



The antecedents of political capabilities: A study of ownership, cross-border activity and organization at legacy airlines in a deregulatory context

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ABSTRACT

Governments and ownership structures can both facilitate and constrain organizational value creation. Firm-level political strategy is a frequent response to protect or promote organizational interests. When effectively configured and implemented, these political strategies can become capabilities. This inductive study examines the antecedents of political capabilities in European airlines within the context of cross-border market deregulation. Our central contribution is an understanding of how management teams from non-state and state airlines organize and develop divergent corporate political capabilities in this context. While managers' actions in response to specific public policy processes can create political capabilities, the outcome is moderated by the nature of corporate ownership and the relative influence of public and private stakeholders on capability formation. Our theoretical contribution is to extend the study of organizational capabilities into the non-market context through analyzing how European flag carrier airlines organized their political capabilities in anticipation of a changing transnational policy context.

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1. Introduction

Governments have demonstrable effects on the competitive advantage of firms and industries and can contribute to increases or decreases in profitability (Kim, 2008). As a discipline, strategic management has offered a variety of theoretical routes to address the role of government and public policy in this process (Cockburn, Henderson, & Stern, 2000). The organizational capability approach, embedded in the context of a resource-based view (RBV), has become a primary explanatory framework of competitive advantage (Ambrosini, Bowman, & Collier, 2009; Ethiraj, Kale, Krishnan, & Singh, 2005; Salvato, 2009). It explicitly focuses on conditions of market environment change (Easterby-Smith, Lyles, & Peteraf, 2009; Eisenhardt & Martin, 2000) and non-market environment change (Bonardi, Holburn, & Van den Bergh, 2006; McWilliams, Van Fleet, & Cory, 2002). However, some of the more intriguing and unresolved puzzles in RBV theory are: (1) How do firms organize capabilities, specifically political capabilities, and more importantly; (2) How do ownership

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structures affect the organization of political capabilities in a specific non-market environment context? In response to these questions, we explore how senior managers in legacy airlines organize and deploy their political capabilities in the context of deregulation. We draw on RBV and corporate political activity literatures to build a conceptual model to understand how legacy airlines organize their political capabilities when faced with a deregulation context. We build theory on the organization of political capabilities by looking at management action and exploring the impact of ownership structures in the “organizing” process.

Nelson and Winter (1982) and Volberda (1998) viewed organizational capabilities as the ability of firms to use resources in changing environments. However, since their seminal work, the organizational capabilities perspective has encountered criticism for relying on aggregated proxies of firm-level activity without examining individuals or groups – the likely origin of these organizational advantages (Ethiraj et al., 2005). We seek to address these criticisms by contributing to the organizational capabilities debate and more broadly, the RBV, by exploring how senior managers participate in organizing political capabilities and what are the ownership impacts and interactional processes that enable and/or hinder the organizing of political capabilities. We argue that managerial action can manipulate resources into new potential value-creating strategies (Cho & Hambrick, 2006; Peteraf & Reed, 2007). However, ownership structures can hinder and constrain the way political capabilities are organized, with non-state owned firms investing more time and resource in organizing political capabilities than state owned firms.

The empirical research on organizational capabilities concentrates mainly on specific processes such as pricing (Dutta, Zbaracki, & Bergen, 2003) and marketing (Morgan, Zou, Vorhies, & Katsikeas, 2003). This suggests a narrower interpretation of organizational capabilities than originally envisioned by Eisenhardt and Martin (Ethiraj et al., 2005). This inductive study responds to Ethiraj et al.'s (2005) call for more research into specific capabilities that are bounded contextually and that are focused on managerial action. While earlier accounts on RBV focused on how firms can create advantages using resources and capabilities in market environments (Barney, 1991; Eisenhardt & Martin, 2000; Helfat & Peteraf, 2003; Helfat et al., 2007; Zollo & Winter, 2002), the non-market environment has more recently gained attention, particularly the corporate political context (Bonardi et al., 2006; Hillman & Hitt, 1999; Hillman, Keim, & Schuler, 2004; Holtbrügge, Berg, & Puck, 2007; McWilliams et al., 2002; Oliver & Holzinger, 2008). Less attention is paid to how firms and managers organize their political capabilities in varying contexts (Doh & Pearce, 2005) and there is a relative absence of qualitative research seeking to embed organizational capabilities literature within the political environment (Lawton & Rajwani, 2011).

Building on Scott (2002), we define the ‘organization of political capabilities’ as a set of purposeful strategic actions taken by managers to systematize a desired structure underpinning a resource in politicized arenas. This is reinforced by Makadok’s (2001) emphasis on the distinction between capabilities and resources, where he defined capabilities as “*a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm*” (Makadok, 2001, p. 389). Similarly Amit and Schoemaker argue that “*resources are stocks of available factors that are owned or controlled by the organization, and capabilities are an organization’s capacity to deploy resources*” (1993, p. 35). We concur with Sirmon, Hitt, and Ireland (2007) in noting that it is the bundling of the resources that builds capabilities and argue that this is also the case in the corporate political context.

The RBV has been identified as a powerful – but often underleveraged – theoretical perspective for understanding cross-border phenomena (Peng, 2001). Moreover, international business scholars are increasingly interested in “contexts”, including, for example, how institutional variation in home markets may affect cross-border strategies (Henisz & Swaminathan, 2008). As such, part of our thesis is that the domestic ownership structure – as determined by the national context in which airlines grew and developed – influenced their cross-border political strategies toward an emergent set of regulatory actors – the European Union (EU).

Hence, the purpose of the study is to examine the antecedents of “how” political capabilities are organized, with a focus on managerial action. Our inductive analysis of in depth interviews, press accounts and company documents revealed two different processes by which EU flag carrier airlines with differing ownership structures organized their political capabilities in anticipation of a changing policy context. The anticipated policy in this case was the European air transport market liberalization during the 1987–1997 period. The findings have implications for both capabilities research and management practice.

2. Theoretical background

2.1. Corporate political activity

Whereas market strategies involve decisions such as product positioning and pricing, non-market strategies are actions taken by the firm in its political, regulatory, and social environments for the purpose of increasing firm value (Baron, 1995, 1997). Non-market behavior includes such activities as lobbying a legislator or regulator, litigating a case in court, making campaign contributions, and mobilizing social actors to support or oppose a strategic initiative. There are two fundamental questions associated with crafting nonmarket strategy: first, how much non-market activity should a firm undertake; and second, whether non-market activity should be pursued individually or collectively within the industry (Lyon & Maxwell, 2004). These questions are important as they relate to both firm strategy and the boundaries of the firm. We apply these questions to the corporate political activity undertaken by airlines at the European Commission and EU national government level.

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