Policy uncertainty is a critical concern for managers and policy makers. However, research on the topic is still at a nascent stage, with little insight into how policy uncertainty affects firm performance. As such, the key question we attend to in this research is how policy uncertainty impacts firm financial value. A focus on firm value is relevant as it is a metric of high importance to marketing managers and the C-Suite (Srinivasan and Hanssens 2009). In investigating the link between policy uncertainty and firm value, we build on research in marketing that has articulated pathways though which macroeconomic variables such as economic recessions and business cycles affect firm performance (e.g., Lamey et al. 2012).

In addition, marketing scholars have underscored that when dealing with macroeconomic forces that are largely beyond the control of managers, it becomes important to uncover positions that firms can proactively take (or avoid) to minimize adverse performance effects (Srinivasan et al. 2005). As such, we also examine the role of two resource positions that may be relevant for firms in dealing with policy uncertainty. In particular, we consider the role of marketing and operations efficiency of firms in the presence of policy uncertainty. Research has equated marketing efficiency with marketing capability and documented the multitude advantages it generates for firms (e.g., Xiong and Bharadwaj 2013). We build on this literature to evaluate if marketing efficiency can be useful to firms in minimizing the negative effects of policy uncertainty. Further, we assess the contingent role of operations efficiency, which reflects the overall productivity of firm operations resources. Although the dominant perspective in operations and strategy research outlines the financial benefits to firms from high efficiency (e.g., Eroglu and Hofer 2011), there is a contrarian view that asserts too much efficiency can make firms less able to handle unexpected variations in their environments (e.g., Modi and Mishra 2011). We combine and contrast these two sets of arguments to consider how operations efficiency places firms under policy uncertainty.

To evaluate our thesis, we construct a unique database of secondary information for a comprehensive sample of firms across multiple industries in the United States over the years 1980-2010. We utilize a generalized method of moments (GMM) estimation (Arellano and Bond 1991) for analysis, as this allows to control for the potential endogeneity inherent in panel data, and incorporates the dynamism inherent in such data. In addition, we conduct multiple robustness checks to enhance confidence in our findings.

Overall, results confirm that policy uncertainty significantly lowers firm financial value. Furthermore, firms with high operations efficiency are seen to witness greater financial losses under policy uncertainty. However, on a positive note, firms with high marketing efficiency are observed to attenuate some of the financial losses stemming from policy uncertainty. We build on these findings to provide theoretical, managerial, and policy implications.

Keywords: Policy uncertainty, firm value, marketing efficiency, operations efficiency, dynamic panel models.