

## EFFECT OF POLITICAL TIES ON MARKET POTENTIAL: MODERATING ROLE OF TECHNOLOGY TURBULENCE

M.M.D.R. Deegahawature

*School of Management, Huazhong University of Science and Technology, Wuhan, PR China;  
Department of Industrial Management, Faculty of Applied Sciences, Wayamba University of  
Sri Lanka, Kuliypitiya, Sri Lanka*

Corresponding author: prasannadee@yahoo.com

Relational governance view insists the importance of establishing a network of social relations. The political ties are a kind of informal social relations of firms with the government officials that go beyond the formal contracts and transactions, providing a substitute to lack of resources and political legitimacy. Due to the lack of market support institutions with a formal framework, the governments in developing countries interact with, and manipulate the business environment. Based on the argument that the firms can use political ties to benefit when a formal market framework does not exist, this study postulates a positive effect of political ties on market potential of firms. Also, the uncertainty in the business environment changes the firms' business strategies thus, a moderating effect of technology turbulence is posited. The proposed hypotheses are tested empirically using cross-sectional survey data collected from 272 low-and medium-low technology firms in Sri Lanka. The study operationalizes variables by previously tested measurement scales. The tests confirm the adequate construct reliability and validity, and alleviate the concern of multicollinearity. The results from the hierarchical regression models indicate that political ties significantly and positively affect market potential, and explain the variance of market potential ( $R^2 = .18$ ,  $p < .001$ ). Results confirm a significant and positive moderating effect of technology turbulence, and explain a significant level of variance in market potential ( $R^2 = .64$ ,  $\Delta R^2 = .46$ ,  $p < .001$ ). This confirms the theoretical speculations. Thus, market potential is influenced by political ties, and their effect is higher in a turbulent environment. Accordingly, this study concludes that the firms enhance their market potential by having informal relations with the government officials. Further, benefits of such informal relations are intensified in technologically instable environment.

**Keywords:** Low-and medium-low technology firms, Market potential, Market turbulence, Political ties