

# Chapter 17

## The Impact of Technological, Governance, and Political Capabilities on Firms' Performances Under Economic Turbulence

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### ABSTRACT

*Although there have been various studies exploring the effects of capabilities on firms' performances, it is not clear whether particular capabilities would create more competitive advantage for firms under recessionary periods compared to expansionary periods. The main focus in this chapter is to examine the impacts of technological, governance, and political capabilities on firms' performances under recessionary and expansionary periods. The aim of this chapter is to explore these effects by drawing upon resource-based theory, transaction cost theory, and resource dependence theory.*

### INTRODUCTION

Although the effects of capabilities on firms' performances in different environmental conditions have been explored by the extant literature (Agarwal et al., 2009, Karna et al., 2015, Miller and Shamsie, 1996), still it is not clear how various capabilities in turbulent economic conditions affect the firms' performances.

Globalization and technological improvements play an essential role on the development of organizations nowadays. Not only accelerated globalization but also technological advancements create a more chaotic and complex environment in which organizations have to survive (Doğru, 2016). Complex technological advancements create a competitive environment among firms. As a result, it is crucial to develop technological capabilities to have competitive advantages. Moreover, having technological

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advantages is not enough in today's complex environment; firms should also learn the ways to shift technological capabilities into their own advantages over their rivals. In this dynamic environment, governance capabilities become important to make an efficient form of governance (Madhok, 1996). Furthermore, technological capabilities have a significant impact on governance decisions, and via technological capabilities it is easier for a firm to coordinate governance structures (Leiblein and Miller, 2003). Besides, governance capabilities may also play a vital role on improvement of technological capabilities. For instance, an organization with a strong governance capability such as having high professional executives or having high technical personnel may also provide important contributions to the development of technological capabilities.

On the other hand, political capabilities have profound impacts on firms' competitive advantages and firms' financial performances especially in emerging economies (Oliver and Holzinger, 2008). Organizations, which are able to create political connections, are more likely to achieve high performances (Li and Zhang, 2007, Peng and Luo, 2000). Technological and governance capabilities alone may not be the indicators of performance; political capabilities may also help to explain how organizations show high performances particularly in dynamic environments. Therefore, the effects of these three capabilities on firms' performances are explored in this chapter to see whether these capabilities have different effects on the performances of the firms in turbulent environments or not.

Barney (1991) and Peteraf (1993) state that resource-based theory explains the importance of resources and capabilities to achieve competitive advantage. The resource-based theory has also contributed invaluable insights to interorganizational relationships (Barney et al., 2011). Although there are researchers who investigated the significance of resources and capabilities on firms' performances (Fainshmidt et al., 2016, Gruber et al., 2010, Miller and Shamsie, 1999, O'Regan et al., 2011), still there is a need to explore how different kinds of capabilities affect the firms' performances particularly in dynamic environments. While examining this effect, the capabilities are categorized as market and non-market capabilities in this chapter. Moreover, it is explained that whether various capabilities have different influences on firms' performances in recession periods compared to expansion periods. While technological and governance capabilities are considered as market capabilities in this chapter, political capability is examined as a non-market capability. Thus, the main purpose of this chapter is to investigate impacts of technological, governance and political capabilities on firms' performances during recession and expansion periods by integrating resource based, transaction cost and resource dependence theory.

Organizations might apply different strategies in recession and expansion periods. Companies may focus on the design and technical aspects of the organizations in expansion periods, but in recession periods companies may focus on human side of organizations. This is the reason why; in expansion periods it is easier to apply market strategies, which require time and money. Besides, in recession periods, non-market strategies, which require devotion of human resources to the organization, gain importance, as human relations are significant tools to coordinate turbulence. This chapter examines whether technological and governance capabilities, which are mostly related to the market side of an organization, create competitive advantage to a firm, or political capabilities, which are related with non-market activities and with human side of an organization, lead a company to gain competitive advantage during an economic crisis when compared to expansion periods.

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