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Toward a contingent resource-based view of nonmarket capabilities under regulatory uncertainty

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Abstract

The article integrates theoretical perspectives from the resource-based view of the firm, dynamic capabilities and contingency. It explains one particular characteristic of the general business environment of the firm, regulatory uncertainty, and its influence on dynamic capabilities of a corporate political strategy (nonmarket strategy) and value creation. I argue that scanning and predictive capabilities as well as institutional influence capabilities will lead to a reduced perceived uncertainty by the firm. In consequence, firms that perceive a high regulatory uncertainty aim at developing these dynamic capabilities. Further, I argue that firms with stronger nonmarket capabilities will rather drive to pursue investments under perceived regulatory uncertainty than firms with weaker nonmarket capabilities.

Keywords
Regulatory uncertainty, dynamic capabilities, contingency, resource-based view, nonmarket strategies

1. Introduction

The motivation of the paper is to shed light on the question of how regulatory uncertainty influences firms and eventually their investment behavior. A concrete example in today's business can be found in the power sector where firms in liberalized EU market have to face new challenges. The liberalization of the EU electricity market introduced new challenges for firms, which made them behave differently. Power firms have to face uncertainties not only due to the unpredictability of market developments (like fuel prices), but also due to regulatory uncertainty that can, e.g., influence the market design, set new environmental constraints, approve or disapprove new technologies or set standards for energy efficiency. All uncertainties faced by a firm significantly influence investment decisions. However, on the contrary to market uncertainty, uncertainty in regulation can change abruptly, from one day to the other with huge business impact on the firm. A single new policy can thus turn the profitability of an investment from positive to negative or even prevents any value generation of the investment (due, for example, to the blockage of a technology). In sum, regulatory uncertainty do affect investment projects and may delay or deter the investment choices. As the underlying uncertainties cannot be changed or will only disappear over time, firms have to think about appropriate strategic responses tin order to cope with regulatory uncertainty.

In general, the interaction between business and politics has become more complex and interwoven so that it would be simplified to only speak of strategies of firms that purely address their market environment. In particular in the specific case of regulatory uncertainty, firms have a clear motivation to address the relevant politicians or regulatory authorities in order to gain policies in their favor. The paper addresses the theory behind the younger perspectives of nonmarket strategies in literature and eventually advances existing theory by exploring how firms adapt their nonmarket capabilities when uncertainties arise from their nonmarket environment.

The article first describes the difference between market and nonmarket strategies and outlines the different theories that explain why and how firms engage in their political environment. Subsequently, the heterogeneity of firms with the different nonmarket strategies and different performances will be explained by means of dynamic capabilities and contingency to its environment. Further, the concept of perceived regulatory uncertainty as one key variable of the firm's external nonmarket environment will be explained. Propositions are made to characterize the relationship between the nonmarket capabilities and regulatory uncertainty. Finally, a discussion will be started about the impact of nonmarket capabilities on firms investments in a regulatory uncertain environment.

2. Market and nonmarket components within strategy

Strategic responses can be both based on market and nonmarket components to address the market and nonmarket environment of the firm. **Market components** address all interactions between the firm and other parties by markets or private agreements. Market strategies have been analyzed by a multitude of scholars with Porter (1980, 1985) in the forefront and should not further discussed at this point. **Nonmarket components** on the other hand address all interactions with the public, stakeholders, government, the media,

and public institutions (Baron 1995). A **market strategy** is thus an aligned course of action in the market environment of the firm in order to create value expressed by an increase in its performance. A **nonmarket strategy** yields to create value by addressing parties in the nonmarket environment that leads in an indirect consequence to a higher performance of the firm. A typical example is the lobbying effort of a firm to its government to open up foreign markets hitherto closed for the firm. The lobbying is thus an expense of the firm in its accounting whereas the sales in the new market will lead to increased earnings. Nonmarket strategies are thus of particular importance for firms that have a regulated business or interact regulatory with the government or public agencies.
In the strategy formulation process, both market and nonmarket components must be considered within an integrated strategy to ensure the most effective improvement of the overall performance of the firm.

Nonmarket strategies have been a much younger subject of analysis among scholars, which first started with the analysis of lobbying or campaign financing and its relationship with business strategy (e.g., Shipper & Jennings, 1984; Yoffie, 1988; Weidenbaum, 1990; Grier et. al. 1994). As the interrelation between governments and business increased, more scholars engaged in this field and analyzed the broader connection of corporate strategy and firms' ability to influence a range of actors in the public (Oliver & Holzinger, 2008). Both the government's influence on firm activities and outcomes has increased (Lenway & Rehbein, 1991) as well as the influence of businesses on public-policy making (Blau & Harris, 1992; Keim & Baysinger, 1988). Besides lobbying and campaign financing, scholars analyzed a set of control actions including advocacy advertising, constituency building and coalition formation (e.g., Bonardi et al., 2005, Hillmann & Hitt, 1999, Hillmann et al., 2004).

The term nonmarket strategy is relatively young and was primarily coined by Baron (1995) referring to the fact that a firm has to establish a particular knowledge and competencies in order to address its nonmarket environment. These special skills build a nonmarket advantage that prevents the firm of competitors who themselves will find it costly to duplicate these nonmarket skills (Bonardi et al. 2005, Bonardi et al. 2006). Other authors refer to the ability of corporations to manage institutional idiosyncrasy (Hensiz, 2003), strategic political management (Oliver & Holzinger, 2008) or corporate political activities (Hillmann & Hitt, 1999).

3. Explanations to strategic political management theories

The fact that firms attempt to manage the political environment has been approached by various theories. Each theoretical perspective provides a very distinct viewpoint and contributes partial explanations of the how and why firms are strategically active in political management. Within this article, the focus lies on the fields of **corporate political behavior** (Baron, 1995; Bonardi et al., 2005; Getz, 1993, 1997; Hilmann & Hitt, 1999; Schaffer, 1995) and the **resource-based view of the firm** (Barney, 1991, 2001; Wernerfelt, 1984; Oliver & Holzinger, 2008) as these approaches are the only ones who discuss the different capabilities among firms of managing their public environment.

Other theoretical perspectives that encompass the fields of **economics of political and collective action**, **public policy** and **stakeholder management** mainly focus on the how and why firms engage in political management, but lack to explain why firms are more or

less successful in doing so. The economic perspective of political and collective action analyzes the influence of firms on political decision-makers as well as their challenges, but does not explain why firms may gain a competitive advantage through their distinctive nonmarket strategy (Hersch & McDougall, 2000). The public policy perspective focuses on a broader context of the impact of a collective interest of businesses rather than on the individual level and thus does not provide insights why firms face advantages or disadvantages with specific nonmarket strategies (Shaffer, 1995; Useem, 1980). Eventually, the stakeholder management approach focuses primarily on the motivational aspect of firms engaged in political management (Hansen & Mitchell, 2000; Hart, 2001; Schuler, 1999; Schuler et al., 2002) without analyzing the performance of nonmarket strategies. A further discussion of theses approaches is analyzed by Oliver & Holzinger (2008).

The most advanced theoretical perspective of strategic political management is the approach of **corporate political behavior**. It principally explores the cause of interaction of firms in politics, which can be, for example, collective or private benefits (Olson, 1965), hindering unfavorable regulation (Yoffie, 1987), cost reduction (Kaufmann et al., 1993) or describing the feasible political strategies for firms (Hillmann & Hitt, 1999). The corporate political behavior approach distinguishes between two important factors that influence the motivation and conditions of the corporate political management, factors on industry and on firm level. Factors on industry level can be industry concentration (Schuler et al., 2002; Zardkoohi, 1985) or policy impact on industry (Epstein, 1969; Yoffie, 1987; Getz, 1993). On the other hand, firm level factors can be firm size (Epstein, 1980; Meznar & High, 1995; Yoffie, 1987), material interest (Boies 1989) or issue salience (Schuler & Rehbein, 1997).

In the following, the corporate political behavior approach will be presented in more detail to point out how different nonmarket capabilities are considered in this perspective. The attempt of firms to influence its nonmarket environment can be presented as an exchange on a "political market" with interest groups on the demand-side and elected politicians on the supply-side. Politicians accept resources from the interest groups in exchange for policy demands. Resources are principally votes, financing or information (Mueller, 2003). This approach is thus different from early economics literature when politicians were assumed to only adopt policies that are in favor of the "public interest" (Buchanan & Tullock, 1962; Stigler, 1971). According to the political market approach firms are thus demanders that design nonmarket strategies in order to target political decision makers by providing the three resources: information, financing and constituency-building. **Table 1** describes the different strategies with their possible tactics for each resource (Hillmann & Hitt, 1999).

Table 1: Taxonomy of Political Strategies (Hillmann & Hitt, 1999)

Strategy	Tactics	Characteristics
Information strategy	• Lobbying • Commission research projects and reporting research results • Testifying as expert witness • Supplying position papers or technical reports	Targets political decision makers by providing information

Financial incentive strategy	• Contributions to politicians or party • Honoraria for speaking • Paid travel, etc. • Persons service (hiring people with political experience or having a firm member run for office)	Targets political decision makers by providing financial incentives
Constituency-building strategy	• Grassroots mobilization of employees, suppliers, customers, etc. • Advocacy advertising • Public relations • Press conferences • Political education programs	Targets political decision makers indirectly through constituent support

Originally, the political market approach was limited to the homogenous consideration of the supply side, i.e., treating regulatory authorities analogue to politicians, which is obviously a severe limitation. Regulatory authorities have principally the task to adopt administrative regulations to implement public policies that were decreed by politicians. As regulatory authorities consist of experts who are not directly elected they are less interested in constituency-building than politicians. Furthermore, they are not allowed to accept financial incentives. Nonmarket strategies must be thus designed differently (Baron, 2001) with a focus on information strategy. Bonardi et al. (2006) enlarged the political market approach by considering the particular role of regulatory authorities on the supply-side

The political market approach has still a limitation in explaining the heterogeneous ability of firms in their performance of nonmarket strategies. Bonardi et al. (2006) agrees that this ability can be drawn back to distinctive nonmarket capabilities without agreeing on the detailed description of these capabilities. They describe non-market capabilities as "tacit and non-tacit knowledge and skills" that help managing process and outcomes of public policies. In line with the political market approach they focus mainly on the ability to mitigate transaction cost in political markets. Transaction cost in political markets are high due to the imperfect distribution of information and subjective models (North, 1990) and are thus a relevant factor in specifying, monitoring, and enforcing political transactions (Dixit, 1996). Bonardi et al. (2006) argued that a firm's experience in dealing with public policy-makers as well as its ability to learn from other firms' interaction has a positive impact on its nonmarket performance. In consequence, these arguments explain partially how firms may adapt their behavior to take influence in a more efficient manner by means of external capabilities[1], but it does not explain how firms constitute internal capabilities that target their own organization rather than the external environment.

The **resource-based view of the firm** closes the gap of describing more detailed the specific nonmarket capabilities of firms that are the basic driver for the formulation of the appropriate nonmarket strategy and its performance. According to the resource-based view, firms can achieve a sustained competitive advantage that is based on their controlled resources and capabilities, which are valuable, rare, imperfectly imitable and not

[1] External capabilities refer to the external environment of the firm as source of effectiveness (e.g., lobbying or constituency building). On the contrary, internal capabilities refer to the firm itself as source of effectiveness (e.g., adapting organizational architecture).

substitutable (Barney, 1991, Barney, 2001, Conner, 1991). The competitive advantages eventually help firms to maintain and generate value by means of maintaining or gaining a competitive advantage (Annad & Khanna, 2000; Makadok, 2001; Priem & Butler, 2001). Barney (1991) describes the value as the economic rent by exploiting opportunities in the firm's environment by means of their resources or resource combination. The aim of value creation and value maintenance has been adopted in literature as drivers of political strategic management (Baron, 1997; Hillmann & Hitt, 1999; Bonardi et al., 2005; Oliver & Holzinger, 2008).

4. Dynamic capabilities as source of effective nonmarket strategies

Scholars of the resource-based view have highlighted the significance of dynamic capabilities as source of organizational performance (Thomas, 1996; Eisenhardt & Martin, 2000; Blyler & Coff, 2003). Dynamic capabilities help to align resources and capabilities to the changing environment. Eisenhardt & Martin (2000) describe dynamic capabilities as "a set of specific and identifiable processes that, although idiosyncratic to firms in their details and path dependent in their emergence, have significant commonality in the form of best practices across firms, allowing them to generate new, value creating strategies" (in Arragón-Correa & Sharma, 2003). It is not sufficient for firms to possess resources, but they must be also able to maximize congruency with the demands of changing environments by developing, recombining, and deploying internal competencies (Eisenhardt & Martin, 2000; Bowman & Ambrosini, 2003). This process of adaptation to changes in the firms' general business environment is done by means of dynamic capabilities. They can vary depending on the market dynamism (Cockburn et al. 2000; Rosenblom, 2000).

Oliver & Holzinger (2008) conclude that dynamic capabilities serve not only to react to the changed requirements of the environment, but also to influence environmental demands so that these demands are aligned with strengths or requirements of the firm. As a consequence, dynamic capabilities are thus a source of value creation to obtain a competitive advantage also in the nonmarket environment. A firm's political strategy is thus grounded in a specific capability to generate value. Oliver & Holzinger (2008) differentiate alternative political approaches along two axes: (1) Value perspective: value maintenance or value creation and (2) Strategic orientation: compliance or influence. The four alternative political strategies are laid down in **Table 2** with a distinction between defensive, reactive, anticipatory or proactive. In the sequence of numeration, the defensive political strategy generates the lowest sustainable competitive advantage and the proactive political strategy the longest ranging sustainable competitive advantage.

Table 2: Typology of Political Management Strategies (deduced from Oliver & Holzinger, 2008)

	Type of Political Management Strategy			
	Reactive political strategy	**Anticipatory political strategy**	**Defensive political strategy**	**Proactive political strategy**
Source of effectiveness	Internal	Internal	External	External
Dynamic	Flexible	Scanning and	Political and social	Institutional

capability	organizational architecture	predictive capabilities	capital deployment	influence capabilities
Underlying process of effectiveness achieved	Continual structural and process realignment to match political changes	Timely and continuous scanning of political environment to anticipate changes	Continuous cultivation of social ties to influence government to maintain current policies	Influencing the norms and beliefs of stakeholders to shape how political standards are defined
Value perspective	Value maintenance	Value creation	Value maintenance	Value creation
Strategic orientation	Compliance	Compliance	Influence	Influence

The main contribution from Oliver & Holzinger (2008) is the differentiation in sources of effectiveness for the nonmarket capabilities. Differentiation between internal and external sources is necessary to reflect if either the firm seeks to influence policy makers or to search for internal processes to better deal with its nonmarket environment. I agree that in both external and internal sources firms need own capabilities in order to be affective. For example, if a firm opts for lobbying through a lobbyist independent from the firm, it is still required that the firm possesses the capability of dealing with lobbyists. However, I criticize the simplified way of laying strategies behind the proposed dynamic capabilities. Oliver & Holzinger (2008) do not provide a sufficient argumentation for linking each dynamic capability to a particular political strategy. As an example, it is questionable why the internal capability of "flexible organizational architecture" is connected with a reactive political strategy. For the following, we adopt the dynamic capabilities proposed by Oliver & Holzinger (2008) without referring further to the different types of political strategy.

5. Contingent Resource-Based View

The contingency theory is based on the argumentation that firms that are able to proper align endogenous organizational variables with exogenous business context variables will gain a greater organizational performance (Burns & Stalker, 1961; Thompson, 1967; Lawrence & Lorsch, 1967). Brush & Artz (1999) first evoked the term "contingent resource-based theory" in their analysis of professional medical services as they found the resource-based view insensitive to the firm's context. They proposed to fill the gap by insights from the information asymmetry perspective so that resources and capabilities have a higher value if different firms are unevenly informed about the product market. Other supporters like Barney (2001) supported to the proposition to include the contingent argument into the resource-based view. This would allow a better assessment of the firms' competitive value of their resources and capabilities. In line with this call, Aragón-Correa & Sharma (2003) argue that firms' capabilities evolve from continuous innovation, organizational learning, stakeholder integration and a proactive environmental strategy. A proactive environmental strategy can help a firm to keep its resources valuable and inimitable by means of innovation (Aragón-Correa & Sharma, 2003). They propose a general theory that links the influence of external business characteristics (in their case

uncertainty, **complexity** and **munificence**) to the ability of a firm to develop a proactive environmental strategy and its competitive advantage. The article will only focus on the variable of uncertainty in the general business environment of the firm with a particular focus on perceived regulatory uncertainty. The concept will be introduced in the next section.

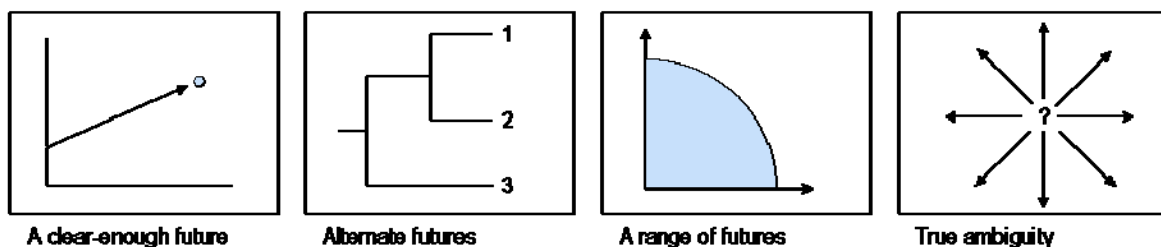
6. Concept of perceived regulatory uncertainty

Thompson (1967:13) stated that "the central problem for complex organizations is one of coping with uncertainty". The impact of uncertainty on business decisions and corporate performance has been a key concept in organizational research since many years. Scholars analyzed firms' reactions and adaptations to uncertainty (e.g., Miles & Snow, 1978, Lawrence & Lorsch, 1967) and developed scales to measure the impact of uncertainty on organizations (Duncan 1972, Lawrence & Lorsch, 1967). Furthermore, a differentiation has been introduced between objective and perceptual types of uncertainty (Milliken, 1987, Lang, 1990, Aragón-Correa & Sharma, 2003).

Basically, uncertainty in strategic management organization theories refers to the unpredictability of environmental or organizational variables (Miles & Snow, 1978, Pfeffer & Salancik, 1972) or the inadequate information about these variables (Duncan, 1972, Galbraith, 1977). If uncertainty increases the predictability of corporate performance decreases. As a consequence, the firm's business risk will be increased. Uncertainty can result from different causes, which can be originating from exogenous shocks, unforeseeable behavioral choices or the two causes combined (Lessard, 1988).

In order to measure the intensity or degree of uncertainty, Courtney et al. (1997) developed a differentiation of four levels of uncertainty and show up appropriate analytical tools for decision-makers to deal with the respective uncertainty (cf. **Graphic 1**). The first level of uncertainty is described as "**clear-enough future**" where a single forecast is sufficient to determine a firm's strategy. At the second level, the "**alternate futures**", a strategy must be developed according to the different discrete outcomes that define the future. The third level of uncertainty, described as "**range of futures**", does not allow any more the creation of scenarios, and a large range of possible outcomes must be taken into account to determine the future. Finally, the fourth level is characterized by "**true ambiguity**" which is the case when no basis for forecasts exist.

Graphic 1: Four distinct levels of uncertainty (Courtney et al, 1997)



Finally, a critical component while thinking of an investment is its timing as uncertainty evolves over time. In this sense, Doh & Pearce (2004) distinguish between continuous and discontinuous uncertainty. Continuous uncertainty refers to a relative stable environment with slow and steady changes whereas discontinuous uncertainty is characterized by uneven changes.

We refer to the term “regulatory uncertainty” to appropriately address the inability of a company’s decision-maker to have a clear understanding of future regulations that will evolve in its organizational environment (Birnbaum, 1984). Regulation in our context describes a specific form of government action including supervision and market control over actors and their behavior (Eberlein & Grande, 2005). We see regulatory uncertainty as discontinuous uncertainty to reflect the non-continuous, uneven changes in regulation over time. Typically, a single regulatory decision can change the business environment of a firm abruptly. As firms are obliged to respect the regulatory decisions, we refer to the regulatory environment as a way of exercising coercive power of regulatory agencies on organization (Scott, 2001).

According to Courtney’s uncertainty classification, regulatory uncertainty is primarily based on the second and third level of uncertainty. For example, a regulatory authority announces that a threshold for pollution of a pollutant will be introduced, but the precise level of the threshold will be announced at a later date (level 2 uncertainty). Therefore, the firm is only uncertain about the threshold and faces alternate futures, e.g., scenarios with low, middle or high thresholds. In the second example, the regulatory authority is not yet sure about the choice between an introduction of a simple threshold or of a more sophisticated system like the emission trading scheme in the EU (level 3 uncertainty). In this case, the firm faces a range of futures and has a higher difficulty to prepare his business.

We anchor perceived regulatory uncertainty in institutional theory as a sub-concept of perceived environmental uncertainty. The focus on the perception of uncertainty is especially important in this concept because the perceived influence of regulation on a firm may be different from objective uncertainty (Finkelstein & Hambrick, 1996).

A key element to work with the term regulatory uncertainty is the distinction of different types of perceived environmental uncertainties according to Milliken (1987) that helps to better reflect the “point of impact” of uncertainty on the organization. Milliken differentiates between three types of environmental uncertainty: **state uncertainty**, **effect uncertainty**, and **response uncertainty**:

- **State uncertainty** is related to the inability of the organization to predict its future organizational environment or a particular component of the environment.
- **Effect uncertainty** is defined as an “inability to predict what the nature of the impact of a future state of the environment or environmental change will be on the organization” (Milliken, 1987:137).
- **Response uncertainty** is characterized by the understanding of the environment and its causes, but a lack of knowledge of response options available for the organization.

For this article, we focus on state uncertainty where the firm is not able to predict the future state of regulations or policies that affect its business environment. Generally, firms can respond to regulatory uncertainty with different response strategies, each can contain market and nonmarket components.

7. Nonmarket capabilities and response strategies to regulatory uncertainty

In general, a variety of strategic responses to uncertainty are possible for organizations (cf., e.g., Miller, 1992). If the consideration is limited to regulatory uncertainty four generic strategic responses differentiated: **reduction**, **adaptation**, **avoidance**, and **disregard** (Engau & Hoffmann, 2009). To analyze the effectiveness of the nonmarket capabilities, the detailed consideration of response types should be limited to uncertainty reduction and adaptation to uncertainty as they appear to be the most frequent reactions.

In the case of **reduction**, uncertainty can be limited by influencing, simplification, and investigation. One possibility of influencing is lobbying of political institutions, which can be done by influencing specific conditions or directly addressing political actors (Courtney et al., 1997, Little & Li 1995, Henisz & Delios, 2004). A further way may be simplification of the uncertain factors (Bourgois & Eisenhard, 1988) or investigation by collecting additional information and building on professional expertise in the decision-making processes (Miller & Friesen, 1983, Hickson et al., 1971).

A second way of dealing with regulatory uncertainty can be **adaptation**. Organizations can adjust their organizational design via mergers, acquisitions and divestures (Thompson, 1967, Cyert & March, 1963, Bergh & Lawless, 1998). Firms can also adapt by increasing the flexibility in their investment portfolio (Wernerfelt & Karnani, 1987, Bourgeois & Eisenhardt, 1987, Collis, 1992) or by cooperating with other companies that are similarly or less exposed to regulatory uncertainty (Thompson, 1967, Carter, 1990). Furthermore, firms may copy or imitate the strategies of peers in order to minimize the effect of relative competitive disadvantages (Anderson & Paine, 1975, Bourgeois & Eisenhard, 1987).

Though resource-based view covers only the resources and capabilities of the firm, I draw on contingency theory, which states that organizational performance is a result of alignment between the exogenous context variables (such as uncertainty) and the endogenous organizational design variables. As shown above, Oliver & Holzinger (2008) assume that corporate political strategies that target value creation are based on the dynamic capabilities of scanning and predictive capabilities and institutional influence capabilities. As both lobbying as well as investigation efforts lead to the reduction of regulatory uncertainty I hypothesize that the underlying capabilities also reduce perceived regulatory uncertainty. The assumption is that firms with stronger nonmarket capabilities perceive lower regulatory uncertainty than firms with weaker nonmarket capabilities. A consequence would be that firms that perceive high regulatory uncertainty tend to establish capabilities that lead to a reduced perceived regulatory uncertainty. According to terms of Oliver & Holzinger (2008), these firms would thus tend to follow a value creation strategy. This argumentation is in line with Aragón-Correa & Sharma (2003) who argue that perceived state uncertainty, according to Milliken's uncertainty classification, positively influences the link between a proactive environmental strategy and competitive advantage. Therefore, regulatory uncertainty would initiate firms to develop a proactive environmental strategy, which helps reaching a good performance. Environmental uncertainty thus increases the probability that a company invests proactively.

Proposition 1a: Firms that perceive high regulatory uncertainty tend to establish scanning and predictive and/or institutional influence capabilities
Proposition 1b: Scanning and predictive capabilities tend to reduce perceived regulatory uncertainty

Proposition 1c: Institutional influence capabilities tend to reduce perceived regulatory uncertainty

Firms that perceive a lower regulatory uncertainty would then rather follow in consequence a value maintenance political strategy, i.e., a less proactive environmental strategy. According to Oliver & Holzinger (2008), the dynamic capabilities would be based on flexible organizational architecture capabilities and political social capital deployment capabilities.

Proposition 2a: Firms that perceive low regulatory uncertainty tend to formulate a value maintenance nonmarket strateg
Proposition 2b: Flexible organizational architecture capabilities help firms to adapt to regulatory uncertainty
Proposition 2c: Political social capital deployment capabilities help firms to adapt to regulatory uncertainty

8. Nonmarket capabilities and investments under regulatory uncertainty

The argumentation in literature for the impact of regulatory uncertainty on investment decisions is basically twofold. One group of scholars sees regulatory uncertainty as negative impact on investment decisions and states that regulatory uncertainty gives an additional cost from a transaction cost perspective, which thrive organizations to wait or postpone projects until further information or clarity is gathered (e.g., Luo, 2004).

The opposing group of scholars argues that regulatory uncertainty even triggers investments as firms can gain a competitive advantage. The rational is based on either the resourced-based view of the firm or the real-option approach. According to the resource-based view, investment under regulatory uncertainty can secure the firm specific valuable resources that can be leveraged for the firm's performance (e.g., Rugman & Verbeke, 1998). Alternatively, according to the real option approach, firms can benefit from investments under regulatory uncertainty by gaining a right for a future, larger investment, which then will generate large payoffs. The option has thus no enforced obligation to actually do the investment in the future (e.g., Doh & Pearce, 2004). The value of the option is thus driven by the development of the underlying uncertainty, in our case, regulatory decisions or developments.

The question is now whether the before mentioned nonmarket capabilities enable firms to better cope with perceived regulatory uncertainty. Staying in line with the contingency argument and the aforementioned propositions that a value creation nonmarket strategy would reduce perceived regulatory uncertainty firms with stronger nonmarket capabilities would therefore tend to invest than firms with weaker nonmarket capabilities. This investment behavior would also hold true for firms with a value creation nonmarket strategy in comparison to those with a value maintenance strategy. Finally, the most likely to withhold investments under perceived regulatory uncertainty are firms with very weak nonmarket capabilities.

Proposition 3a: Firm with stronger nonmarket capabilities have a higher tendency to invest under perceived regulatory uncertainty than firms with weaker nonmarket capabilities

Proposition 3b: Firms with a value creation nonmarket strategy have a higher tendency to invest also under perceived regulatory uncertainty rather than those with a value maintenance strategy
Proposition 3c: Firms are more likely to withhold investments under perceived regulatory uncertainty if they have very weak nonmarket capabilities

Doh & Pearce (2004) analyzed firms in an uncertain regulatory environment and how they can best respond via entrepreneurial strategies. By means of the real option theory they recommend firms to adjust their investments along the degree and slope of regulatory uncertainty (degree of uncertainty adapted from Courtney et al., 1997). According to the degree of uncertainty, four different generic strategies are proposed: **preemptive**, **optioned**, **synchronous**, and **adaptive strategies**. **Preemptive strategies** are best at low regulatory uncertainty and are characterized by firms doing a "first strike" with a high resource commitment. **Option strategies** are best at low to moderate regulatory uncertainty where firms do initial investment, which keeps the right to do a further investment step at a later stage. **Synchronous strategies** are best at moderate to high regulatory uncertainty to synchronize investments to the progress of policy change. Finally, **adaptive strategies** are best at highly uncertain environments where investments are made as a response to policy change. The latter is thus a purely reactive strategy without risking even initial investments under uncertainty.

Proposition 4a: Firms with strong internal nonmarket capabilities rather invest with option-based strategies
Proposition 4b: Firms with strong external nonmarket capabilities rather invest with synchronous strategies

9. Discussion and further research

The article advances the theoretical discussion about the effectiveness of corporate political strategies in the way that it considers the sensitivity of the organizational variables to the external business variables of the general environment of the firm. I refer to the contingency argument, first introduced in organizational theories as early as in the 1960s, that was only linked to the resource-based view in the last ten years. It basically explains that organizational performance is depending on the degree of alignment between the exogenous context variables and the endogenous organizational design variables. Uncertainty is thereby one of the key variables of the external business environment of the firm. In order to make it applicable for the nonmarket environment of the firm, I refer to perceived regulatory uncertainty that requires an alignment by the firm by means of its nonmarket capabilities.

The propositions made in the article considers these theoretical deductions and would allow an empirical testing. Generally, propositions in literature to describe and classify nonmarket capabilities are so far mainly theoretical. Bonardi et al. (2006) provide a rare example of empirical testing, but they limit their view on external nonmarket capabilities. It would be therefore necessary to provide empirical insights of a further classification. I propose an empirical testing within the Swiss power generation market where, in a first step, a round of interviews should be conducted. The power generation market in general is – as mentioned in the introduction – obviously a suitable example of an industry where sector and technological regulation influence the investment decisions. Market liberalization limits the ability of generation firms to shift the risk associated to power

investments to their customers. Therefore, perceived regulatory uncertainty is one of the main threats in their business environment. It is in the firms' interest to follow a value creation nonmarket strategy that finally targets to reduce regulatory uncertainty.

So far, this paper principally serves as discussion basis to formulate hypotheses on the linkage of nonmarket capabilities and perceived regulatory uncertainty. I'm grateful of any comments to the paper and propositions to consider further theoretical or empirical aspects.

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