


# A theoretical model on how firms can leverage political resources to align with supply chain strategy for competitive advantage

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## Abstract

The success of a firm's supply chain strategy depends on resources in the political environment and the supply network in which it operates. If the political environment is not conducive to a firm's supply chain strategy, a firm can either change its supply chain strategy or seek a political environment that is more favorable to its supply chain. This paper examines this second alternative. The structure-conduct-performance (SCP) paradigm and the competitive dynamics literature are used to explore the relationships between political actions that leverage supply network resources, supply chain strategies, and firm performance. We extend a well-known typology of political actions from the strategic management literature and suggest that beyond influencing or complying with the political environment, firms may choose to moderate the political environment (circumvent or submit) or stay neutral (free ride). An integrated model is developed to explore the relationships between political actions and supply chain strategy, along with a series of propositions outlining how political actions can facilitate supply chain risk management strategies. Finally, suggestions are provided for future research.

## KEYWORDS

competitive advantage, legal and regulatory issues, political actions, supply chain strategy, theoretical model

## INTRODUCTION

Firms take competitive actions, such as pricing, new product development, and legal initiatives, to improve or protect their competitive positions (Ferrier et al., 1999). However, the success of these competitive actions depends on resources in the political environment and the supply network in which the firm operates (Zinn & Goldsby, 2019). In this emerging discourse

incubator article, we develop a theoretical model showing how the alignment of a firm's political actions with its supply chain risk management strategy (SCRM) helps it to leverage valuable supply network resources for competitive advantage. Our model builds on two prominent theoretical lenses in the industrial organizational economics literature—namely, the structure-conduct-performance (SCP) paradigm and the competitive dynamics perspective—while extending a

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typology of political actions developed by Oliver and Holzinger (2008).

We define political actions as a firm's strategic engagement with its political environment to advance or protect its economic interests to gain competitive advantage (Fisman, 2001; Yan & Chang, 2018). Firms take political actions to generate competitive advantage beyond competitive actions such as capacity expansion or marketing campaigns, for example (Baron, 2003; Boddewyn, 2003; Dorobantu et al., 2017). As with traditional competitive moves or countermoves (Chen & Miller, 2015; Ferrier et al., 1999), political actions may be taken proactively or reactively. Proactive political actions are used to influence the adoption of laws or regulations, whereas reactive political actions are often taken to impact the interpretation or enforcement of rules and regulations or to comply with new legislation (Oliver & Holzinger, 2008).

For example, in the third quarter of 2020, using a proactive political action, Apple Inc. spent \$1.5 million (USD) lobbying officials in the U.S. Treasury Department, Congress, and the White House for favorable tax breaks on domestic semiconductor chip production (Wituschek, 2020). Apple's objective was to facilitate the re-shoring of chip production to the United States, thus helping to insulate the company's supply chain from future trade wars (Gurman, 2020). Comparatively, developer Mitsubishi Estate adopted a reactive compliance approach to conform with Japan's new human rights provisions. The provisions require firms to monitor and prevent human rights violations along their entire value chain (Sawai & Hirari, 2021). Mitsubishi Estate, reactively, announced plans to exceed the requirements of the provisions (Matsui & Yao, 2021). The company's objective was to show commitment toward responsible sourcing.

Although prior research has studied how the supply chain is influenced by its political environment (Cantor et al., 2009; Darby et al., 2020; Hofer et al., 2010; Miller, 2017; Phares et al., 2021; Tokar & Swink, 2019), our study makes several important contributions to the literature. First, we contribute to the supply chain and strategy literatures by theorizing about several mechanisms on how firms can engage with their political environment to facilitate their supply chain strategy and performance (Lawton et al., 2013). In particular, we conceptualize how the firm's political actions, enabled by supply network resources, can either help prevent or mitigate supply chain risks (e.g., labor shortage, capacity reductions, etc.). We note that our model may be more appropriately applied to larger firms with available resources for political influence, rather than smaller firms with limited resources and limited access to the political environment. Second, although we apply our

theoretical model in the supply chain context, our model increases the generalizability of the SCP and Oliver and Holzinger (2008) typologies—frameworks originally intended for and commonly used by strategy and policy scholars. Because our goal is to encourage further theoretical enhancement and empirical testing of our interdisciplinary model, we developed several propositions to guide supply chain, strategy, and public policy scholars on how the choice of political actions in a supply network context may impact the leveraging of supply chain resources for competitive advantage purposes. Finally, we identify several fruitful areas for future research.

Our paper proceeds as follows. In the next section, we present the theoretical background and motivation for our work. Thereafter, we introduce and extend Oliver and Holzinger's (2008) typology of political actions and present our integrated model of political actions and supply chain strategy. We then develop propositions on the interface of political actions and supply chain management. We conclude by summarizing our findings and providing suggested areas for future research.

## THEORETICAL BACKGROUND AND MOTIVATION

We use the structure-conduct-performance (SCP) and competitive dynamics literature to posit how firms use political actions to facilitate their supply chain strategies to enhance competitive performance (see Figure 1). Firms use political actions to influence their market structure and to positively moderate the impact of supply chain strategy on firm performance (Bonardi & Keim, 2005; Darby et al., 2020; Yan & Chang, 2018). We expand the traditional SCP model by suggesting that the "firm conduct" construct of the SCP theory should now include supply chain strategies such as reshoring/nearshoring, vertical integration, and managing supply chain risk. We also suggest that the "market structure" SCP construct should consider interfirm characteristics such as supply chain network structure, stakeholder power and size, relationships with suppliers and buyers. We will discuss our proposed conceptualization of firm (supply chain) conduct in detail herein.

### Structure-Conduct-Performance paradigm

The SCP paradigm provides a causal explanation on how several factors influence firm performance (Bain, 1956; Caves, 1964; Mason, 1939). The tenet is that environmental *conditions*, such as industrial technology, government policy, and consumer demand, directly impact market

## Integrated Model of Political Actions and Supply Chain Strategies

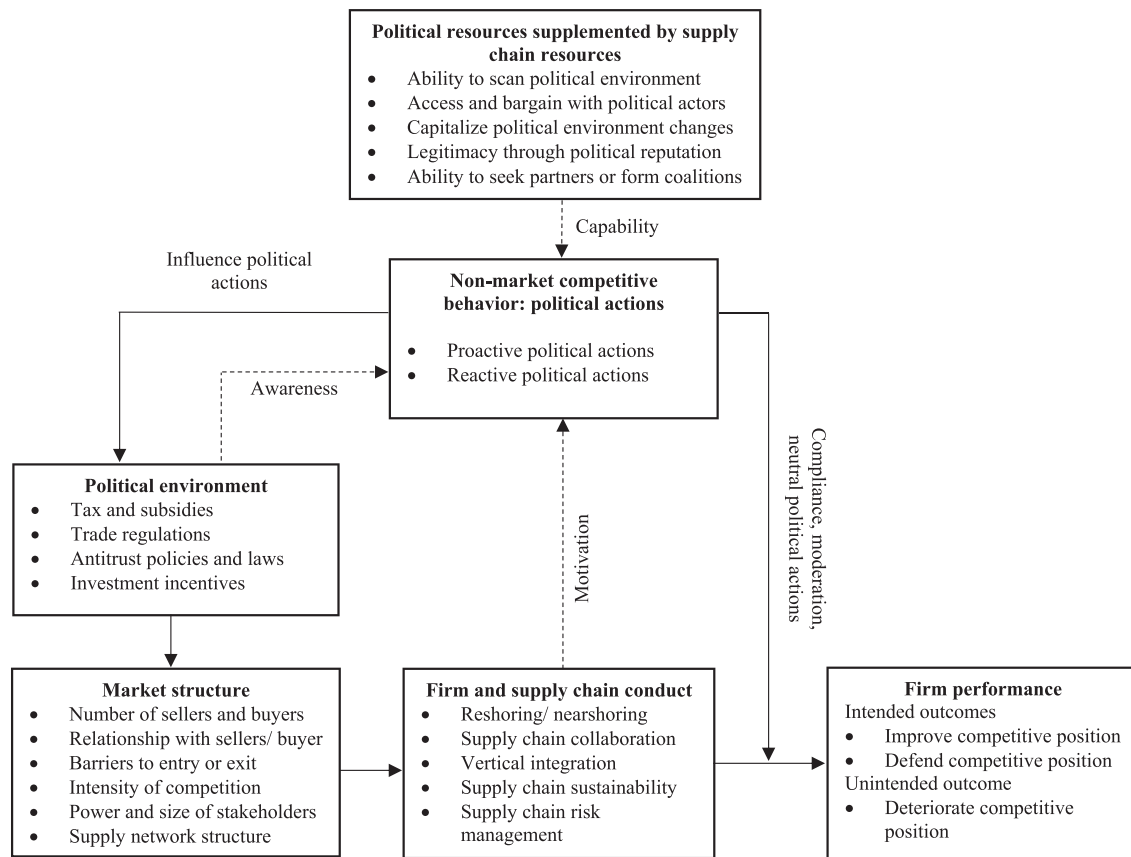


FIGURE 1 Integrated model of political actions and supply chain strategies

structure or competition. Moreover, market structure influences a firm's choice of strategy or economic conduct. Finally, conduct determines a firm's performance (Bettis, 1981; Panagiotou, 2006; Weiss, 1979).

Among the external factors influencing market structure are laws, public policies, and regulations. These laws, policies, and regulations constitute a firm's political environment (Bain, 1956; Caves, 1964; Mason, 1939). The political environment may be favorable for a firm; that is, it may be advantageous to the firm's strategy and operations, or unfavorable, that is, less than appropriate for the success of the firm's strategy or operations at a given time (Gupta, 2004; Hughes, 2021; Jeppesen, 2005; Zinn & Goldsby, 2019). Moreover, the political environment is dynamic, with unfavorable short-term environments becoming favorable in the longer run (and vice versa). Therefore, firms must constantly monitor the political environment and assess both short-term and long-term consequences of political actions before determining whether to influence the political environment to gain a competitive advantage. For instance, a government's zero emissions policy might look unfavorable, in the short term, to a firm who lacks the needed supply chain

resources to adapt to the environmental policy. In the long-term, this policy might become favorable to the same firm who is able to innovate and capture the first-to-market advantage (e.g., General Motors).

Firms can proactively influence their political environment with a particular emphasis on their supply chain strategies and hence protect their competitive advantage. Firms can also reactively respond to changes in their political environment to ensure the success of their supply chain strategies (Bain, 1956; Caves, 1964; Mason, 1939). Although larger firms have the internal resources to do so, small firms are able to engage with their political environment through supply network partnerships, trade associations, coalitions, or intermediaries (Cook & Fox, 2000; Pourmand, 2011).

Several supply chain management studies have used the SCP theory. Ralston et al. (2015) used the SCP paradigm to illustrate how supply chain integration responds to industry and market characteristics. Yuen et al. (2020) expanded the SCP paradigm using stakeholder management theory to understand how stakeholder participation in firm-level sustainability activities affects organizational performance. Mackelprang

et al. (2018) used the SCP framework to show how a supplier's innovation strategy enables the firm to respond to industry structure and hence impacts firm financial performance. Building on this literature, we demonstrate how firms use political actions that leverage supply network resources to influence their political environments, thus facilitating their supply chain strategies to create competitive advantage.

Although the SCP paradigm helps to explain the relationships between structure, strategy, and performance outcomes, it is a static theory (McWilliams & Smart, 1993), not conducive to explaining the impact of dynamic competitive actions on firm conduct or performance. For this reason, we integrate the competitive dynamics paradigm into our theoretical model.

## A hybrid view of competitive dynamics

We enhance our theoretical model by integrating insights from the competitive dynamics literature. Briefly, the rivalrous view of competitive dynamics suggests that actions by competitive firms drive a focal firm's behaviors (competitive actions and reactions) (Chen, 1996; Yu & Cannella, 2007). These actions (or reactions) by the focal firm, in turn, affect the firm's performance outcomes.<sup>1</sup>

The competitive dynamics perspective is traditionally concerned with explaining inter-firm rivalry. However, in the "hybrid" view of this theory, firms react not only to actions taken by competitors but also to actions taken by other stakeholders, including suppliers, customers, and government regulators, in an effort to create competitive advantage (Dussauge et al., 2000). Therefore, the hybrid view of competitive dynamics includes an expanded view of potential actors that can prompt actions and reactions by focal firms (Chen & Miller, 2015). Cooperation from these stakeholders can enable a focal firm to compete more successfully in the market, whereas non-cooperative actions taken by stakeholders may impose constraints on the firm's market-based actions (Brandenburger & Nalebuff, 2011; Dyer & Singh, 1998).

A firm's competitive behavior will be driven by its awareness of the opportunities and threats in its competitive and political landscape, motivations to advance or protect its interests and capabilities to undertake actions. Firms may take actions through the market (e.g., price changes) or through political actions (e.g., by blocking a unionization effort) to impact their performance (Chen & Miller, 2015).

Although competitive dynamics traditionally focuses on market-based actions, for this study, following the hybrid view of competitive dynamics, we focus on political actions used by firms to advance their competitive position. These political actions include influencing government policy (e.g., through lobbying) or complying with government policies (e.g., by reducing environmental emissions). Capron and Chatain (2008) and Kingsley et al. (2012)) suggested that political actions taken to promote competitive advantage are important yet under-explored in the literature.

We posit that firms, individually or collectively, take political actions in two ways (see Figure 1). First, as demonstrated through the SCP model, firms take political action to influence their market structures. For example, American-based firms can lobby the government to keep foreign firms from bidding for U.S.-government procurement contracts, thus effectively limiting the government procurement market to domestic firms (i.e., "Buy America" policy). Second, firms use political actions to improve the effectiveness of their market-based strategies. For example, European firms sourcing from Asia can use a political action to facilitate the import of products from abroad by lobbying to ease inspection requirements, thus speeding customs clearance.

## Firm-specific political and supply chain resources

We introduce firm-specific political resources to the supply chain literature and suggest that these political resources, combined with supply chain resources, form the basis for political actions deployed by a firm to advance its supply chain strategy. Our logic extends Chen (1996), who suggested that a firm's strategic resource endowment is a critical driver of firm-level competitive behavior. Likewise, Frynas et al. (2006)) proposed that organizations need firm-specific political resources to create competitive advantage through political actions. They might develop these resources individually or seek partners, associations, or intermediaries such as small firm alliances.

We broadly identify firm-specific political resources, as supplemented by supply chain resources, to encompass several factors (e.g., Barney, 1991; Boddewyn & Brewer, 1994; Frynas et al., 2006), including the resources to: (1) scan, predict and acquire knowledge about changes in political environments via information value streams, (2) access and bargain with political actors (decision-makers) and influencers (opinion-makers) through network power, (3) capitalize on changes to the political environment via supply chain agility; (4) enhance

<sup>1</sup>A more detailed description of the competitive dynamics theory is provided by Chen and Miller (2011), Chen et al. (2021), and Hofer et al. (2022).



political legitimacy through supply chain practices such as sustainability; and (5) cultivate and leverage relationships within supply chain networks for political advantage, such as through alliances or coalitions.

Not all firms are equally endowed with political and supply chain resources. Based on the strategic management literature, firms, regardless of their size, may lack political awareness or the ability to access and utilize available supply chain resources to influence the political environment (Hite & Hesterly, 2001). Resource awareness involves a firm's ability to recognize the existence of political and supply chain resources. Resource access involves a firm's ability to acquire necessary political and supply chain resources. Resource utilization involves a firm's capability and willingness to deploy the political and supply chain resources to a firm's supply chain advantage (Hite & Hesterly, 2001).

Supply chain resources, such as strategic relationships, network transparency and supply chain agility, can further augment political resources and affect a firm's ability to engage in political actions. For example, a firm that has the capabilities to share information across its supply chain may use this shared information for political intelligence, improving its ability to undertake political actions to influence its environment.

In the following sections, we demonstrate how political actions can be used to facilitate the effectiveness of supply chain risk management (SCRM) strategy. SCRM is a key strategy that firms employ to decrease vulnerabilities, for example, due to risks caused by policy changes (Flynn et al., 2021). We use SCRM strategies because the political environment may have considerable influence on them. Extreme disruptions, such as trade wars, create "broad and diverse" challenges for supply chains, increasing the importance of firms to influence government actions to reduce supply chain risks and improve firm performance (Azadegan & Dooley, 2021; Sodhi & Tang, 2021).

## Supply chain risk management (SCRM)

Firms deploy a SCRM strategy to protect their supply chains against risks and disruptions (Jüttner et al., 2003; Manuj & Mentzer, 2008). The strategy is executed to build robustness and agility into a firm's supply chain networks (Wieland & Wallenburg, 2012). Identifying, resisting, and responding to supply chain risks help firms differentiate their operations from competitors and create sustainable competitive advantage (Wieland & Wallenburg, 2012).

The literature suggests two broad categories of SCRM strategies, namely, proactive and reactive (Jüttner

et al., 2003; Manuj & Mentzer, 2008; Wieland & Wallenburg, 2012). Proactive strategies help firms resist or withstand supply chain disruptions to business operations (Husdal, 2010). The elements of a proactive SCRM strategy include risk prediction, risk assessment, and risk prevention. Intended outcomes of proactive SCRM strategies are increased supply chain endurance and improved competitive positioning.

Reactive SCRM strategies, too, are designed to maintain business operations. However, reactive strategies focus on responding to risks in supply chains. For example, during peak seasons, operations at key seaports may be congested, thereby slowing the flow of materials along supply chains. To avoid port congestion and delays, reactive supply chain strategies can be deployed to reroute containers through less-congested ports or to change routings of air freight shipments (Xu et al., 2021). The elements of reactive SCRM strategies include risk detection, risk assessment, and risk mitigation. Intended outcomes of reactive SCRM strategies are increased supply chain agility and sustained competitive positioning (Wieland & Wallenburg, 2012).

## TYOLOGY OF POLITICAL ACTIONS

Political actions have been widely studied in the strategic management literature using theoretical perspectives, such as transactional cost economics, organization theory, institutional theory, and exchange theory (Hillman et al., 2004; Hillman & Hitt, 1999; Lawton et al., 2013; Lux et al., 2011). For this study, we extend Oliver and Holzinger's (2008) typology of political actions because this model, centered on the resource-based view and the dynamic capabilities perspective, provides a holistic understanding of how political behavior impacts firm performance (see Figure 2).

Firms use political and market-based actions to either create value (e.g., by improving a firm's competitive position) or to maintain value (e.g., by defending a firm's competitive position) (Oliver & Holzinger, 2008). Moreover, political actions can have two possible strategic orientations: influencing the political environment or complying with the political environment. *Influence actions* are designed to sway the political environment to support the firm's economic interests, whereas *compliance actions* are designed to conform to the current political environment. Combining Oliver and Holzinger's (2008) competitive outcomes with their strategic orientations provides four potential political actions: reactive compliance, anticipatory compliance, defensive influence, or proactive influence political actions.

**FIGURE 2** Extended typology of political actions (Oliver & Holzinger, 2008)

### Extended Typology of Political Actions (Oliver & Holzinger, 2008)

		Competitive performance outcomes	
		Defend competitive position (reactive actions)	Improve competitive position (proactive actions)
Strategic orientation	Compliance	<b>Reactive compliance</b> (Align firm's internal process with political environment voluntarily)	<b>Anticipatory compliance</b> (Create value and outperform by conforming with policies ahead of changes)
	Influence	<b>Defensive influence</b> (Protect the favorable status quo by resisting political environment)	<b>Proactive influence</b> (Shape public policy development and definition favorably)
	Moderation	<b>Submission moderation</b> (Yield to demands of political environment by forced compliance)	<b>Circumvent moderation</b> (Find loopholes; manipulate customer perception; deceive regulatory authorities)
	Neutral	<b>Free-ride neutral</b> (Maintain competitive position without contributing)	<b>Free-ride neutral</b> (Improve competitive position without contributing)

Note: Extensions to Oliver and Holzinger's (2008) typology are highlighted

We extend the Oliver and Holzinger (2008) typology and suggest that beyond the influence and compliance actions, there are two other potential strategic orientations: *moderation* of the political environment through circumvention or submission, or a *neutral* or free-riding political action.

Firms act to moderate their political environments to improve or defend their competitive advantage (Potoski & Prakash, 2004). For example, in countries without an established legal framework or with little effective law enforcement, circumvention of laws or regulations may be considered a viable strategy. Moreover, resource-constrained firms, including many small firms, may leverage partners to influence collectively, adopt a free-riding political stance, or submit to the political environment (Yoffie, 1987).

Figure 2 summarizes our extended typology. We expand on the definitions of these strategies in the SCRM context below:

- Anticipatory compliance actions are undertaken by firms to comply, in advance, with the legislative or regulatory environment. For example, a firm may anticipate changes to inspection and clearance

procedures for imported materials and implement the procedures to comply with the forthcoming rules.

- Reactive compliance actions are undertaken by firms to align their strategies with their political environment. For example, firms may act to increase the transparency of information sharing with suppliers to improve traceability to comply with a safety regulation.
- Proactive influence actions are undertaken by firms to affect potential changes to the political environment in support of their strategies. A firm may use this action to influence potential changes to laws or regulations to achieve competitive advantage, for example, to influence proposed rules governing inspection and clearance requirements for imports.
- Defensive influence actions are undertaken by firms to change the political environment to facilitate their strategies. For example, a firm may lobby to raise tariff rates on imported products if it has domestic supply sources, whereas its competitors are sourcing products from abroad.
- Circumvent moderation actions are undertaken by firms to give the appearance of cooperation and compliance with their political environments. These

actions allow firms to circumvent regulations or laws (legally or illegally) while seeking to avoid the suspicions of governmental authorities (Harris & OBrien, 2020; Leigh et al., 2020). For example, firms may find regulatory loopholes to avoid paying duties on imported products or may disguise or distort information required by the authorities, for example, by incorrectly labeling the country-of-origin on imported products.

- Submission moderation actions are undertaken by firms to comply with the political environment, even if the political environment is viewed as disadvantageous. Some firms may have limited alternatives to influence the political environment and will be forced to comply with rules and regulations (Henson & Heasman, 1998; MacNeil & Li, 2006). For example, a firm may submit to the payment of higher duties on imported products, if the government imposes these duties.
- Free-ride neutral actions are “passive actions” undertaken by firms to benefit from the political environment; in essence free-riding off other firms’ political engagements (Gundlach et al., 2019). For example, firms may choose not to attempt to influence regulations allowing for expedited customs clearance for authorized firms (e.g., the U.S. Customs-Trade

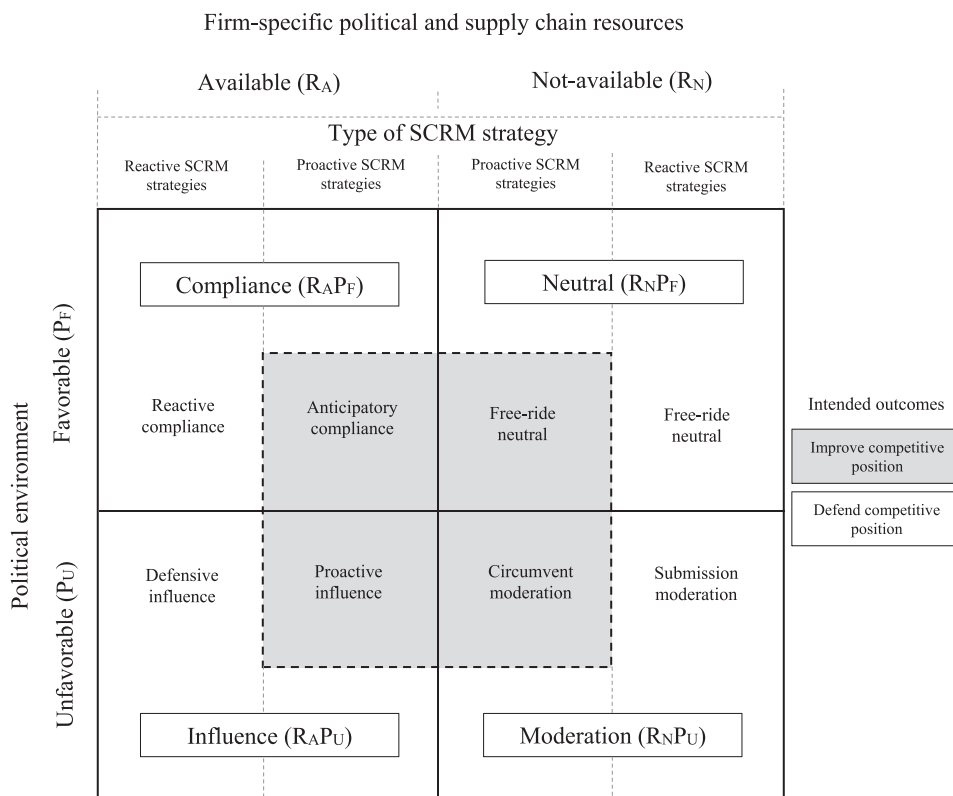
Partnership Against Terrorism), but take advantage of the new rules, once implemented.

## AN INTEGRATED MODEL OF POLITICAL ACTIONS AND SCRM STRATEGIES

We posit that in the near term, given a firm’s political environment (favorable or unfavorable), type of SCRM strategy to be facilitated (proactive or reactive), and firm-specific political and supply chain resources (available or not-available), a firm can deploy political actions (proactive or reactive) to align with its SCRM strategy and ultimately defend or improve its competitive position (see Figure 1). We further suggest that influence political actions are used by firms to change their political environment in support of their SCRM strategy, whereas compliance political actions are used when firms are content to function within the current political environment. Finally, moderation political actions are used by firms to either dodge rules or submit to an unfavorable political environment, whereas firms use neutral actions to benefit from the political actions of other parties.

Figure 3 shows the applicability of political actions to facilitate SCRM strategies under a variety of circumstances.

**Applicability of Political Actions for Supply Chain Risk Management (SCRM) Strategies**



**FIGURE 3** Applicability of political actions for supply chain risk management (SCRM) strategies

## Applicability of political actions for SCRM strategies

### Anticipatory compliance

We posit that a firm will use an anticipatory compliance action to proactively facilitate its SCRM strategy, given changing regulatory or legal environments (Bettis, 1981; Panagiotou, 2006). An anticipatory compliance action involves scanning the environment for potential regulatory or legislative changes and then developing an SCRM strategy that complies proactively with the anticipated changes to the environment (Azadegan, 2011; Azadegan et al., 2008; Garg et al., 2003). Thus, this political action affords the firm a potential first-mover advantage by getting ahead of regulatory or legal environmental developments (Chen & Miller, 2011, 2015; Garud et al., 2020).

A firm can deploy an anticipatory compliance action only if it has the required resources to scan and predict developments in the political environment (Tu et al., 2006). Consequently, a firm may invest resources into developing internal or external information supply chains, hiring political analysts, and consultants. In some jurisdictions, a firm's managers may need to cultivate direct personal relationships with policymakers or develop indirect relationships through influential buyers or suppliers to obtain information on proposed developments (Frynas et al., 2006). Resource-constrained firms, including many small firms, can pool resources or leverage supply chain partners who have more political resources (Jones et al., 2014).

By definition, a proactive SCRM strategy emphasizes forward strategic thinking, unlike a reactive SCRM strategy where the focus is managing threats after they arise (Wieland & Wallenburg, 2012). Anticipatory compliance with a favorable political environment may reduce supply chain vulnerabilities from future policy risks, such as restrictions or sanctions, by developing legitimacy with political actors and regulatory authorities (Bode et al., 2011). Anticipatory compliance may also demonstrate a firm's commitment to consumers and shareholders and provide an impetus for proactive SCRM strategies (Foerstl et al., 2015). This action may enable a firm to better leverage its supply chain connections, customer relationships, and network capabilities for competitive advantage (Chen & Miller, 2015).

Anticipating changes to the political environment may, at times, be less costly than reactively responding to politically induced changes (Oliver & Holzinger, 2008). For example, if the new political environment favors domestic sourcing, contracting with available suppliers before the environmental changes may result in favorable

contracting terms. Therefore, anticipatory compliance with a favorable political environment may enable a firm to advance a proactive SCRM strategy and its competitive outcomes by preventing unknown supply chain risks, fast-tracking process improvements, and incentivizing preventative actions in its network.

AmerisourceBergen, an American drug wholesaler company, sought innovative ways to comply with the U.S. Drug Supply Chain Security Act several years before the law took effect (Besse, 2020). The act requires firms to trace prescription drugs and share tracking information with their network. AmerisourceBergen began experimenting with technology solutions to comply with the act as early as 8 years before required (Zenk, 2017). The company invested several million dollars, partnering with the technology firm SAP to develop an advanced data management solution, thus positioning the firm to comply with the law while increasing the efficiency of its supply chain.

In summary, an anticipatory political action can improve the competitive position of firms that have the capabilities to monitor the environment for pending legislative and regulatory changes and the resources to comply with favorable changes. Therefore, the following is proposed:

**Proposition 1.** A firm with a proactive SCRM strategy facing an  $R_A P_F$  situation may improve its competitive position by adopting anticipatory compliance political actions.

### Reactive compliance

We posit that a firm will use a reactive compliance action to align with its reactive SCRM strategy after regulatory or legal changes are in effect (Bettis, 1981; Panagiotou, 2006). A reactive compliance action involves voluntarily complying with changes to the legal or regulatory environment after its implementation (Foerstl et al., 2015; Kumar & Paraskevas, 2018). It may be used when regulatory or legislative changes are difficult to predict and when a firm has the resources and capability to react to these changes.

A firm will deploy a reactive compliance action when it views changes to the political environment as favorable (Scholz, 1984). Thus, a firm employing this strategy will not seek further alterations to the regulatory or legal environment. Nor will it try to evade legal or regulatory requirements (Moenek, 2020). A favorable political environment promotes the sustainability of competitive advantage created through reactive compliance and disincentivizes circumvention or the need to employ an



influence action (Chen & Miller, 2015; Golicic & Smith, 2013).

The competitive dynamics literature indicates that the speed and efficiency with which a firm responds to environmental changes will affect its competitive outcomes (e.g., pricing changes, new innovations, changes to manufacturing capacity, and etc.) (Baum & Wally, 2003; Chen & Miller, 2015). Consequently, a firm employing reactive compliance may need to quickly adjust its supply chain strategy to respond to changes in the political environment (Gligor et al., 2013).

A firm using a reactive compliance action can restructure its SCRM strategy so that in complying with the political environment, it can leverage supply chain resources, such as collaborative buyer–supplier relationships to successfully compete in the marketplace (Richey et al., 2021). For example, if the government imposes new regulations restricting the use of a hazardous substance, such as lead, mercury, or cadmium, a manufacturing firm can react by instituting testing requirements for the substance. A firm that has invested in robust testing abilities will react quickly to the new requirements once imposed, and thus is able to defend its competitive position against potential environmental and reputational risks. Resource-challenged firms, such as small firms, can pool resources or leverage partnerships to reactively comply (Jones et al., 2014).

The decision to employ a reactive compliance action rather than a proactive strategy will depend, in part, on a firm's ability to assess potential changes to the political environment (Panagiotou, 2006). Therefore, firms operating in stable and predictable environments may employ proactive actions, whereas firms in more volatile political environments may employ reactive actions (Azadegan & Dooley, 2021; Kim & Kim, 2016).

Although a reactive strategy may not afford a firm with a first-mover advantage, it can provide a firm with the opportunity to learn from competitors' successes and failures without risking its own investments (Ross & Sharapov, 2015). Moreover, it can be a low-cost action because a firm does not have to invest heavily in environmental scanning (Ramsay, 2001). Finally, a firm using a reactive action can be more assured of correctly aligning its SCRM strategy to the political environment because it will not act until changes in the political environment happen (Ralston et al., 2015).

Reactive compliance may help avoid policy and legal risks if firms conform to the expectations of regulatory authorities (Bode et al., 2011). A firm following a reactive compliance action may also respond to competitive risks by narrowing the compliance gap with rivals (Ramsay, 2001; Ross & Sharapov, 2015). This action may reduce demand and supply-side risks by improving firm

responsiveness to upstream and downstream stakeholders (Richey et al., 2021). Therefore, a firm that uses a reactive compliance action may advance its SCRM strategy by effectively responding to known risks, thus improving agility or reaction time to environmental changes.

Wesfarmers, an Australia-based conglomerate operating in retail, reactively complied with the Australian Government's Modern Slavery Act, 2018. The Act required large businesses operating in Australia to report and address risks of modern slavery in their supply chains. Wesfarmers used this opportunity to detect 340 critical breaches across 105 suppliers (Tillet, 2020). These breaches included issues of unwarranted overtime, lack of record-keeping, violations of workplace safety, unlawful contracting, and bribery. Reacting to the provisions of the law, Wesfarmers ended 20 contracts with suppliers (Tillet, 2020).

In summary, a reactive political action can help firms defend their competitive positions through the alignment and configuration of their supply chains in response to developments in the political environment. Therefore, the following is proposed:

**Proposition 2.** A firm with a reactive SCRM strategy facing an  $R_{APF}$  situation may defend its competitive position by adopting reactive compliance political actions.

## Proactive influence

We posit that a firm will use a proactive influence action to facilitate its proactive SCRM strategy by shaping the regulatory or legal environment (Panagiotou, 2006). Given sufficient resources, a firm may use this strategy to influence political actors to improve its competitive positioning given an unfavorable political environment (Dawkins, 2002; Uzzi & Gillespie, 2002).

Firms take political actions, such as lobbying, constituency building, campaign contributions, and the provision of financial incentives to policymakers, to influence the legislative or regulatory process (Hillman et al., 2004; Hillman & Hitt, 1999). Thus, this proactive SCRM strategy enables the firm to mold the political environment to improve the firm's competitive position. Resource-constrained firms, such as small firms, may leverage trade associations, seek partners, or mobilize intermediaries.

Proactive influence actions shape the political environment to align with different facets of a proactive SCRM strategy, such as risk prediction, assessment, and prevention. A successful proactive influencing strategy may eliminate or reduce supply chain vulnerabilities from policy risks by favorably swaying political actors

(Azadegan & Dooley, 2021). It may decrease supply risks by increasing a firm's power to bargain for favorable relationship terms (Crook & Combs, 2007). A proactive influence action may also increase risks for rivals by tilting the political environment against their operations and strategies (Chen & Miller, 2015; Hofer et al., 2022). Therefore, the proactive influencer may supplement a proactive SCRM strategy by preventing risks, increasing supply chain power, and incentivizing preventative actions.

In 2021, the Federation of German Wholesale, Foreign Trade, and Services (BGA) criticized Germany's proposed supply chain law that required businesses to prevent human rights violations within their supply chains (BGA, 2021; Knolle & Evans, 2021). The Federation suggested that the new law would cause bureaucratic bloat, increase prices, and slow down the economic recovery from COVID-19. Proactive lobbying by the Federation and its members pressured the government to weaken the law. The final draft of the law required firms to act only on specific incidents for which they had substantiated knowledge of abuses (Kusch & Saller, 2021; Profiri, 2021).

In summary, a proactive political action can improve the competitive position of firms that have the political and supply chain resources to influence legislative or regulatory changes and the capability to position their supply chains to take advantage of these changes. The following is proposed:

**Proposition 3.** A firm with a proactive SCRM strategy facing an  $R_{APU}$  situation may improve its competitive position by adopting proactive influence political actions.

## Defensive influence

We posit that a firm will use a defensive influence action to align with its reactive SCRM strategy in response to unfavorable changes to the regulatory or legal environments (Bettis, 1981; Panagiotou, 2006). Firms deploy this action to push back on undesirable changes to their political environments to maintain competitive advantages from the current environment (Boddewyn, 2003; Oliver & Holzinger, 2008). Defensive influencing actions could involve legal procedures that stall the implementation of new legislation or political lobbying that influences how new regulatory rules are interpreted or implemented (Shaffer et al., 2000). Firms with core rigidities in their supply chains can use defensive influencing actions to forestall environmental changes (Leonard-Barton, 1992).

A firm will deploy a defensive influencing action only if it has access to political and supply chain resources and the motivation and ability to use these resources to push back on undesirable changes to its political environment (Kim & Mauborgne, 2009). These political resources could entail access to political actors through network power, legitimacy among political influencers via sustainable supply chain practices, and the ability to seek and form alliances or coalitions with network partners (Frynas et al., 2006). A firm may also need to invest in relations with policymakers or their staffers who write rules or employ legal firms to forestall the implementation of legislative or regulatory changes. Resource-challenged firms, such as small firms, may leverage trade associations, partners, or intermediaries.

A successful defensive influence action may help a firm avoid risks or better manage risks (Bode et al., 2011). It may help supply chain managers resist changes that create conditions better suited to a competitor (Chen & Miller, 2015). It may also send a credible signal to stakeholders which in turn legitimizes the firm's reactive SCRM practices (Jain et al., 2017). Therefore, a defensive influence action may advance a reactive SCRM strategy by resisting new risks, decreasing the intensity of known risks, and reaffirming a firm's reactive SCRM actions.

In mid-March 2020, when international freight traffic between Western and Eastern Europe was on the verge of collapsing because of border control restrictions during COVID-19, the European Union (EU) published new guidelines asking EU nations to open road access to transport workers. Responding to the call, many EU governments, including Germany, relaxed regulations to permit domestic transport by foreign truck drivers (Bauer, 2020). However, the German Ministry of Transport rescinded its decision to relax its rules within a week of enactment because of pressure from German haulage and logistics companies. The freight transport companies coordinated through several German industry associations (BGL, DSLV, and BIEK) to lobby against relaxing restrictions (Bauer, 2020). They argued that relaxation would compromise border security and the economy. The freight transport firms had used a defensive influencing action to mitigate unfavorable changes to their political environment.

In summary, a defensive influencing action can help defend the competitive positions of firms that have the capabilities to resist unfavorable legislative or regulatory changes as well as the political resources to advance their SCRM strategies. Therefore, the following is proposed:

**Proposition 4.** A firm with a reactive SCRM strategy facing an  $R_{APU}$  situation may defend

its competitive position by adopting defensive influence political actions.

## Circumvent moderation

We posit that a firm will use a circumvent moderation action to facilitate its proactive SCRM strategy in an unfavorable regulatory or legal environment (Blake & Moschieri, 2017; Panagiotou, 2006). In this action, firms may find ways to circumvent (legally or illegally) regulatory authorities to improve their competitive positioning (Harris & OBrien, 2020; Leigh et al., 2020). Firms may use these actions to minimize the regulatory burden from the political environment or to undermine the intentions of the regulatory environment (at least in the short run).

Common circumvent actions include establishing foreign subsidiaries to lower the regulatory burden, relocating headquarters to low-tax countries, or changing the shape and form of an imported product to decrease custom duties (Harris & OBrien, 2020; Leigh et al., 2020). For example, if the U.S. Government proposes tariffs on products originating in China, an importer may blunt tariff increases by arranging for its Chinese products to pass through a third country to try to conceal the origin of the imports. A firm may deploy a circumvent action when it does not possess the necessary political and supply chain resources (or does not want to spend the resources) to either influence its political environment or comply with changes to the political environment (Weaver, 2009).

Circumventing an unfavorable political environment may positively impact facets of proactive SCRM strategies. Successful circumvention may reduce supply chain vulnerabilities from policy risks through risk avoidance (Carmeli & Markman, 2011). The strategy can reduce a firm's time to respond to political, competitive, supply, and demand risks if the firm can avoid the rules and regulations imposed by the government. A firm can take advantage of legal loopholes to reduce regulatory compliance, such as using flags of convenience to transport goods (Hermelo & Vassolo, 2010). A firm may reduce costs in its supply chain by avoiding rules; for example, by contracting manufacturing to countries with weak labor rules. Therefore, circumventing the political environment may advance a proactive SCRM strategy by preventing risks, reducing costs and, potentially, improving operational performance.

Canadian Solar and ReneSola Ltd., two Chinese solar-panel manufacturers, circumvented an agreement signed with European Union (EU) in 2013. The agreement required subsidized Chinese producers to export their panels to the EU above a minimum price to protect EU

manufacturers. In return, the EU would exempt the Chinese manufacturers from import tariffs of up to 70% (Dalton, 2015). To avoid the minimum prices, the two firms sold solar cells to other non-EU manufacturers, who assembled the cells into panels that were then sold to EU countries. Thus, the Chinese manufacturers were able to improve their competitive positions by deploying a circumvent action (until the loophole was closed).

In summary, a circumvent moderation action can help improve competitive positions of firms that do not have access to political resources (or are unwilling to spend those resources) but may have access to other resources (such as financial resources) to circumvent unfavorable legislation or regulation. Therefore, the following is proposed:

**Proposition 5.** A firm with a proactive SCRM strategy facing an  $R_N P_U$  situation may improve its competitive position by adopting circumvent moderation political actions.

## Submission moderation

We posit that a firm may use a submission moderation action to endure an unfavorable regulatory or legal environment, which facilitates a reactive SCRM strategy (Blake & Moschieri, 2017; Panagiotou, 2006). In this action, a firm may yield to the demands of its environment given an inability due to its small size or unwillingness to influence or circumvent the political environment (Henson & Heasman, 1998; MacNeil & Li, 2006). For example, a small firm that has limited political or financial resources may need to comply with unfavorable tax regulations to maintain operations.

Small firms may lack sufficient resources to influence the provision of new rules or to willingly comply with the new environment (Henson & Heasman, 1998; MacNeil & Li, 2006). Moreover, financial resources do not guarantee political resources. In contrast, larger firms with adequate financial resources may not have the awareness, motivation, or capability to utilize political resources to comply or influence (e.g., a foreign firm operating in a country with an unfriendly political environment) (Frynas et al., 2006).

Submission to an unfavorable political environment may support a reactive SCRM strategy. For example, submission may reduce supply chain vulnerabilities from policy risks if a firm can comply with government-imposed rules and regulations. Therefore, submitting to the environment could align well with a reactive SCRM strategy by preserving competitive advantage, reducing

risks, and, potentially, maintaining supply chain continuity (Bode et al., 2011).

The EU's Restriction of Hazardous Substances directive came into effect in July 2006. The directive restricts the use of hazardous materials in the manufacture of electrical equipment. The initial compliance cost to the electronic industry was roughly €28 billion, or an average of €2.3 million per company (Calnan, 2006). To comply, firms could either redesign their products or attempt to circumvent the regulations and run the risk of non-compliance. Network Engines, Inc., a medium-sized U.S.-based provider of controllers, worked with its vendors to replace 25% of its inventory to ensure compliance and survival (Calnan, 2006).

In summary, a submission moderation action can help defend competitive positions of firms that lack resources (or are unwilling to spend resources) to circumvent or influence unfavorable legislation or regulations. Therefore, the following is proposed:

**Proposition 6.** A firm with a reactive SCRM strategy facing an  $R_N P_U$  situation may passively defend its competitive position by adopting submission moderation political actions.

## Free-ride neutral

We posit that a firm may engage in a free-rider neutral action to support its SCRM strategy, given favorable regulatory and legal environments (Blake & Moschieri, 2017; Panagiotou, 2006). In this action, firms may gain from the efforts of other stakeholders to defend or improve their competitive positioning given a favorable political environment (Oliver & Holzinger, 2008). The free-riding firm advances its SCRM strategy through the action of other stakeholders, even though it may lack resources to engage with a political environment.

A free-ride neutral action involves taking advantage of the political environment without directly engaging with the environment (Gundlach et al., 2019). Firms observing this action limit their political expenditures and let their SCRM strategies freeride on changes to the political environment (Delmas & Montes-Sancho, 2010). Thus, their competitive positions will be impacted by the actions of other firms. A firm may deploy this action when the cost of influencing the political environment is high, the expected gains from changes to the political environment are low, or if the firm perceives other firms to have bigger stakes in political changes (Macher & Mayo, 2015). Many free-riding firms are relatively small, with low market share in an industry. Lenway and

Rebhein (1988) noted that politically active firms provide a type of public good to the entire industry, thus creating incentives for smaller firms to free ride on their activities. Resource-constrained firms, such as small firms, may also stay neutral by necessity because of a lack of other alternatives.

Free riding in a favorable political environment supports both proactive and reactive SCRM strategies. With free riding, a firm's supply chain reaps benefits from another stakeholders' compliance or influence actions. Free-riding neutral actions can reduce supply chain vulnerabilities by decreasing political risks (Bode et al., 2011). They can free resources for a firm because the firm does not invest in a political influence strategy. Free riding may also lead to improved supply chain responsiveness because the free-riding firm can learn from influencers and imitate their tactics (Ross & Sharapov, 2015). Therefore, free riding may advance both proactive and reactive SCRM strategies.

Levi Strauss & Co., an American clothing company, has long sourced products from Guatemala (Fibre2Fashion, 2015). In 2001, the U.S. government considered discontinuing duty-free apparel imports from Guatemala because of perceived inadequate enforcement of labor laws. Levi lobbied the Guatemalan Ministry of Labor to strengthen its country's labor laws so that duty-free imports could be maintained, encouraging local suppliers to do the same (Peterson & Pfitzer, 2009). Although Levi benefited from these efforts, so did other free-riding firms that imported apparel products from Guatemala.

In summary, a free-ride neutral action can benefit the competitive positions of firms with limited resources or with a "small stake in the game." Therefore, the following is proposed:

**Proposition 7.** A firm with a proactive or a reactive SCRM strategy facing an  $R_N P_F$  situation may improve or defend its competitive position by adopting free-ride neutral political actions.

## DISCUSSION AND FUTURE RESEARCH

The structure-conduct-performance paradigm and the competitive dynamics literature provide a valuable theoretical foundation from which researchers can study how the public policy environment impacts the supply chain (Hofer et al., 2012; Mackelprang et al., 2018; Ralston et al., 2015; Yuen et al., 2020). The SCP literature describes that strategy and performance are contextual and dependent on the political, regulatory, and economic



environment in which a firm operates (Bain, 1956; Caves, 1964; Mason, 1939). We enhance our SCP model by integrating the competitive dynamics literature, which suggests that firms engage in a range of competitive actions and reactions to create competitive advantage (Chen & Miller, 2011, 2015).

Our paper shows how the alignment between a firm's SCRM strategy and political actions enable a firm to leverage resources in its supply chain for competitive advantage. A close alignment or fit between these two strategies enhance performance outcomes. When a firm's SCRM strategy and its political environment are out-of-sync, the firm has two choices—it can adapt its SCRM strategy to the political environment or it can adapt the political environment to its SCRM strategy. We examine how firms can shape their political environments to facilitate their SCRM strategies.

## Future research

There are clearly many opportunities for future research given the initial stages of research at the intersection of political actions and supply chain strategies. We describe some promising topics for future research in the following areas.

### Small-medium firms and political actions

We suggest that firms that lack political resources have limited choices to engage with their political environment (Frynas et al., 2006). Small- to medium-sized firms often fit into this category even though they can indirectly influence the policy environment through representation and participation in industry associations, business partnerships, and related non-governmental organizations. Indeed, if smaller firms can form alliances with similar firms, they can be better positioned to influence the political environment (Pourmand, 2011). Collectively, small business operators may represent more “votes” than large businesses and, therefore, can carry clout in the policymaking process. Acting collectively, smaller firms can be powerful political influencers. Future research can expand our typology of political actions to better incorporate collective action by smaller firms.

### Supply chain networks and political actions

Our model is based on firm political actions and supply chain strategies. Because supply chains are networks,

firms in these networks can work collectively to influence the political environment. Future research can examine how network structure characteristics, such as formalization, centralization, and complexity (Choi & Hong, 2002), along with goal congruence among members of the supply chain, impact the ability to change the political environment.

### Deployment of multiple political actions

Although our theoretical model assumed that a firm deploys a single political action at a given time, given the dynamic environment in which many firms operate, we recognize that a firm may deploy multiple actions simultaneously or successively (Schuler et al., 2002). Moreover, political actions are not necessarily mutually exclusive. Because political environments are complex, a firm may need to deploy multiple actions to achieve its objectives. Future research can examine how combinations of political actions can be employed to further the competitive advantage of supply chain strategies.

### Unintended outcomes of political actions

We suggest that firms can use political actions to advance their supply chain strategies to improve or defend their competitive positioning. However, the actual outcomes of political interventions may not be favorable; that is, there could be unintended consequences from political actions. For example, a firm's lobbying efforts for relaxing emission regulations may affect its brand reputation leading to a decrease in sales. Studies have found that increased spending on lobbying negatively affects customer satisfaction (Vadakkapatt et al., 2021). Therefore, future research should investigate the unintended consequences of political actions applied to supply chain management.

### Cost of political actions

Political actions can be expensive. Larger firms often maintain dedicated public relations departments to coordinate interactions with policymakers and government administrators. Alternatively, large and small firms may engage outside professionals such as accountants and lawyers to influence or comply with the regulatory process. Overall costs and benefits will depend on the political actions employed (e.g., proactive or reactive) and the success of the actions at influencing the political environment (Oliver & Holzinger, 2008). Future research can



help understand the cost–benefit tradeoff of in-sourcing versus outsourcing of resources in support of the firm's political actions to protect the firm's supply chain investments.

Some general directions for future research include the following:

**Proposition testing:** The propositions developed for this paper may be subject to empirical testing. We predict firms can improve their competitive advantage by integrating certain political actions with SCRM strategies. Empirical tests can be developed to support or refute these propositions.

**Model development:** Other theoretical perspectives, such as resource-based view, may be used as a framework for examining how political actions intersect with supply chain strategies to improve performance outcomes. For example, a framework could be developed that indicates how political actions can enhance the value of firm resources.

**Strategic choices:** We constructed our model based on SCRM strategies. These strategies are only a subset of potential supply chain strategies. Frameworks could be developed based on other types of supply chain strategies, such as supply management strategies, supply chain innovation strategies, inventory strategies or distribution strategies.

**Industry context:** Our model is not situated in the context of any particular industry. However, political actions for highly regulated industries, such as pharmaceuticals, may be quite distinct from actions for more market-oriented industries, such as international shipping. Therefore, a framework could be developed that better accounts for industry context.

## Implications

To our knowledge, this is the first model to present a comprehensive framework of political actions grounded in the supply chain literature. We believe this framework may be useful to both managers and policymakers.

## Managers

Our model could assist managers on how to improve or defend competitive advantage by engaging with their political environment. Depending on the circumstances, a manager can use political actions to influence or comply with a political environment. Our model clearly demonstrates that supply chain outcomes depend on both market-based and political actions. Firms need to

support their supply chain strategies through political engagement. This is especially the case during the extreme conditions, such as a pandemic (Sodhi & Tang, 2021), where supply chain operations are very dependent upon the political environment.

## Policymakers

Policymakers can use our framework to understand the impact of government rules and regulations on supply chain management. Governments should consider policies that promote fair competition and discourage firms from evasive strategies. Moreover, our framework can help policymakers understand that certain firms, including many small firms, without substantial political resources have limited opportunities to influence the political environment. Therefore, policymakers should make efforts to engage with smaller firms (perhaps, collectively, through industry associations) throughout the policymaking process.

## Conclusion

We developed a theoretical model to explore the interactions between political actions and supply chain risk management strategies. We show how political actions can be used to support supply chain strategies. The choice of which political action to employ depends on factors such as the favorability of the political environment and the availability of political resources. Because this area of study is relatively new to supply chain management, there is considerable room for future research.

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