

Political activity and firm performance within nonmarket research: A review and international comparative assessment



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ABSTRACT

There is a widely held view that the performance of firms depends not only on the ability of managers to exploit economic markets but also on their ability to succeed in political markets. To test the value of political activism, recent scholarship has probed the impact of corporate political activity (CPA) on firm performance. However, mixed findings and the fragmented nature of the field raise more questions than answers as to the nature of this relationship. This systematic review examines scholarly articles for evidence of the impact of CPA on firm value. The findings suggest that CPA is more valuable in emerging countries and that relational CPA strategies are more common in emerging (versus developed) countries where social capital underlies political and economic exchange. We also document the paucity of research on informational CPA strategies and policy outcomes in the emerging country context. We consider the implications of these findings and others for local and multinational enterprises, and offer suggestions for further research.

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1. Introduction

In the wake of increased global competition, managers are constantly seeking ways to enhance the competitive advantage of their firms. Multinational enterprises (MNEs) are expanding into emerging markets which, despite posing considerable risks (Henisz & Zelner, 2010), present abundant opportunities. Exploitation of market prospects in these locations requires the management of political – as well as economic – risks (Meznar & Nigh, 1995; Puck, Rogers, & Mohr, 2013). Even in developed markets, there is the need for firms in search of competitive advantage to manage political uncertainty (Hillman & Hitt, 1999). Firms' interactions with their nonmarket environments offer opportunities to influence public opinion (Griffin & Dunn, 2004) and government officials (Doh, Lawton, Rajwani, & Paroutis, 2014; Lawton, Doh, & Rajwani, 2014).

A combination of both market and political strategies has been characterized as an appropriate “integrated” strategy that can confer sustained competitive advantage (Baron, 1995; Lawton, McGuire, & Rajwani, 2013). Consequently, firm performance is

dependent on the ability of managers to influence their regulatory environments and exploit their economic markets (Holburn & Vanden Bergh, 2008; Marsh, 1998). Indeed, Schuler (1996) suggest that a focus on acquiring market resources while neglecting the development of political capital in the nonmarket environment could have a negative toll on competitive advantage. Corporate political activity (hereafter CPA) has gained prominence in both practice and research as a strategy firms use to influence government policy, shape their regulatory space, and drive their performance (Getz, 1997; Hillman, Keim, & Schuler, 2004).

The need for firms to participate in the political process is borne out of the daunting reality that almost every firm is affected by government regulation and policy (Stigler, 1971). Beside self-centred reasons, firms also participate in political processes because they are corporate citizens (Matten & Crane, 2005; Moon, Crane, & Matten, 2005; Wood & Logsdon, 2008). Corporate citizenship describes the political roles that firms play to promote social welfare (Scherer, Baumann-Pauly, & Schneider, 2013; Alzola, 2013). In the current trend of globalization, corporations, especially Multinational National Enterprises (MNEs), have assumed some responsibilities heretofore regarded as the sole domain of governments (Scherer & Palazzo, 2007). From the advocacy for appropriate laws and regulations (Neron & Norman, 2008) to the sponsorship or endorsement of “best political candidates” (Alzola, 2013), the contribution of CPA to global governance is ubiquitous.

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Axiomatically, the major aim of CPA is to improve firm performance (Schuler, Rehbein, & Cramer, 2002). In other words, it is intended to provide firms with access to the corridors of political power (Keim & Zeithaml, 1986), reduce uncertainty (Hillman & Hitt, 1999), and subsequently empower them with the ability to influence their competitive space (Capron & Chatain, 2008; McWilliams, van Fleet, & Cory, 2002). Indeed, the reduction of risk exposure is one of the main motivations for political activity of MNEs (Frynas & Mellahi, 2003; Keillor, Wilkinson, & Owens, 2005), especially in emerging and developing countries which are fraught with high level political risks due to weak regulatory regimes and other institutional voids (Khanna & Palepu, 2000; Henisz and Zelner, 2003; Henisz & Zelner, 2010). However, an ad hoc scan of extant literature across a broad international spectrum reveals that evidence of the relationship between CPA and firm performance is mixed. Hence, knowledge of the impact of CPA on firm performance is incomplete and inconclusive.

The existent inconclusive knowledge of the CPA-firm performance relationship in the nonmarket domain is even worse in the International Business (IB) domain. IB studies have explored various aspects of CPA, but much of the focus has been on the nature of MNE political behaviour (Barron, 2011; Boddeyn & Brewer, 1994; Hillman & Keim, 1995; Sun, Mellahi, & Thun, 2010), the determinants of MNE political strategies (Blumentritt, 2003; Hillman, 2003; Hillman & Wan, 2005), and MNE political strategy process (Chen, 2007; Luo & Zhao, 2013). The performance implications of CPA for MNEs lag behind the pack.

In this article, we address the question—what is the relationship between CPA and firm performance? We systematically review a large body of literature to uncover the strategies, mechanisms, and outcomes of CPA in different institutional contexts. Our findings suggest that CPA is positively related to firm performance, though we find some counter evidence and some nuances between developed and emerging markets. We observe that institutional context influences the political strategies used by firms, the performance outcomes of those strategies, and the mechanisms through which those strategies affect performance outcomes.

Our review makes three distinct contributions. First, we thoroughly examine the empirical evidence regarding the impact of CPA on firm performance in different international contexts using the CIMO-logic (Denyer, Tranfield, & van Aken, 2008; Pilbeam, Alvarez, & Wilson, 2012). Through the application of the CIMO-logic which no other review in the CPA field, to the best of our knowledge, has used, we offer more depth and insight by exploring the contexts (C) within which CPA has been investigated,

the strategies/interventions (I) implemented, the firm performance outcomes (O) of those strategies, and the mechanisms (M) underlying the performance outcomes. Second, we make some contributions to understanding corporate governance in IB through a comparative assessment of the performance of politically active firms across multiple countries. This approach hints at some of the important relationships between institutional environments and CPA outcomes, casts light on the value of CPA in different regions and provides a basis for MNEs to plan and vary their political engagement in diverse institutional environments. Third, we develop a future agenda for the investigation of the relationship between CPA and performance. The suggestions we offer are aimed to advance theory and shed more light on the performance implications of CPA for firms, including MNEs.

The rest of the paper is organized as follows. In the next section, we present the methodology employed in this study and offer a descriptive account of the literature reviewed. We then present the thematic findings according to the CIMO-logic (as shown in Fig. 1) and provide some discussion of their implications. We conclude our review by addressing implications of our findings for firms, especially MNEs, and suggested directions for future research.

2. Methods

We employed a systematic review methodology proposed by Tranfield, Denyer, and Smart (2003) and Petticrew and Roberts (2006). They articulate a systematic approach to literature review in management and social sciences. Prior to undertaking the review, we carried out a scoping study to “access the size and relevance of literature and to delimit the subject area or topic” (, p. 214), to identify the nature and extent of research literature (Grant & Booth, 2009), to identify the current state of understanding of the topic (Anderson, Allen, Peckham, & Goodwin, 2008), and to determine the value of undertaking a systematic review (Arksey & O'malley, 2005).

The search strategy used in this review comprised the identification of keywords, terms and phrases which we obtained from the literature. There are two constructs in the review question: (1) corporate political strategies, and (2) firm performance. There are three dominant categories of CPA strategies in the literature namely: (1) financial, (2) relational, and (3) informational. Drawing on several seminal studies, we identified the different terms, keywords and phrases used to describe CPA and firm performance. Search strings were created through a combination of the identified search terms (see Table 1).

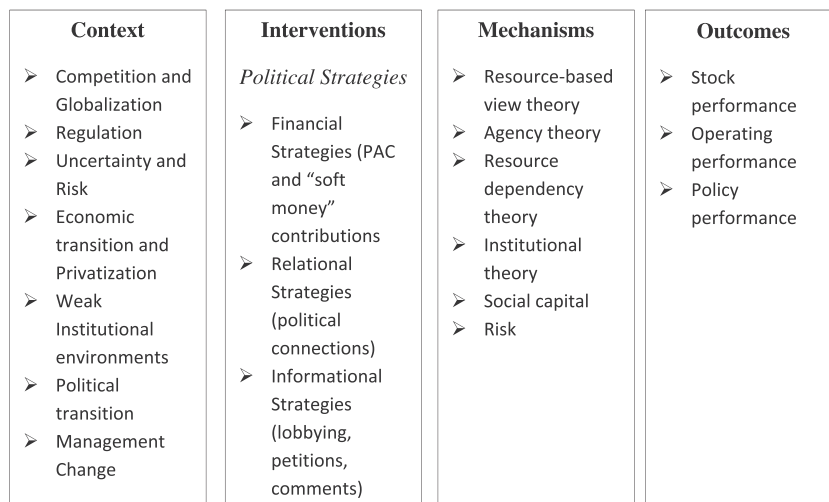


Fig. 1. Conceptual framework for investigating CPA-firm performance relationship.

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