specific theoretical mechanisms and providing a clear analysis of how these connections occur. This paper develops a

novel conceptual framework that articulates the mechanisms for the integration of market and political capabilities in the firm's pursue to sustain competitive advantage.

Second, the theoretical framework is developed primarily based on the resource-based view (RBV) (Barney, 1991; Mahoney & Pandian, 1992; Peteraf, 1993; Wernerfelt, 1984), and it demonstrates how RBV can generate new insights about firm strategy in the non-market arena in two ways. The paper provides a detailed in-depth analysis of what constitutes political capabilities, an appealing notion that has been quickly adopted by the CPA literature (e.g., Holburn & Zelner, 2019; Jia and Mayer, 2016) but remains under-developed. Moreover, the theoretical mechanisms that illustrate the overlapping skills in market and political activities better help researchers of CPA to understand where political capabilities come from and how they may be developed.

Finally, the theoretical framework demonstrates the complementarity between firms' market and political activities. According to the RBV, firms' competitive advantage in markets stems from their ability to possess and transform valuable, rare, inimitable and non-substitutable resources into capabilities (Barney, 1991). Firms that lack such resources or capabilities face a cost disadvantage compared to those competitors that already possesses them. However, if we conceptualize political and market activities as competing for limited internal resources within the firm (Bonardi, 2008), then firms may be less willing or able to engage in the policy environment. By demonstrating how market-related capabilities can be integrated with the activities that aim to achieve political goals, I develop a series of cost-effective mechanisms for firms to develop political capabilities while capturing the value of readily available market-related resources and processes. As a result, the paper offers an approach that integrates the influential role of market-oriented capabilities towards the firm's ability to mobilize political resources to successfully implement CPA.

The first section will examine the taxonomy of the foundational types of political capabilities. The analysis will focus on the resources and processes in developing political sensing, political access, and political exchange capabilities. The second section will develop the mechanisms through which market related capabilities allow for the development of political capabilities. The focus is set on market-sensing and customer-linking capabilities, and their underlying processes of knowledge acquisition, stakeholder identification, and stakeholder communication and engagement. The conclusion provides a discussion of the managerial implications of this framework along with suggestions for future research.

WHAT ARE POLITICAL CAPABILITIES? A TAXONOMY

Political capabilities entail the firm's ability to utilize its resources to both assess the risks and opportunities of the policy environment, and to implement strategic political actions with the aim to shape the regulatory environment to the firm's advantage. (Amit & Schoemaker, 1993; Bonardi et al 2006; Holburn & Zelner, 2010; Lawton, McGuire, & Rajwani, 2013). A politically capable firm will successfully carry out the following three key processes in the policy sphere: anticipate regulatory change by obtaining and interpreting political information; target and connect with relevant political stakeholders that hold a decision-making capacity over the firm's political environment; and obtain the political stakeholders' support in line with the firms' interests by exchanging valued political goods (Hillman & Hitt, 1999; Holburn & Vanden Bergh, 2002; Schuler, Rehbein, & Cramer, 2002).

These processes constitute the three types of a firm's political capabilities, namely political sensing capability, political access capability, and political exchange capability. As we will see, such distinct capabilities guarantee the cost-effectiveness of the overall political strategy by

influencing the different stages of the CPA implementation. In developing these political capabilities, the firm optimizes the commonalities and complementarities between the different political resources it possesses. Following the resource-based view, firms must acquire heterogeneous and immobile resources that differ from its competitors (Barney 1986, 1991; Rumelt, 1984). More specifically, the resources should be rare, inimitable and non-substitutable into capabilities, what is known as the VRIN framework (Barney, 1991). In the case of political capabilities, the firm can acquire and combine organizational resources (i.e. in-house lobbyist), expertise resources (i.e. exclusive information), relational resources (i.e. political connections), reputation resources (i.e. positive stakeholder perception), financial resources (i.e. campaign contributions) and constituency resources (i.e. the possibility to mobilize its social stakeholders) (Baron, 1995; Dahan, 2005; Epstein, 1969; Lord, 2003).

Some of the firm's political resources are arguably more valuable than others. For instance, the relational resources are difficult for rivals to replicate, due to the time and resource integration involved in developing a relationship (Srivastava, Fahey, & Christensen, 1998). These qualities make political relational resources potentially more VRIN than organizational resources like an in-house lobbyist, who can be recruited by the competition. Nonetheless, a stand-alone resource does not have the ability to sustain competitive advantage in the long term, because firms need to gradually integrate and mobilize their resources, and acquire experience implementing political tactics, in order to develop their political capabilities (Holburn & Zelner, 2010; Jia and Mayer, 2016). Fortunately, each type of political capabilities offers the opportunity to accumulate additional or novel resources for the firm. For example, by developing political access capabilities the firm not only accumulates relational resources, but also generates expertise resources about the policy-making process that serves to improve its political sensing capabilities.

The increasing accumulation of political resources, and their complementarity for each of the types of political capabilities, implies the firm's strengths in one area has a potential positive impact on its ability to further develop the rest of its currently weaker capabilities. Therefore, the cost of engaging in CPA will be gradually reduced, because the frequency engaging in such behavior will improve performance and effectiveness of future strategies (Frynas, Mellahi, & Pigman, 2006; Bonardi, Holburn, & Vanden Bergh, 2006). In this sense, the connection between political sensing capability, political access capability and political exchange capability forms a mutually reinforcing process resulting in the firm's overall political capability level.

The firm's strength in each of the three types of political capabilities will affect the following aspects of the political strategy: the style of CPA, such as preemptive or reactive towards the policy-making process; the linearity of the CPA, such as having direct or indirect access to political stakeholders; and the effectiveness of the CPA, such as a strong or a weak influence over the policy. These, in turn, will directly affect the cost-opportunity of engaging in CPA, since its cost-effectiveness decreases with the advancement of the policy-making process. For instance, in the final stages of the policy-making process, the legislators will have defined an opinion over whose interests they support. If this opinion is not in line with the firm's preference, the chances of success decrease, a higher volume of resources are needed to counteract the unwanted policy advancement, and thus the cost of CPA implementation increases.

However, as the firm is able to develop the different dimensions of its political capabilities, the effectiveness of CPA will change. Next, I will provide a detailed analysis in the following subsections about how, (1) through political sensing capabilities, the firm will be able to pursue CPA preemptively, rather than reactively; (2) through political access capabilities, the CPA implementation will be more linear and direct; and (3) through political exchange capabilities, the

influence over the public policy will be stronger. I will then analyze why, with higher levels of each political capabilities, the firm is able to (1) anticipate regulatory risks and opportunity windows, (2) to connect with its relevant political stakeholders and (3) to exchange valued political goods, compared to its competitors.

Political Sensing Capability

Political sensing capability refers to the organization's awareness of the potential effects that the risks and opportunities of the policy environment have on the firms' competitive advantage. Most of political-strategy related decisions are shaped by the organization's risk perception of the policy-environment. Though there exist various forms of political risk, such as civil unrest or government instability (Aliber, 1975; López & Vidal, 2010), this paper refers to them as the potential negative effects that regulatory changes could have on the firm's activity. However, political sensing capability also accounts for the firm's awareness of potential opportunities to attain competitive advantage through regulatory influence. I conclude that political sensing capability affects the cost-opportunity of engaging in CPA by anticipating policy changes and by facilitating the implementation of preemptive CPA.

Political sensing capability is attained through a conscious organizational effort to collect, analyze and convert information into competitive political intelligence. Such process requires attending to political environment cues, interpreting their significance, and predicting their long-term implications for the organization. It can be accomplished as firms mobilize and develop experience in managing organizational resources (i.e. in-house lobbyist), expertise resources (i.e. industry-level knowledge), and relational resources (i.e. established relationships with legislators).

The firm's ability to acquire and process relevant information about its political environment will affect its ability to implement CPA before its competitors, thus leading policy change (preemptive strategy) rather than responding to it (reactive strategy) (Hillman and Hitt, 1999; King & Lenox, 2000; Oliver & Holzinger, 2008). Preemptive strategies involve the firm pursuing CPA with the aim to lead (or gatekeep) regulatory change, even before policy-makers take any concrete actions. Preemptive strategies are characterized by their early implementation in the policy-making process, giving the firm a "first-mover" advantage in the legislative sphere. An example of a preemptive strategy would be the approval of self-regulating protocols (e.g. King & Lenox, 2000), such as the production of goods without the potentially toxic BPA plastic, and then using these measures in lobbying tactics so that the "MADE SAFE" seal becomes a new mandatory requirement across the industry.

By contrast, reactive political strategies are those CPA directed towards influencing or stopping the development of a policy that is already underway. Thus, a reactive political strategy is initiated in response to the policy-makers' actions. Reactive strategies are characterized by their later implementation in the policy-making process. An example of a reactive strategy would be lobbying to modify the content of a clause within a legislative proposal endorsed by the majority of policy-makers.

In conclusion, political sensing capabilities affect the cost-opportunity of engaging in CPA primarily by allowing the firm to anticipate policy changes and by facilitating the firm's decision-making process of what type of CPA should the firm implement. This is summarized as follows:

Proposition 1. *Firms with stronger political sensing capabilities are more likely to implement preemptive political strategies before competitors can mobilize. That is, CPA will be implemented in the early stages of the policy-making for firms with stronger political sensing capabilities.*

Political Access Capability

Once a firm has identified a regulatory risk or opportunity, it needs to target and connect with the relevant political decision-making stakeholders for its business environment in order to persuade them to defend the organization's interest. Political access capability refers to the firm's ability to identify potentially alliable political stakeholders and to successfully establish a relationship with them. The firms that wish to influence the policy process will encounter the challenge of having narrow access to public policy-makers due to the competition between different interest groups for the same legislators' attention (Baumgartner, Berry, Hojnacki, Kimball, & Leech, 2009; Baumgartner & Jones, 2005; Gray & Lowery, 1997). However, political access capability allows to overcome these access barriers by facilitating a linear or direct access to political stakeholders, which provides the firm a "first-mover" advantage.

A direct political access entails the firm can contact its political stakeholders whenever it needs to. Such access accelerates the CPA implementation and lowers its cost for tactics such as lobbying. Firms achieve direct access through the mobilization or combination of organizational political resources, such as in-house lobbyist, and relational resources, such as previously established political relationships. Alternatively, the firm can gain indirect political access by signaling to its political stakeholders that it possesses valuable resources, though this mechanism means the CPA will take longer to implement. Firms can gain indirect political access through their expertise resources, reputation resources, constituency resources or financial resources.

Expertise resources refers to the firm's possession of the type of information that the legislator needs to succeed in the policy-making process. Given their time and resource constraints, legislators value the expert input of organizations that can assist them in strengthening their policy

positions (Drutman, 2015; Grossman & Helpman, 2001; Hall & Deardorff, 2006). Reputation resources refers to the perception that political stakeholders have about the firm, where a positive sociopolitical reputation increases the likelihood of gaining political (Wang & Qian, 2011; Werner, 2015). Financial resources, such as campaign contributions, provides the firm with a greater access to legislators compared to the rest of organizations that do not donate (Kalla & Brookman, 2015; Stratmann, 1991). Finally, constituency resources refer to the firm's capacity to mobilize the politician's constituents in defense of the organization's interest (Walker, 2014).

Note that, whichever the resources mobilized to gain political access, once a connection has been established it is critical for the firm to sustain its relationship with its political stakeholders' over time. Expanding and sustaining the political network serves a double purpose; to secure the relational resources that will allow for future direct political access, and to acquire exclusive political information that can be used towards the development of political sensing capabilities.

As a result, political access capability affects the cost-opportunity of engaging CPA based on the firm's relative facility to access the political network compared to its competitors, that is, its direct or indirect access to its political stakeholders. I therefore summarize the conclusion in Proposition 2:

***Proposition 2.** Firms with stronger political access capabilities will have a greater access to its political stakeholders compared to its competitors. That is, the implementation of CPA will be faster for firms with political exchange capabilities.*

Political Exchange Capability

Political exchange capability is the firm's ability to identify and provide desirable goods to its political stakeholders in exchange for supporting the firm's interests. Understanding these mutually beneficial dynamics is key to explain the interdependence between private and public interests (Mahoney et al, 2009). Political capabilities assumes that the political environment operates as a market (Bonardi et al., 2005; Hillman & Hitt, 1999; Mahoney, 2004; Mahoney et al, 2009), where policy outcomes are the product of the interactions between the different demand and supply side actors. The demand side consists of firms, non-profit organizations, trade unions, customer associations and any interest group that petitions elected representatives (Figueiredo & Richter, 2014). The supply side is formed by those that develop and implement policies, such as government agencies or legislators. In return for having a legislation aligned with a demand side actor, the political market exchanges three types of goods: money, information, and votes. These correspond, in return, to the three major forms of CPA, campaign contributions, lobbying and constituency building, respectively (Hillman & Hitt, 1999).

The primary incentive that explains the behavior of office-motivated policy-makers is reelection. Money, information and votes are desirable political goods because they increase the legislator's chances of reelection. First, money is central to politics since representatives depend on financial resources to support their campaigns when running for office (Green & Gerber, 2008). Second, given their time and resource constraints, politicians prioritize attending groups that can provide expert information that will help them succeed in the policy-making process (Drutman, 2015; Grossman & Helpman, 2001; Hall & Deardorff, 2006; Richter, Samphantharak, & Timmons, 2009). Third, votes represent the aggregate level of constituent preferences and support for the legislator's policy decisions. Indirect information about the public sentiment (Hansen, 1991; Jacobson, 2004) or direct exposure to constituent preferences, such as through public

petitions or mailing to representatives (Baysing, Keim & Zeithaml, 1985; Walker, 2014) indicate to the legislator the type of policy positions that will help to achieve reelection.

Political exchange capabilities mean that a firm can successfully mobilize its resources to trade them as valued political goods in exchange of its political stakeholders' support. By providing the legislators with their preferred political goods at the different stages of the policy-process, the influence capacity of the firm will be greater compared to competitors. By contrast, mobilizing less valued resources yields a weaker influence capacity, therefore the effectiveness of the overall CPA will be lower. The value of a firm's organizational, reputation, financial, and constituency resources as political goods depends on factors such as institutional incentives, issue salience, constituents' awareness about the policy effects, or even the electoral term for the representative (Bonardi et al., 2005; Kollman, 1998; Feldman & Jondrow, 1984). For example, mobilizing financial or constituency resources is not effective when influencing regulators in government agencies, since their office position does depend on reelection.

Firms can increase their knowledge about what type of political goods legislators' value as a product of their political access capabilities and political sensing capabilities. As the firm establishes its political connections and acquires intelligence over the policy-making process, it will anticipate which political good will be the most to effective to achieve influence, depending on policy and legislator-level characteristics. The relevance of political exchange capabilities for the firm's competitive advantage is summarized as follows:

Proposition 3. *Firms with stronger political exchange capabilities will have a greater influence over the policy-making process by identifying and providing valued political goods to political-stakeholders, compared to its competitors. That is, the effectiveness of the CPA will be greater for firms with political exchange capabilities.*

Figure 1 illustrates the types of political capabilities and their overall effect on the different stages of the CPA implementation, as captured by Propositions 1-3. Figure 2 illustrates how the combination of the different political capabilities affects the overall CPA cost-effectiveness outcome. Although arguably this framework does not provide an exhaustive analysis of all the categories of political capabilities, by priming parsimony I focus on three foundational capabilities, without which the firm is unenabled to achieve legislative influence in order to satisfy its political goals.

Insert Figure 1 here

Insert Figure 2 here

FROM MARKET CAPABILITIES TO POLITICAL CAPABILITIES

The initial cost curve obtaining political resources, along with experience curve developing political capabilities, can be very steep at first. This puts the firm in a disadvantaged position compared to those rivals that already possess the necessary resources and skills to satisfy their political goals. The problem is aggravated as political and market activities compete for limited internal resources within the firm (Bonardi, 2008), which means that the organization may have a limited capacity to pursue CPA, even when these would be crucial to protect the firm's market value, such as occurs in the context of an industry de-regulation.

Nonetheless, these limitations provide an incentive to transfer the value of the firm's readily available resources and processes from its market-related capabilities into the development of political capabilities. There are three advantages in the integration market-related capabilities towards the development of political capabilities. First, it reduces the cost of acquiring and using

political resources. Firms tend to postpone or avoid altogether the implementation of CPA given the significant entry barriers to engage with the policy sphere. However, by transferring the ample selection of readily available of market-related resources and process, firms can avoid the cost of acquiring exogenous political resources. Second, it optimizes the firm's ability to more fully capture the value of its market-related resources and processes. By applying marketing-capabilities towards the satisfaction of political goals, the firm is able to extend and optimize their utility. Third, it strengthens the firm's overall ability to attain and sustain competitive advantage by developing political capabilities unique to the firm. Market capabilities are developed through accumulated market resources - valuable, rare, inimitable and non-substitutable (VRIN)-, knowledge and skills that are firm-specific and hard-to-replicate by competitors. In the same way that market-capabilities can only lead to a sustainable competitive advantage if it is supported by unique firm-level VRIN (Barney, 1991; Rugman & Verbeje, 2002), leveraging its readily available VRIN resources to develop its political capabilities is a strategic move that strengthens the firm's sustained competitive advantage.

While there are numerous market capabilities that enable firms to succeed in market competition (e.g. Barney, 1991; Song, Benedetto, & Nason, 2007), in this paper, I focus on two of the key capabilities of market-oriented firms, these being the market-sensing capabilities and customer-linking capabilities (Day, 1994). As I will explain in subsequent sections, these are the most relevant market-capabilities for the development of political capabilities identified above. The market-sensing capability is based on internal processes of stakeholder monitoring and knowledge acquisition to forecast future market opportunities and threats. The customer-linking ability focuses on stakeholder communication and engagement skills with the aim of building strong relationships with customers. Next, I will provide the theoretical argument that these

processes facilitate the acquisition of political resources, primarily expertise, relational, reputational and constituency resources.

Market-Sensing Capability

The market-sensing capability refers to an organization's ability to generate market intelligence to forecast market developments, such as present and future needs of customers or competitors moves, and prepare the organizations responsiveness to such market changes (Day, 1994; Foley & Fahy, 2004; Jaworski & Kohli, 1993). This capability is developed by accurately spotting opportunities and threats through a continuous monitoring of the firm's market environment (Morgan, Vorhies, & Manson, 2009). In order for the firm to develop comprehensive market forecasts, its monitoring should involve collecting data not only about its customers' and competitors' behavior, but also about external market factors, including government regulations (Kohli & Jaworski, 1990). Therefore, market-sensing capabilities relies on the internal process of knowledge acquisition about the firm's general environment, and well as on the identification and monitoring specific stakeholders' behavior. These processes help the firm to transform their data into valuable expertise resources necessary to comprehend, access and influence the policy-sphere.

The firm's responsiveness to its environment starts with the identification and monitoring of macro-level dynamics, along with the actions of its stakeholders. A stakeholder is any person or group with the potential to affect the achievement of the organization's objectives (Freeman, 1984; Mahoney, 2012). These can be classified as primary stakeholders, those who have formal relationships and economic impact on the firm (i.e. customers), and secondary stakeholders, those who are able to affect the organization even though they are not directly engaged in its economic activity (i.e. NGOs). How firms manage the relation with their stakeholders is key to sustain their

competitive advantage (Choi & Wang, 2009). Through market-sensing capabilities, firms learn about their stakeholders' preferences and behavior, allowing for the early identification of patterns that predict relevant environmental changes. As a result, the firm's market-sensing awareness will increase the firm's preemptive responsiveness to change. This knowledge is key to ensure the firm's survival, since its competitive advantage can be compromised if it only adopts reactive strategies to manage its environment when competitors are assuming proactive roles (Garrod, 1997).

I argue that a stronger market-sensing capability will enable firms to more effectively develop all three forms of political capabilities.

Effect of market sensing capability on political sensing capability

The market-sensing intelligence about the firm's larger environment and its primary and secondary stakeholders helps to anticipate potential regulatory risks and opportunity windows, which is the core function of political sensing capabilities. The complementarity of market sensing and political sensing capabilities explains why firms implement corporate social responsibility programs or develop self-regulating practices (King & Lenox, 2000). Therefore, market-sensing, in assisting in the development of political sensing capabilities, helps the firm to implement preemptive CPA before the rest of competitors can mobilize.

An illustrative case is how the different companies dealt with de-regulation of the European airline industry in the 90s. Through its market-sensing capability, the non-state-owned Swedish SAS developed an early forecast of the implications of the forthcoming regulation for its activity. As a result of such anticipation, it implemented lobbying practices at the earlier stages of the policy-making process, as well as structural changes within its government relations

department to adapt to the changes of the policy environment (Lawton et al., 2013). By contrast, state owned-firms, which lacked an incentive to develop market-sensing capabilities, started to implement their CPA at later stages of the policy process and did not take the structural changes necessary to adapt to the forthcoming policy change.

Therefore, I argue that firms' capabilities to sense the market enable them to develop stronger political sensing capabilities, which is captured by Proposition 4a:

Proposition 4a. *Market-sensing capabilities have a positive impact on the firm's ability to build political sensing capabilities by identifying broader policy risks and opportunities before other competitors can mobilize.*

Moreover, because Proposition 1 establishes that stronger political sensing capabilities enable firms to adopt preemptive CPA, I conclude that stronger market sensing capabilities of the firm, through their positive effect on developing political sensing capabilities, should also enable firms to adopt preemptive CPA.

Proposition 4b. *Firms with strong market-sensing capabilities will engage in more preemptive CPA compared to its competitors.*

Effect of market sensing capability on political access capability

The political access capability can also be built leveraging the market-sensing's highly specialized knowledge about the larger market environment and particular stakeholders' behavior. Market-sensing signals to legislators the firm possesses specialized knowledge, therefore it helps to gain indirect political access in those instances where the firm lacks political relational resources.

Recall the main motivation behind legislator's actions is to increase its chances of re-election, which first requires having reliable information about the specific constituent preferences. In addition, legislators require exclusive expert information that will help to strengthen their legislative proposals as these move along the policy-making process. Organizations with strong market-sensing capabilities can gain indirect political access by signaling to legislators that they handle exclusive information about the stakeholders they care about, such customer/constituent preferences, as well as relevant expert knowledge about industry-level issues, market forecast, supply chain, etc. In other words, the market-sensing information is a hook that catches the legislator's attention and interest, and therefore it helps to gain political access. An example of this is the case of the Florida's 1990s soft-drink tax. In the wake of a new legislative proposal, Florida's soft-drink companies gathered information about their consumer preferences through statewide poll in order to reveal to legislators that 62% of them disliked the idea of a tax on soft drinks (Rosenthal, 2000).

Therefore, I argue that market-sensing information can be leveraged to gain political access, which is captured by Proposition 5a.

***Proposition 5a.** Market-sensing capabilities have a positive impact on the firm's political access capabilities by signaling to political stakeholder the firm's higher expertise resources compared to competitors.*

The broad scope of the information acquired through market-sensing capabilities is useful not only to connect with representatives related to an imminent policy that the firm wishes to influence (reactive strategy), but to representatives related to the implementation of preemptive strategies, even if these are part of committees apparently unrelated to the firm's business activity. For instance, GlaxoSmithKline, while lobbying for subsidies to develop products to treat the Zika

virus in 2016, it needed to access not only the Health Committee, directly related to its sector, but also legislators in the Appropriations Committee, indirectly related to its sector since it is responsible for regulating the US government's expenditure. I summarize this conclusion in proposition 5b.

Proposition 5b. *Firms with market-sensing capabilities will be able to gain greater access to a larger number of political stakeholders compared to its competitors.*

Effect of market sensing capability on political exchange capability

The firm's market-sensing capability can also assist the firm in developing its political exchange capabilities. Firms must be able to offer something valued to public officials in exchange for receiving favorable policies (Getz, 2002), such as money, information or votes. Note that the firm's expert information provision is a form of legislative subsidy (Hall and Deardorff, 2006), making policy-makers rely heavily on the organization's issue knowledge in order to make decisions. This close relationship provides an opportunity window for the firm to facilitate the type of information that will shape the policy towards supporting the firm's interest. Such a position of influence is particularly the case when the legislation involves a high technical knowledge of the issue. As a result, the firm that holds this type of expertise will implement strongly influential information exchange strategies.

For example, chemical companies have the incentive to develop strong market-sensing capabilities, given it is sector active in research, new product development, patents etc. In 2018, the American Chemistry Council was able to reverse a forthcoming ban on the use of the environmental degreaser trichloroethylene (TCE) through its superior technical knowledge on the substance and through the forecast of the regulation's impact on the industry sector. Another

example is the previously mentioned European 1990s airline de-regulation, where the non-state-owned Swedish SAS admitted to have an influential relationship with the legislators since it possessed the type of expertise they needed (Lawton et al., 2013).

I summarize the effect of the market-sensing capability on its political exchange capabilities in the following way:

Proposition 6a. *Market-sensing capabilities have a positive impact on the firm's political exchange capabilities by leveraging the disclosure of superior issue knowledge and information in exchange for favorable policies.*

In line with Proposition 3, that stated that political exchange capabilities enable strongly influential political strategies, given market-sensing capabilities increases the value of the firm's information provision to political stakeholders I conclude the following:

Proposition 6b. *Firms with market-sensing capabilities will implement strongly influential informational exchange strategies compared to its competitors.*

Customer-Linking Capability

The customer-linking capabilities enable firms to build and sustain strong customer relationships, which increases the overall satisfaction and loyalty towards the firm (Rust, Lemon, & Zeithaml, 2004; Hooley, Greenley, Cadogan, & Fahy, 2005). Firms with strong customer-linking capabilities bring together multiple customer touchpoints, media and messages (Peltier, Schibrowsky, & Schultz 2002) to tailor how they communicate with customers and in which forms (Kim, Shi, & Srinivasan, 2004). The target audience and their preferred channels of communication will affect how the firm will implement experiences to extend the time the stakeholder spends with the firm's message (Nelson, Keum, & Yaros, 2004).

The activities involved in customer-linking capabilities, such as communications channel management, consumer focus groups and events, tracking technology, market segmentation (Piercy, 2016; Lin & Wang, 2015), are often considered by scholars as part of marketing objectives (Hooley et al., 2005; Brodie, Hollebeek, Juric, & Ilic, 2011; Sprott, Czellar, & Spangenberg, 2009). As a result, customers develop a loyal and enduring relationship with the firm, even to the point they begin to define themselves in terms of the organization, what is generally called the consumer-company identification (Bhattacharya & Sen, 2003; Mael & Ashforth, 1992).

Customer-linking capabilities implies the firm has developed superior stakeholder communication and engagement skills. These provide three key strengths for the firm. On one hand, they improve the firm's persuasive ability to shape how consumers, perceive and think about the organization, its products, and its image. On the other hand, they foster the necessary channels to contact existing and potential customers. Finally, they prompt customers to develop strong, committed, and meaningful relationships with the company, to the point the organization becomes a component of people's social identity (Ashforth & Mael, 1989).

I argue these communication and engagement skills serve not for only market-oriented goals, but for the development of political capabilities. Specifically, they facilitate the development of the firm's access and exchange capabilities by acquiring and mobilizing relational and constituency resources, and by enhancing the value of its expertise resources.

Effect of customer-linking capability on political accessing capability

Firms with strong customer-linking capabilities can develop political access capabilities through both their knowledge on attracting and retaining stakeholder's interest, and through their comparatively greater support and positive reputation amongst its customers and allied partners.

First, firms with customer-linking capabilities have the ability of successfully attract and retain their political stakeholder's interest by deploying engagement tactics. These include launching marketing campaigns, conducting market surveys, organizing corporate events such as awards and plant/field showings, etc. Furthermore, since these tactics provide re-occurring points of contact with the firm's political stakeholders, they help to implement not only indirect political access tactics, but to increase and consolidate the firm's political relational resources.

As an example, waste management companies continuously implement marketing strategies to encourage citizens to recycle and to share amongst their network the importance of such habit. In this line, the Spanish Ecoembes launched in 2014 a perception study integrated in an interactive quiz amongst its political stakeholders. In order to incentivize participation, the campaign was framed around the salient issue of climate change, and the survey completion was rewarded with book on the topic. Such tactic increased the firm's visibility amongst its political stakeholders and facilitated further re-engagement actions, such as securing follow up meetings to present the results of the study. This strategy successfully increased and strengthened the firm's relational resources.

Second, customer-linking capabilities increases the firm's positive reputation as customers develop committed and meaningful relationships with the firm (Bhattacharya & Sen, 2003; Schultz, Hatch & Larsen, 2000; Walsh, Mitchell, Jackson & Beatty, 2009). This reputation can be leveraged as a political resource, since politicians are more willing to grant access to firms with higher sociopolitical reputation (Wang & Qian, 2011; Werner, 2015). Moreover, this reputation also affects the firm's ability to partner with other organizations in the social and political arenas in order to increase the visibility of tactics such as advocacy campaigns. If a partnership is established, it can help the firm to increase its relational resources (i.e. by being able to access to

the partnering organization's stakeholders' network) and reputational resources (i.e. by associating with organizations that support the firm's activity). All of these resources can be leveraged towards the development of political access capabilities.

An example of this is The Body Shop, recognized as the first global cosmetics company to position itself against animal testing. The Body Shop partnered with the NGO Cruelty-Free International at the beginning of 1989 and it launched the "Ban Animal Testing" campaign to pressure for a regulation in the UK. Eventually this legislation became effective in November 1998, immediately placing The Body Shop in a competitive advantage, since now the rest of industry competitors hard to restructure their product related processes in order to comply with the new legislation.

Because customer-linking capabilities serves to connect with the firm's political stakeholders by attracting and retaining their interest, I conclude the following:

Proposition 7a. *Customer-linking capabilities have a positive impact on the firm's political access capabilities by providing superior communication opportunities and engagement touchpoints with its political stakeholders, compared it its competitors.*

Given Proposition 2 establishes that stronger political access capabilities enable firms to contact legislators more quickly and directly, I conclude that stronger customer-linking capabilities should also enable direct CPA implementation.

Proposition 7b. *Firms with customer-linking capabilities will be able to implement CPA more directly given their superior their ability in acquiring and sustaining relational and reputational resources, compared to its competitors.*

Effect of customer-linking capability on political exchange capability

Customer-linking capabilities have a positive impact in the firm's exchange capabilities by lowering the cost of implementing both constituency building strategies and information exchange strategies.

Constituency building is the most complex form of CPA, given it is based on influencing policy-makers through the grassroots mobilization of customer, supply chain and employees, to name a few (Baysinger, Keim, & Zeithaml, 1985; Walker, 2014). Collective action problems such as lack of communication channels or coordination issues (Olson, 1965) explain why this strategy is too costly for many firms to implement. However, customer-linking capabilities help firms to overcome these constraints through their communication and engagement skills, and their close relationship with their customers. First, the communication and engagement skills are useful to encourage the firm's customer base to directly contact their representatives to show they support the firm's interests when facing a regulatory threat. This feature is particularly relevant for technological firms, where the business model relies on connecting customers through their platforms (i.e. Facebook).

The networked transportation company Uber provides a clear example. In handling the regulatory setting in New York and Austin, Uber presented a new "view" of its app, designed to target officials who had proposed vehicle caps and fingerprinting, respectively. When customers opened the app, a pop-up message appeared providing a link to contact elected representatives to express their opposition to the new regulations (Collier, Dubal, & Carter, 2018). This was possible only through the direct access Uber has to its consumers through its app, a feature which competitors, the overall taxi industry, lacks.

Second, within the RBV framework, customer relationships constitute a valuable intangible resource that is very difficult for rival firms to replicate, given the time and resource

integration it takes to develop such relationships (Srivastava et al., 1998). The uniquely close relationship between the firm and its customers, product of the customer-linking capabilities, helps to overcome most of the collective action problems associated with the implementation of a constituency-building political strategy, given customers are readily mobilized.

Anheuser-Busch, the manufacturer of Budweiser and Michelob, is an example of how the consumer-company identification (Bhattacharya & Sen, 2003) assists in the implementation of grassroots mobilization, since, aside from its large customer base, it projects an image of conviviality and friendship that adds power and credibility to the movement. This contrasts with other rival industries, such as the wine sector (Rosenthal, 2000).

I conclude that customer-linking capabilities are beneficial for the firm's political exchange capabilities in the following way:

Proposition 8a. *Customer-linking capabilities have a positive impact on the firm's political exchange capabilities by reducing the costs of implementing constituency-building strategies. That is, firms with strong customer-linking capabilities can better engage and mobilize their consumers to support the firm's interest compared to competitors.*

Second, customer-linking capabilities also facilitate the implementation of information exchange strategies since "persuading a potential customer to buy a product is similar to persuading a politician to support (or oppose) a particular policy" (Jia and Mayer, 2016:16). As the firm is able to bridge the gap between what the marketer wants to say and what the consumer needs to hear (Ashley & Tuten, 2014), it is improving its ability to persuade its stakeholder and effectively communicate its message. These communication skills are determining in enhancing the value of the firm's expertise resources, which influences the legislator's willingness to support the firm's policy position. This is particularly the case with legislations that involve a knowledge

of highly technical issues, which are uncommon for representatives to be familiar with (Hillman & Keim, 1995). Proposition 8b summarizes how the communication skilled developed through customer-linking capabilities help to develop political exchange capabilities:

Proposition 8b. *Customer-linking capabilities have a positive impact on the firm's political exchange capabilities by increasing the effectiveness of the persuasion capacity information exchange strategies. That is, firms with strong customer-linking capabilities hold higher persuasion levels than its competitors.*

Finally, these dimensions of customer-linking capabilities – the communication and engagement skills, along with the close customer relations- ultimately affect the strength and effectiveness of the firm's CPA influence on the legislator's policy position. Proposition 3 stated that political exchange capabilities increased the firm's influence on the policy. Since customer-linking capabilities assist the firm in developing its political exchange capabilities I therefore argue:

Proposition 8c. *Firms with strong customer-linking capabilities will able to increase the strength and effectiveness of its CPA influence on the political stakeholders' support for the firm.*

Figure 3 summarizes the framework that connect market capabilities with political capabilities (Propositions 4-8).

 Insert Figure 3 here

CONCLUSION

Organizations develop political capabilities to utilize their resources to both assess the risks and opportunities of the policy environment, and to implement strategic political actions, such as corporate political activities (CPA) (Henisz & Zelner 2012; Hillman & Hitt, 1999; Keim,1981),

with the aim to shape the regulatory environment to their advantage (Amit & Schoemaker, 1993; Bonardi et al 2006; Holburn & Zelner, 2010; Lawton, McGuire, & Rajwani, 2013). However, the initial cost of obtaining political resources and steep experience curve when developing political capabilities deters many firms from engaging with their political environment. Aware of this challenge, strategic management research has increasingly looked at how firms can integrate market and political strategies (Baron, 1995, 1997, 2001) particularly by linking the various capabilities that firms develop and demonstrate in markets (Barney 1986, 1991; Peteraf, 1993; Porter, 1980,1985) towards the development of political capabilities (Jia & Mayer, 2016; Li, Peng, & Macaulay, 2013).

This paper further develops this body of literature by outlining a taxonomy of the three types of political capabilities, and by developing a framework through which firms can capture the value of their market-related resources, process and capabilities to implement cost-effective CPA and, ultimately, to develop each of the political capabilities. First, through political sensing capabilities, the firm anticipates regulatory risks and opportunity windows, therefore it can pursue preemptive CPA, rather than reactive; through political access capabilities, the firm connects with its relevant political stakeholders, facilitating a linear and direct CPA implementation; and through political exchange capabilities, the firm provides political goods valued by its political-stakeholders, thereby increasing its influence during the policy-making process.

Second, because the framework connects the firm's market-related resources, processes and capabilities to the strengthening of each type of political capabilities, these mechanisms reduce the expenditure to acquire those resources and skills necessary to sustain competitive advantage through CPA. Specifically, since market-oriented firms rely on market-sensing capabilities and customer-linking capabilities (Day 1994), the framework focuses on these two capabilities and

how their internal processes of stakeholder identification, knowledge acquisition, and stakeholder communication and engagement can be integrated towards the pursue of the firm's political goals.

Market-sensing capabilities have a positive impact on the firm's political sensing capabilities by identifying broader policy risks and opportunities; on political access capabilities by signaling to political stakeholder the firm's higher expertise resources; and on the firm's political exchange capabilities by leveraging its superior information in exchange for favorable policies. Customer-linking capabilities have a positive impact on the firm's political access capabilities by providing superior communication opportunities and engagement touchpoints with its political stakeholders, and on firm's political exchange capabilities by reducing the costs of implementing a constituency-building strategy and by increasing the effectiveness of the persuasion capacity of its information exchange strategies. Overall, firms with this market-related capability have the capacity to implement more preemptive, direct and influential CPA compared to its competitors, which helps to sustain competitive advantage and increase the cost-effectiveness of political strategies.

Managerial implications

A key managerial implication of this paper is the strategic advantage of analyzing the firm's political strengths and weaknesses through the political capabilities' taxonomy. Identifying where the firm is positioned within this taxonomy represents an important source of information for the firm's political strategic planning. Since it clarifies the different processes and political resources involved in the development of the political sensing, political access and political exchange capabilities, the firm can identify, and therefore to reverse, its weaknesses in the CPA implementation. In doing so, the firm can make a better-informed decision about the most cost-efficient CPA strategy to implement and can evaluate the cost-opportunity of the different

expenditures to accumulate the political resources it requires (i.e. deciding if it's better to outsource some of the CPA processes in the short term by hiring a lobbying firm).

Furthermore, the framework outlined by this paper, connecting market-capabilities to the development of political capabilities, provides a general guideline for firms to engage in the policy environment even if they have limited resources or simply have no experience with CPA implementation. Managers might be discouraged from engaging in political strategies given political and market activities compete for limited internal resources within the firm (Bonardi, 2008). However, the knowledge that certain readily available market-related resources, process and capabilities are useful assets to achieve political goals, provides an incentive for firms to participate in the policy arena. Finally, the familiarity with the firm's market-capabilities helps to flatten the learning curve of engaging with political strategies, accelerating the process of political capabilities attainment.

Limitations and Future research

This project sought to deepen the understanding of how non-market and market capabilities can be connected to sustain the firm's competitive advantage. In doing so, it raises new theoretical questions on the mechanisms by which market-related capabilities facilitate the development of political capabilities. Some of these involve exploring the potential political value of market-capabilities beyond market-sensing and customer linking capabilities. The paper also calls for the development of testable hypotheses based on the "market capabilities to political capabilities" framework, or even the design of an empirical measure to identify the firm's level of political capabilities in each the categories of the taxonomy.

Future research should explore and test these and other factors that help firms to implement cost-effective CPA by integrating market capabilities and political capabilities. In sum, the limitations

of this study represent opportunities for strategic management research with an interest in the firm's political behavior as a source of competitive advantage.

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APPENDIX

FIGURE 1. Illustration of How the Different Political Capabilities Affect CPA.

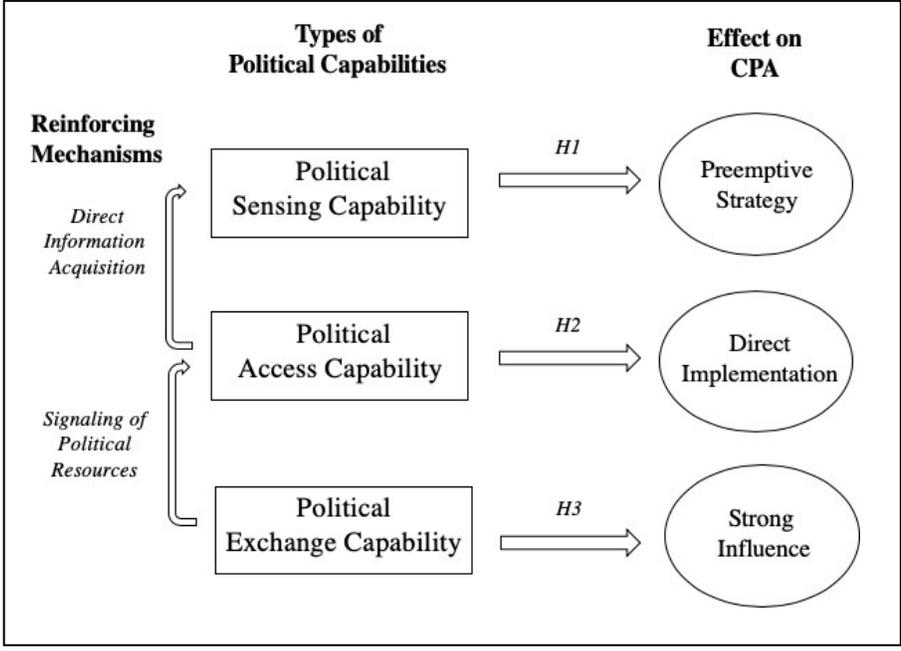


FIGURE 2. Illustration of How the Combination of the Different Political Capabilities Affects CPA.

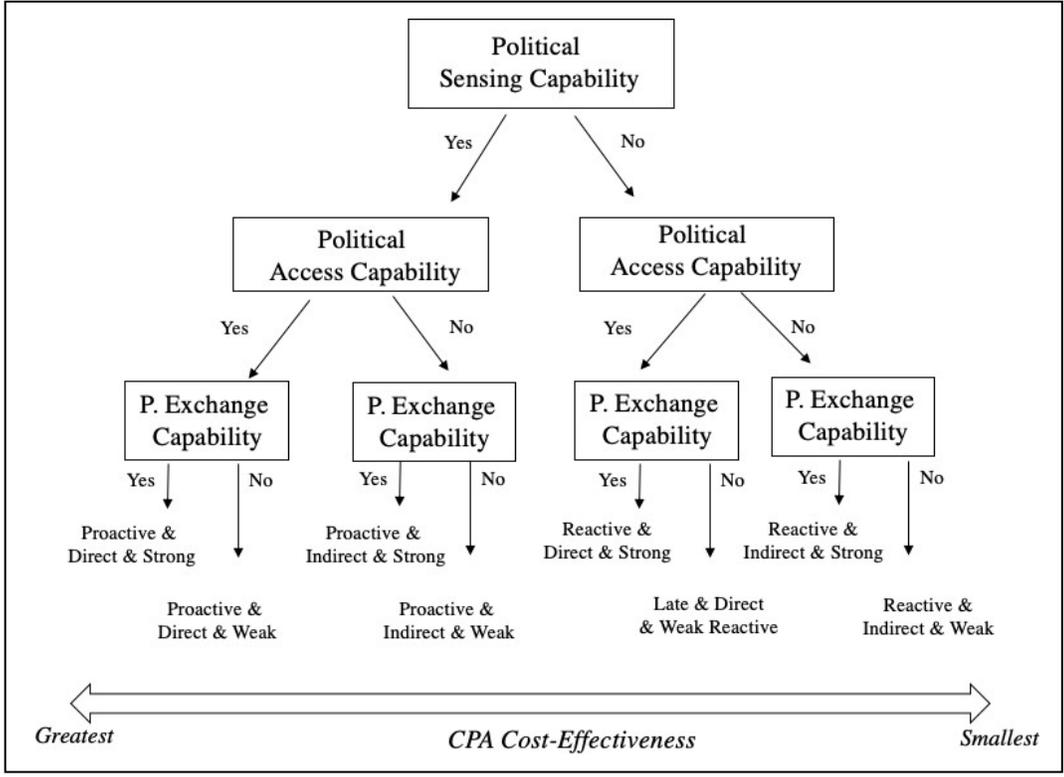


FIGURE 3. Illustration of How Market-Sensing and Customer-Linking Affect the Different Political Capabilities.

