Journal of Strategy and Management

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Received 2 October 2018
Revised 2 January 2019
Accepted 2 January 2019

Abstract

Purpose – The purpose of this paper is to investigate the influence of internal capabilities and environmental turbulence on market (e.g. cost leadership and differentiation) and nonmarket (e.g. political and social) strategies (NMS), and considers how these strategies impact financial and non-financial performance in firms in the United Kingdom.

Design/methodology/approach – A survey was administered online to 215 practicing managers in the UK. Measures for competitive strategy (i.e. cost leadership and differentiation), NMS, strategic capabilities, market turbulence and firm performance were adopted from or based on previous work. Hypotheses were tested via SmartPLS.

Findings – Findings underscore the impact of market turbulence across all market and nonmarket strategy dimensions. Multiple links between capabilities and strategies were identified. Both cost leadership and differentiation were significantly linked to non-financial performance, but only differentiation was significantly linked to financial performance. An increased emphasis on social NMS was linked to higher financial performance, but not non-financial performance. Political NMS was linked to neither financial nor non-financial performance.

Research limitations/implications – The sample included managers in multiple industries. Self-typing scales were utilized to measure market turbulence, emphasis on capabilities, strategic emphasis and firm performance.

Practical implications – Emphasis on social NMS can promote financial performance, but political NMS does not appear to drive either financial or non-financial performance.

Originality/value – This paper provides empirical support for a UK-based model linking market turbulence, strategic capabilities, market and nonmarket strategies, and both social and firm performance. It supports NMS as a key performance driver, but with caveats.

Keywords Nonmarket strategy (NMS), Strategic political emphasis, Strategic capabilities, Performance, UK

Paper type Research paper

Introduction

Traditional thinking on strategy and firm performance is informed by a strong market orientation. Although nonmarket strategy (NMS) is not new, its deployment in both political and social dimensions has become more common in recent years (Bach and Allen, 2010; Buli, 2017; Mellahi *et al.*, 2016; Parnell and Brady, 2018). Whereas market activity concentrates on improving organizational performance through market-oriented mechanisms such as advertising or product design, NMS includes patterns of organizational activity that seek to improve performance by managing the institutional or societal context of competition (Lux *et al.*, 2012; Lux *et al.*, 2011). The complexity of the NMS-performance link has prompted a greater focus on underlying mechanisms that appear to influence how NMS drives performance, its influence on consumer perceptions of the firm (Luo and Bhattacharya, 2006), access to financial resources (Madsen and Rodgers, 2015), and preferential access to political resources (Frynas *et al.*, 2006).

Global complexity and the lack of multilaterally accepted norms, processes and rules render cross-border NMS impractical and ineffective. As a result, a need for nation-specific assessment of nonmarket activity is germane (Kobrin, 2015). This paper examines market

Journal of Strategy and Management

1755-425X
DOI 10.1108/JSMA-10-2018-0107

and nonmarket activity within a single nation, the United Kingdom. Context is critical in NMS work, as the advent of "Brexit" – the June 2016 referendum decision by the UK to leave the European Union – illustrates with respect to the UK (Ashtana *et al.*, 2016; Chan, 2016; Elliott and Stewart, 2018; Ghemawat, 2017; Gross, 2016; Mason, 2017; Scherer and Palazzo, 2011; Walker, 2018).

This paper invokes a broad perspective on links among environment, capabilities, strategy and performance. It is based on the notion that firm capabilities underpin market activity (Desarbo *et al.*, 2005), while context and environmental turbulence inform firm strategy (Emery and Trist, 1965; Grant, 2003). The broad conceptual frame for the paper is presented in Figure 1, whereby both external contextual and internal capability factors influence both market and nonmarket strategic activity, which in turn impact firm performance. Scholarly inquiry that examines the performance impacts of both market and nonmarket strategies is limited; indeed, researchers have called for a more integrative examination of market and non-market strategies (Doh and Lucea, 2013).

Empirical work that examines integrated market and nonmarket strategies, while distinguishing between the financial and non-financial dimensions of performance, is needed as well. Within an environmental context, this study contributes to the literature by examining the influence of market and nonmarket strategies on both financial and non-financial performance. By presenting and evaluating an integrated model, it informs future work in the field and offers suggestions for managers seeking to comprehend the market/nonmarket strategy and financial/non-financial performance distinctions.

Market and nonmarket strategy, capabilities and turbulence

Market strategy has a long pedigree, including the seminal writings of Michael Porter on competitive strategy and competitive advantage in which he introduced the concepts of generic strategy (e.g. cost leadership and differentiation), industry forces and the value chain (Porter, 1981, 1985). According to Porter, a firm actively selects a market in which to compete and chooses a specific cost-leader or differentiated position that it can defend against other competitors, substitutes or new entrants. Early empirical work on market strategies focused on examining relationships with customers, suppliers, competitors, other market-related entities associated with market transactions (van Raaij and Stoelhorst, 2008); Nayyar (1993) empirically examined cost leadership and differentiation strategies at play at the product level.

More recently, authors have proposed an alternative to the positioning view suggesting that market activity is founded on internal resources of the firm (Barney, 1991; Penrose, 1959; Wernerfelt, 1984). The competencies (Prahalad and Hamel, 1990) and capabilities

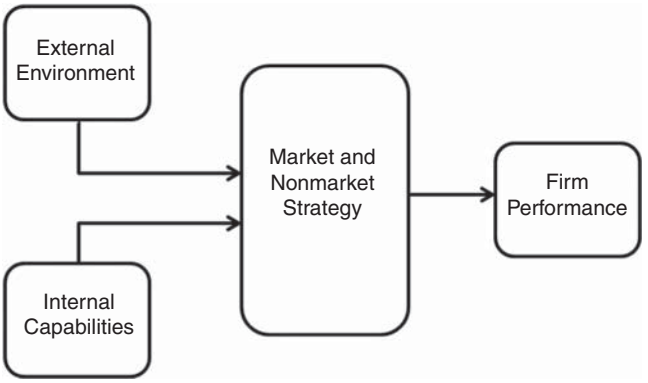

Figure 1.
Conceptual framework

(Teece *et al.*, 1997) literatures stem from this resource-based view of the firm. Strategic capabilities are intricate bundles of skills and accumulated knowledge that enable organizations to employ resources proficiently and synchronize activities effectively (Assudani, 2008; Teece *et al.*, 1997). Capabilities underpinning market strategy center on specific areas of firm activity including market, market-linking, technology, information and management (Desarbo *et al.*, 2005).

In contrast, nonmarket strategic activity addresses actions outside of the market arena, including political initiatives such as lobbying, campaign involvement, and even direct collaboration with government actors, and social initiatives analogous with corporate social responsibility (CSR) (Lawton *et al.*, 2013; Okhmatovskiy, 2010). The political dimension of NMS often has a negative connotation, grounded in cronyism and corruption associated with lobbying and political engagement (Iriyama *et al.*, 2016; Néron, 2016; Unsal *et al.*, 2016). Scholars have used several terms to address this phenomenon, including corporate political activity (CPA), strategic political management and strategic political emphasis (Hillman *et al.*, 2004; Oliver and Holzinger, 2008). These efforts emphasize NMS as a means of protecting the organization against a regime or attempting to influence it. CPA can advance firm interests, minimize the effects of government policies that threaten corporate goals, or maintain a status quo favorable to the organization (Baines and Viney, 2010; Baysinger, 1984; Lawton *et al.*, 2013). For example, Poisson-de Haro and Bitektine (2015) examined the use of symbolic and substantive social and political non-market strategies working in tandem with market strategies in the cases of three electricity generation companies, with the outcome for firms strongly reflective of the effectiveness of their nonmarket strategy.

The social dimension of NMS is often viewed in a more favorable light as it purports to enhance relationships with stakeholders and promote CSR (Morsing and Roepstorff, 2015; Scherer *et al.*, 2016; Wickert, 2016). In this respect, NMS can be viewed as a logical extension to market strategy (McWilliams and Siegel, 2000, 2001). Following this line of argument, when governments are unwilling or unable to promote socially and environmentally responsible business practices, consumers and interest groups put pressure on firms to engage in political activity by working with non-governmental organizations and other parties to enhance social and environmental standards and norms (Scherer and Palazzo, 2011; Scherer *et al.*, 2006). Hence, CSR buttresses NMS because both seek to influence public policy together with social values (Mellahi *et al.*, 2016; Scherer, 2017; Schneider and Scherer, 2016).

Research has shown that capabilities also play an important role in the development and execution of nonmarket strategies (Baysinger, 1984; Bonardi, Holburn and Vanden Bergh, 2006b; Frynas *et al.*, 2006). Firms lacking capabilities appropriate to their market strategies may turn to NMS as an alternative (Parnell, 2015). On the other hand, capabilities may be developed specifically to support the NMS, or an integrated market-nonmarket approach (Deng *et al.*, 2010; Dorobantu *et al.*, 2017; Mellahi *et al.*, 2016; Wei *et al.*, 2016). Indeed, empirical support for a broad nexus between strategic capabilities and market strategies has been growing (Agyapong *et al.*, 2016; Cacciolatti and Lee, 2016; Song *et al.*, 2007; Theodosiou *et al.*, 2012).

Hypotheses development

The conceptual framework presented herein (see Figure 2) views effective market (i.e. cost leadership and differentiation) and nonmarket (i.e. political and social) strategies as functions of environmental influence and internal marketing, market-linking, technology, and management capabilities; these strategies drive financial and non-financial performance. We now consider each of these elements in turn.

Strategists operate in an environment characterized by volatility, uncertainty, complexity and ambiguity (George, 2017); indeed, an organization's strategy reflects the

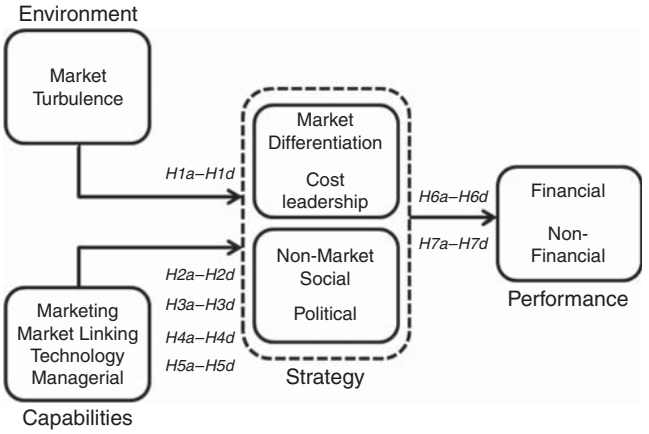

Figure 2.
Construct and hypotheses development

nature of its strategic environment (Yarger, 2006). A defining characteristic of modern marketplaces is turbulence and, as a consequence, business strategy paradigms must incorporate a more dynamic approach to strategy formulation (D'Aveni *et al.*, 2010). In our framework, market responses to environmental turbulence can be understood through the cost leadership-differentiation generic strategy dichotomy (Porter, 1985), while nonmarket responses include social and political strategies (Boddewyn and Buckley, 2017; Frynas *et al.*, 2017).

Greater market turbulence often heightens strategic uncertainty and ultimately, strategic emphasis (Chen *et al.*, 2016; Tsai and Yang, 2013; Wilden and Gudergan, 2015). For example, some firms respond to increased strategic uncertainty through market strategy by accentuating product or process innovation, while others respond through nonmarket strategy by pursuing stronger political relationships. The converse is likely to occur as well. Institutional theory highlights the influence of governments and other institutions on firm behavior (Hadani, 2012). When market turbulence is low, strategic emphasis in both market and nonmarket arenas is likely to be lower as well, as it is easier for firms to engage in isomorphism and mimic the behavior of rivals (Dacin, 1997; Glynn and Abzug, 2002; Marquis *et al.*, 2007).

Following this logic, we proffer the following:

H1. Market turbulence will be positively associated with an emphasis on (a) differentiation, (b) cost leadership, (c) NMS political dimension, (d) NMS social dimension.

Ceteris paribus, possessing a given strategic capability is generally preferable to not possessing it. Certain capabilities are linked more closely to specific market and nonmarket strategies, but firms employing a range of market or nonmarket strategies would likely develop a range of strategic capabilities to support those strategies. Hence, in a broad sense, positive links exist between capabilities (e.g. marketing market-linking, technology and management) and strategies (e.g. differentiation, cost leadership, political NMS and social NMS). Conversely, firms that do not emphasize capability development would likely pursue an isomorphic pattern and place less emphasis on market and nonmarket strategies. In the following paragraphs, we briefly review four categories of strategic capabilities that influence market and nonmarket strategies.

First, marketing capabilities include knowledge of the marketplace, customers, and competitors, and skills to forecast demand, segment the market, price, promote and advertise goods and services (Song *et al.*, 2007). Scholarly support exists for links between

capabilities and generic strategies. A positive link between marketing capability and NMS is intuitive as well. Indeed, marketing is a key facet of campaigns that promote CSR activities, and marketing expertise can also be instrumental in securing political support (Morgan *et al.*, 2009; Oliver and Holzinger, 2008; Wilden and Gudergan, 2015). Hence, a marketing capability appears instrumental to both market and nonmarket activity (Grinstein, 2008; Parnell, 2015). We, therefore, proffer the following hypotheses:

H2. Marketing capabilities will be positively associated with an emphasis on (a) differentiation, (b) cost leadership, (c) NMS political dimension, (d) NMS social dimension.

Second, market-linking refers to the development of bonds and long-lasting relationships by firms with outside agencies such as suppliers, channel members, and customers. Market-linking capabilities have an external emphasis and include market sensing, customer linking, channel bonding and technology monitoring (Day, 1994). Building enduring relationships with nonmarket social and political agents can benefit the firm as well. Market-linking capabilities can help firms build such nonmarket relationships and sense trends in social and political spheres. Moreover, because capabilities can transfer from one domain to another, it is reasonable to suggest that market-linking capabilities not only underscore effective market strategies but can support effective nonmarket ones as well. For example, managers may cultivate capabilities to align their organizations more closely with legislation and agency enforcement (Capron and Chatain, 2008; Holburn and Vanden Bergh, 2008; Oliver and Holzinger, 2008; Rival, 2012). Relationship building and justification through public relations are specific capabilities that support a firm's nonmarket strategy; both of these are also market-linking capabilities (Poisson-de Haro and Bitektine, 2015). Hence, we proffer the following hypotheses:

H3. Market-linking capabilities will be positively associated with an emphasis on (a) differentiation, (b) cost leadership, (c) NMS political dimension, (d) NMS social dimension.

Third, technology capabilities can be viewed as a facilitator of competitive advantage (Foss and Robertson, 2000). Hence, technology can support the pursuit of either a cost leadership or a differentiation-based market strategy. For example, Afuah (2002) examined technological capabilities underpinning a differentiation strategy in the case of pharmaceutical firms producing a cholesterol reducing drug. Whether or not (and the extent to which) technological capability supports a nonmarket strategy is less clear. We suggest that traditional "technical" technological capabilities such as coding are not aligned with the development and implementation of traditional social or political nonmarket strategies. However, as firms develop technical skills in the use and deployment of social media technologies, technology capabilities may become useful in the formulation and implementation of nonmarket strategies. There is evidence that extensive nonmarket uses of technology have occurred in the political sphere (*The Economist*, 2016; Shane, 2017); such practice may in time transfer to the business sphere. This discussion suggests the following hypotheses:

H4. Technology capabilities will be positively associated with an emphasis on (a) differentiation, (b) cost leadership, (c) NMS social dimension, (d) NMS political dimension.

Finally, broader, managerial capabilities such as sensing, seizing and reconfiguring underpin effective strategy development and execution (Helfat and Peteraf, 2015; Teece, 2007). Capabilities associated with the management functions of planning, organizing, leading, and controlling underpin strategic efforts and the pursuit of organizational goals (Jauch and Kraft, 1986). Given that nonmarket strategies also require planning, organizing, leading and controlling, we suggest that these broad management capabilities can also support NMS activity:

H5. Management capabilities will be positively associated with emphasis on (a) differentiation, (b) cost leadership, (c) NMS social dimension, (d) NMS political dimension.

The strategy-performance link has been an important topic of scholarly interest for several decades, with a substantial volume of research supporting a nexus between the two (Murray, 1988; Parnell, 1997; Parnell and Wright, 1993). We, therefore, suggest the following:

H6. Emphasis on cost leadership will be positively associated with (a) financial performance, (b) non-financial performance.

H6. Emphasis on differentiation will be positively associated with (c) financial performance, (d) non-financial performance.

The theoretical basis for a link between NMS and firm performance is multifaceted (Assudani, 2008; Davis *et al.*, 2010; Liu and Chen, 2015; Macher and Mayo, 2015; Parnell, 2015). Various theories explain how and why an effective NMS might support firm performance (Dahan *et al.*, 2013; Hadani and Schuler, 2013; Mellahi *et al.*, 2016), but none of them prescribe a specific nonmarket approach. Fundamentally, NMS is rooted in the behavioral theory of the firm, which emphasizes imperfect information, bounded rationality, satisficing, and the need for managers to craft workable, expedient strategic responses (Cyert and March, 1963; Ji-Yub *et al.*, 2011; Liu *et al.*, 2015).

Stakeholder theory emphasizes the impact of strategy on a variety of outcomes that influence and are affected by firm actions (Hillman and Keim, 2001). Put another way, stakeholder theory highlights non-financial performance measures in addition to the traditional concerns of profitability, firm growth, and returns to owners. Public choice theory suggests that politicians and public sector officials are utility maximizers often acting in their own narrow self-interest (Buchanan, 1984), and explains why and how organizations pursue mutually beneficial arrangements with politicians and other government stakeholders (Bonardi *et al.*, 2005; Bonardi, Holburn and Vanden Bergh, 2006a; Wood and Frynas, 2006).

Resource-based and capabilities perspectives emphasize the development of aptitudes instrumental to strategic success. This line of reasoning is consistent with the pursuit of non-predictive effectual behavior (Berends *et al.*, 2014; Bird *et al.*, 2012; Read *et al.*, 2009; Reuber *et al.*, 2016; Solvoll, 2017). Hence, resource procurement and development promote the formulation and execution of both market and nonmarket strategies.

Empirical work reinforces the theoretical underpinnings of an NMS-firm performance nexus, including positive, direct performance links with effective stakeholder management (Bosse *et al.*, 2009; Choi and Wang, 2009), political embeddedness (He *et al.*, 2007; Shi and Cheng, 2016; Unsal *et al.*, 2016), and broad nonmarket activity (Bonardi, Holburn, and Vanden Bergh, 2006b; Parnell, 2015). In their review of NMS-performance work, Mellahi *et al.* (2016) found significant NMS-performance links in 102 out of 163 studies assessed. We anticipate positive links as well:

H7. Emphasis on the NMS social dimension will be positively associated with (a) financial performance, (b) non-financial performance.

H7. Emphasis on the NMS political dimension will be positively associated with (c) financial performance, (d) non-financial performance.

Methods

Existing, validated scales were used to measure constructs whenever possible. The market turbulence scale was adapted from Jaworski and Kohli (1993), as modified by Olson *et al.*, (2005). Scales developed by Desarbo *et al.* (2005) were employed to assess strategic capabilities. Market strategy – cost leadership and differentiation – was assessed with items identified by Nayyar (1993). Emphasis on NMS was assessed via items based on the Deng *et al.* (2010) taxonomy, but with new items added to more effectively delineate the political

and social dimensions. Relative performance was measured with items adopted from multiple sources (Harris and Mongiello, 2001; Kaplan and Norton, 1992, 2001; Madanoglu *et al.*, 2014; Phillips and Moutinho, 1999; Venkatraman and Ramanujam, 1986). Seven-point Likert scales were utilized for all items, and hypotheses were tested using SmartPLS (version 3) software (Hair *et al.*, 2012).

Surveys were administered through Cint's online insight exchange platform and were sent in late 2017 to full-time, practicing middle and top managers throughout the UK. Multiple experiential backgrounds and industry affiliations were represented. The sample includes a diverse group of managers in a variety of manufacturing and service industries. The data were scrutinized for evidence of straightlining, excessive missing data, and other concerns (e.g. non-managers participating). As a result, 29 cases were eliminated, resulting in 215 usable responses. The sample (see Table I) includes 179 middle managers and 36 top managers; survey items are summarized in the Appendix.

Findings

Strategy, uncertainty and capability scales were assessed for reliability and validity (see Table I). Two items in the technology capability scale and one item in the management capability scale produced substantial cross-loadings on other scales and were eliminated to produce an optimal solution (see Appendix). Coefficient α exceeded 0.700, composite α exceeded 0.800, and average variance explained exceeded 0.500 for all constructs. The Fornell-Larcker criterion suggests discriminant validity in all instances. Heterotrait-Monotrait ratios were also calculated. All of the values were below 0.85 with three exceptions: cost leadership and differentiation (0.872), technology capabilities and management capabilities (0.878), and financial performance and non-financial performance (0.866). These values warrant further consideration but are not necessarily problematic, as suggested cut-offs for concern generally range from 0.85 to 0.90 (Gold *et al.*, 2001; Henseler *et al.*, 2014; Kline, 2011). Moderate associations between these three pairs of constructs are not surprising.

Inner VIF values ranged from 1.185 to 2.392, and outer VIF values ranged from 1.437 to 2.830, below the collinearity threshold of 5. A bootstrapping procedure with 5,000 subsamples provided confirmation, producing p-values of 0.000 for each of the indicators. Hypotheses were tested by bootstrapping a composite structural model. Each set of hypotheses was partially supported (see Table I).

A refined model was developed. Bootstrapping was applied to a fully saturated model, and insignificant links were removed in a stepwise fashion until only significant ones remained. All path coefficients in the final model are positive except for the link between

Variable	*n*	%
Management level		
Middle	179	83.3
Upper	36	16.7
Gender		
Male	91	42.3
Female	124	57.7
Firm size		
Small (11–50 employees)	35	16.3
Medium (51–250 employees)	99	46.0
Large (251 + employees)	81	37.7

Table I. Sample demographics

technology capabilities and the NMS social dimension. The nexus between market-linking capabilities and the NMS social dimension was not previously tested but crossed the 95 percent threshold in the revised model. R^2 coefficients ranged from 0.140 to 0.258. Results from the final bootstrap are presented in Table II; Figure 3 provides path coefficients and *p*-values (Table III).

Structural properties of the final model were assessed further. VIF scores in the outer model ranged from 1.493 to 2.830, suggesting that collinearity was not a significant concern. The adjusted R^2 coefficients for financial and non-financial performance declined only slightly to 0.239 and 0.258, respectively, denoting that the final, parsimonious model, sacrifices very little predictive power. Effect sizes were assessed and interpreted following Cohen's benchmarks of 0.02 (small), 0.15 (moderate) and 0.35 (large) (Hair *et al.*, 2012). The effect size for each of the significant links was small except for those between market turbulence and cost leadership, and differentiation and financial performance, which were moderate. Links between market turbulence and social NMS, and between technology capabilities and cost leadership, were very close to Cohen's 0.15 threshold for moderate effect size.

Discussion

Several findings from the refined model warrant additional discussion. First, market turbulence appears to drive all market and nonmarket strategy dimensions. This finding

Hypothesis	Link	Original mean	Sample mean	SD	*t*-value	*p*-value	Support
H1a	Market turbulence → Differentiation	0.223	0.220	0.071	3.164	0.002*	Yes
H1b	Market turbulence → Cost Leadership	0.256	0.255	0.083	3.085	0.002*	Yes
H1c	Market turbulence → NMS-Political	0.341	0.341	0.075	4.559	0.000*	Yes
H1d	Market turbulence → NMS-Social	0.416	0.415	0.071	5.877	0.000*	Yes
H2a	Marketing cap. → Differentiation	0.283	0.274	0.100	2.830	0.005*	Yes
H2b	Marketing cap. → Cost Leadership	0.157	0.146	0.098	1.604	0.109	No
H2c	Marketing cap. → NMS-Political	0.319	0.322	0.074	4.321	0.000*	Yes
H2d	Marketing cap. → NMS-Social	0.347	0.353	0.064	5.439	0.000*	Yes
H3a	Market-linking cap. → Differentiation	0.049	0.054	0.073	0.673	0.501	No
H3b	Market-linking cap. → Cost leadership	0.056	0.054	0.077	0.722	0.471	No
H3c	Market-linking cap.→ NMS-political	0.142	0.133	0.117	1.211	0.227	No
H3d	Market-linking cap. → NMS-social	0.288	0.287	0.108	2.677	0.008*	Yes
H4a	Technology cap. → Differentiation	0.142	0.146	0.096	1.487	0.138	No
H4b	Technology cap. → Cost leadership	0.315	0.320	0.081	3.873	0.000*	Yes
H4c	Technology cap. → NMS-social (–)	−0.145	−0.140	0.102	1.424	0.155	No
H4d	Technology cap. → NMS-political (–)	0.141	0.146	0.098	1.437	0.151	No
H5a	Management cap. → Differentiation	0.084	0.089	0.103	0.811	0.418	No
H5b	Management cap. → Cost leadership	0.040	0.057	0.097	0.414	0.679	No
H5c	Management cap. → NMS-social	0.251	0.255	0.094	2.660	0.008*	Yes
H5d	Management cap. → NMS-political	−0.053	−0.047	0.104	0.509	0.611	No
H6a	Cost lead. → Financial perf.	0.038	0.041	0.095	0.399	0.690	No
H6b	Cost lead. → Non-Financial perf.	0.223	0.225	0.081	2.753	0.006*	Yes
H6c	Differentiation → Financial perf.	0.382	0.377	0.090	4.241	0.000*	Yes
H6d	Differentiation → Non-financial perf.	0.290	0.291	0.081	3.580	0.000*	Yes
H7a	NMS-social → Financial perf.	0.243	0.244	0.090	2.696	0.007*	Yes
H7b	NMS-social → Non-financial perf.	0.198	0.200	0.097	2.046	0.041*	Yes
H7c	NMS-political → Financial perf.	−0.119	−0.110	0.082	1.449	0.148	No
H7d	NMS-political → Non-financial perf.	−0.112	−0.112	0.085	1.312	0.190	No

Table II.
Tests of hypotheses

Note: *Significant at 0.05 level

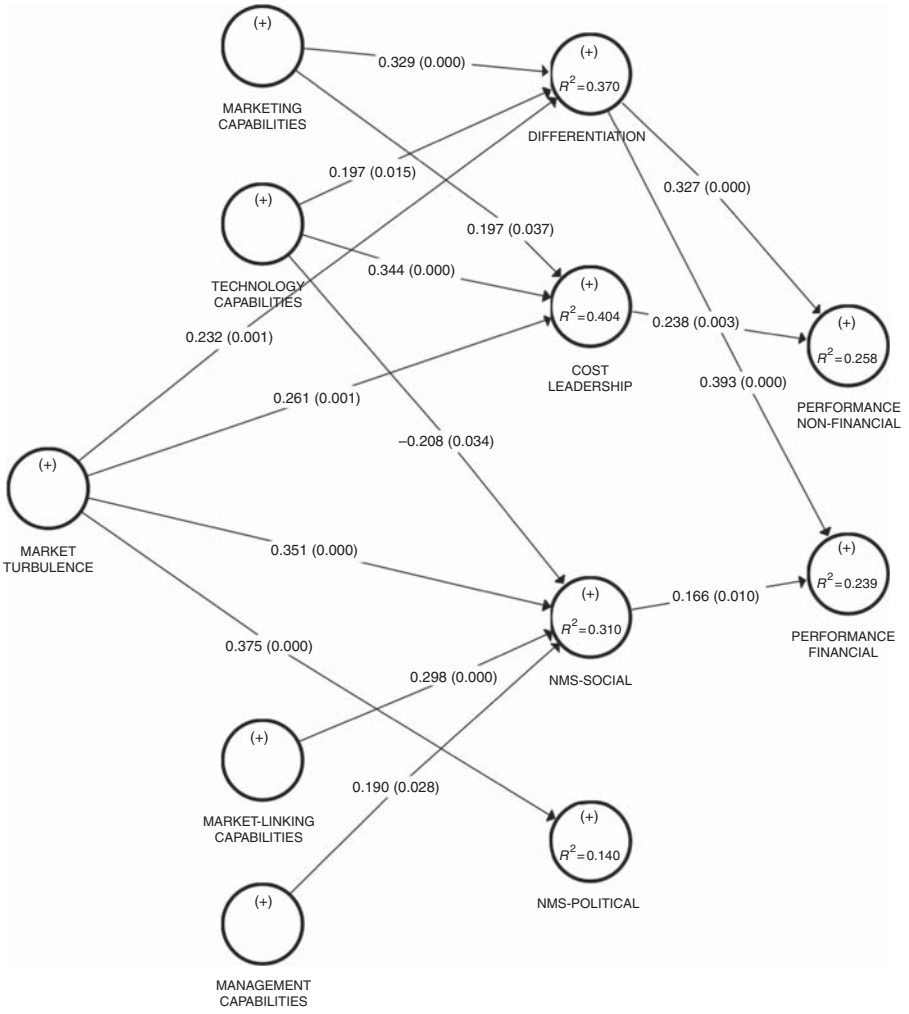

Figure 3.
Refined model

supports the view that firms compete within a complex and rapidly changing environment (Sargut and McGrath, 2011), where any advantage is temporary (D'Aveni *et al.*, 2010), requiring firms to be flexible and strategically responsive (Brown and Eisenhardt, 1997; D'Aveni, 1995). Interestingly, market turbulence drives both market and nonmarket strategic action. This infers that in turbulent environments, firms employ whatever strategic levers are available to them, including those from social and political spheres. Conversely, when turbulence is low, isomorphism becomes a more attractive strategic option (Glynn and Abzug, 2002; Marquis *et al.*, 2007).

Recent developments underscore the link between market turbulence and political NMS. For example, an intense battle between alcohol producers and UK legislators ended in 2017 when the Supreme Court ruled that the Scottish government can legally prescribe minimum prices for alcohol. The Scottish National Party and health campaigners viewed this as a victory and Irish leaders have begun drafting similar legislation as well (Dickie, 2017). Cave and Rowell (2014, pp. 212-219) note that the industry engaged in extensive political,

Hypothesis	Link	Original mean	Sample mean	SD	*t*-value	*p*-value	f^2-value
H1a	Market turb. → Differentiation	0.232	0.234	0.072	3.224	0.001	0.065
H1b	Market turb. → Cost lead.	0.261	0.267	0.078	3.349	0.001	0.087
H1c	Market turb. → NMS-political	0.375	0.378	0.066	5.666	0.000	0.163
H1d	Market turb. → NMS-social	0.351	0.347	0.071	4.962	0.000	0.143
H2a	Marketing cap. → Differentiation	0.329	0.328	0.081	4.052	0.000	0.111
H2b	Marketing cap. → Cost lead.	0.197	0.192	0.094	2.093	0.037	0.042
H3d	Market-linking Cap. → NMS-social	0.298	0.302	0.080	3.706	0.000	0.095
H4a	Technology cap. → Differentiation	0.197	0.193	0.080	2.448	0.015	0.045
H4b	Technology cap. → Cost lead.	0.344	0.346	0.083	4.135	0.000	0.146
H4c	Technology cap. → NMS-social	−0.208	−0.213	0.098	2.131	0.034	0.031
H5c	Management cap. → NMS-social	0.190	0.198	0.086	2.198	0.028	0.025
H6b	Cost lead. → Non-financial perf.	0.238	0.237	0.080	2.957	0.003	0.048
H6c	Differentiation → Financial perf.	0.393	0.390	0.077	5.113	0.000	0.164
H6d	Differentiation → Non-financial perf.	0.327	0.331	0.078	4.186	0.000	0.091
H7a	NMS-social → Financial perf.	0.166	0.174	0.064	2.575	0.010	0.029

Table III.
Refined model results

legal and social activity in an attempt to prevent minimum prices being set for alcohol. Another example considers Uber's London operating license. When it was revoked in 2017, the company hired Laurel Powers-Freeling, a former senior adviser to the Bank of England and member of several corporate boards, to assist with the appeal process. Should Uber succeed, the company would likely be required to comply with the existing regulatory scheme, and Powers-Freeling could play a pivotal role (Schechner, 2017). As a further example, in late 2018, five major British business organizations issued a statement castigating the UK government for their poor handling of the Brexit issue: "Businesses have been watching in horror as politicians have focused on factional disputes rather than practical steps that business needs to move forward" (Elliott and Stewart, 2018). Hence, firms in turbulent environments often engage in political NMS as a defense mechanism (Buchanan, 1984).

Second, marketing capabilities were found to be key drivers of market strategies, but of neither political nor social NMS. In general, effective marketing broadly supports the execution of any market-based competitive strategy (Cacciolatti and Lee, 2016). One might expect the links between marketing capabilities and market strategies to be stronger than those between marketing capabilities and nonmarket strategies, but the lack of significant influence on NMS is surprising. Perhaps nonmarket strategic activity has not yet advanced to the point where capabilities such as advertising provide an advantage.

On the other hand, market-linking capabilities were found to support social NMS activity. This is intuitive, as building relationships and bonding can apply in both market and nonmarket situations. While market-linking capabilities were not found to drive politically oriented NMS activity, one could envisage this applying in the near future, as relationship building is also key to political influence. It is interesting to note that marketing capabilities primarily support market strategy while market-linking capabilities support NMS: this provides firms with a strong capability arm supporting each of the two strategic dimensions.

Third, technology capabilities represented a key driver of both market strategies but were also linked to the NMS social dimension. While technology capabilities underpin both market strategies, it was found to have a particularly strong relationship with cost leadership. This is no surprise, as effective use of technology can result in efficient production and delivery of goods and services. The negative relationship between technology capability and social NMS is intriguing, however. Perhaps the mindset of

technology-oriented managers is such that they struggle to transfer from market to nonmarket activity. This may indicate a weakness in technology firms with strong technology capabilities. Given that social NMS was found to have a bearing on firm performance, managers in technology-oriented firms should be aware of that sphere of activity and work at identifying ways to exploit their technology capabilities to that end.

Fourth, an increased emphasis on the NMS social dimension improved financial performance, but not non-financial performance. This finding underscores the potential economic value of social involvement (den Hond *et al.*, 2014; Scherer *et al.*, 2016). However, it is surprising that social NMS supports financial performance more in the short term, especially given that social NMS is strongly supported by longer horizon management and market-linking capabilities.

Fifth, an increased emphasis on the NMS political dimension did not have a significant impact on either financial or non-financial performance. Indeed, firms engage in political activity because they anticipate economic returns for doing so (Healy, 2014; Holburn and Vanden Bergh, 2014; Lawton *et al.*, 2013). While our findings do not support a link in the UK, this may further illustrate that the performance impact of CPA is greater in emerging than in developed markets. It may also be the case that political NMS is more defensive in nature, directed more at staving off problems rather than in opening up opportunities. In such an instance, reducing the impact of problems may not manifest itself directly in performance.

Finally, our research reinforces the notion that firms gain an advantage not through single capabilities but through employing bundles of capabilities to support their strategy in different ways as flexible, real options (Moorman and Slotegraaf, 1999). Firms draw on both market and nonmarket strategies, each of which draws on bundles of capabilities. For example, a firm pursuing a differentiation strategy may utilize both marketing and technology capabilities, whereas a firm pursuing social NMS may draw on a bundle of market-linking and managerial capabilities. A firm pursuing differentiation coupled with social NMS might utilize capabilities in all four categories.

Conclusions and future directions

Environmental turbulence and strategic capabilities can influence both market and nonmarket strategies in firms in the UK, and in turn, can impact firm performance. The broad turbulence-strategy link underscores the contextual nature of strategy. More specifically, marketing and technology capabilities were found to underpin market-oriented strategies while market-linking and management capabilities were found to underpin social NMS. Findings also suggest that firms actively engage in nonmarket strategy and make use of their existing capabilities when executing NMS. Hence, firms appear to respond to the increased strategic uncertainty that accompanies market turbulence through a heightened emphasis on market or nonmarket strategies, or some combination of the two. When market turbulence is low, however, strategic emphasis is a lesser concern, as firms may maintain the status quo or imitate stronger rivals (Dacin, 1997; Glynn and Abzug, 2002; Marquis *et al.*, 2007).

These findings have broad practical implications. Managers should pursue capabilities that reinforce their firms' market strategies, an approach supported by most scholarly work (Parnell, 2010; Rashidirad *et al.*, 2013; Ray *et al.*, 2004; Stonehouse and Snowdon, 2007). However, those seeking to integrate market and nonmarket approaches into a single, overarching strategy should recognize the trade-offs that often exist (Frynas *et al.*, 2017; Singer, 2013). Hence, managers should emphasize areas of overlap between market and nonmarket factors (Bach and Allen, 2010; Hadani *et al.*, 2015). In this respect, NMS can reinforce the market strategy, and thereby advance the firm's broader strategic orientation.

Three key viable research directions have been identified. First, the relative influence of market and nonmarket strategies on performance warrants further attention. Public-private partnerships and CSR have amassed greater prominence in the UK and other advanced

economies (Cordeiro and Tewari, 2015; Macher and Mayo, 2015; Porter and Kramer, 2006; Singer, 2013), but additional work is needed to delineate the contextual nature of the NMS-performance nexus (Kobrin, 2015).

Second, the short- and long-term ramifications of market and nonmarket strategies require additional investigation. The time lag between strategy and performance confounds scholars, but remains an important factor, especially from a practitioner perspective. Some market strategies require more time than others to develop and impact performance; the same may be true for nonmarket strategies. Additional longitudinal work in this area is needed.

Third, nonmarket strategic activity may in time lead to the development of new kinds of capabilities, including those in the arenas of political influence or social empathy. These new kinds of capability, developed to underpin nonmarket activity, could be usefully extended to the market arena as well. Cross-over or spill-over of such capability innovation may provide a rich new seam of research activity.

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Appendix. Summary of survey items

(1) Market turbulence:

- Changes in customers' product preferences.
- Customers look for new products.
- Customers sometimes price-sensitive, other times not.
- Demand for products/services from new customers.

- New customers different from existing customers.
- Change in customer base.

(2) Marketing capabilities:

- Knowledge about customers.
- Knowledge about competitors.
- Integration of marketing activities.
- Skill to segment and target markets.
- Effectiveness of pricing programs.
- Effectiveness of advertising programs.

(3) Market-linking capabilities:

- Market-sensing.
- Creating and managing customer relationships.
- Creating and managing supplier relationships.
- Ability to retain customers.
- Channel-bonding.
- Relationships with channel members.

(4) Technology capabilities:

- Manufacturing processes.
- Technology development.
- Ability to predict technology changes.
- Production facilities.
- New product development[a].
- Quality control skills[a].

(5) Management capabilities:

- Cost controls.
- Financial management.
- Human resource management.
- Profitability and revenue forecasting.
- Marketing planning process.
- Integrated logistics systems[a].

(6) Differentiation:

- Development of new products/services.
- New methods to create superior products/services.
- Strong brand.
- Innovation in marketing and advertising.
- Advertising expenditures.

(7) Cost leadership:

- Operating efficiency.

- Competitive pricing.
- Efficiency of securing raw materials.
- Process innovation.
- Cost reductions.

(8) Social NMS:

- Public events and social initiatives to improve image.
- Partnering with connected organizations.
- Taking positions on social issues to advance reputation.
- Taking action to improve society.
- Taking action to generate stakeholder support.
- Engaging in philanthropy.
- Minimizing negative publicity from NGOs.
- Serving on government boards, panels and task forces.

(9) Political NMS:

- Consulting with or hiring government officials.
- Working with trade associations and other groups.
- Asking government officials for strategic input.
- Frequent meetings with government officials to promote goodwill.

(10) Financial performance:

- Return on assets (ROA).
- Growth in revenues.
- Growth in market share.
- Growth in stock price and returns to investors.

(11) Non-financial performance:

- Competitive position in the industry.
- Customer satisfaction and loyalty.
- Employee satisfaction and loyalty.
- Developing capabilities.

Note: [a]Eliminated from models.

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