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Corporate Political Activity:

A literature review and research agenda

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Abstract

This paper reviews the diverse literature on Corporate Political Activity (CPA) in firms and develops a framework that integrates and details the existing research in this growing field. We conduct a systematic analysis of extant CPA literatures to order them into three domains that have implications for organizational performance. The paper is structured into three domains within the CPA research community that require more investigation: resources and capabilities focus, institutional focus and political environment focus and discusses the contributions of each to our understanding of CPA in pursuit or defense of competitive advantage. We suggest that the internationalization of business, including the more recent emergence of developing country economies, presents scholars with the challenge of understanding CPA in more varied institutional settings. The paper contributes by creating more clarity in the CPA field and concludes with a discussion of future research agendas.

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Introduction

The creation and preservation of competitive advantage is a core challenge for all strategic managers but political arenas are often underestimated as a means of creating and sustaining advantage. The corporate political activity (CPA) perspective has emerged as a notable research frame for explaining firm performance in political arenas (Hillman *et al.,* 2004). A wide variety of firms are involved in political activities, in industries as varied as oil and gas, air transport, information technology, tobacco and pharmaceuticals. These firms have been influencing governments through campaign contributions, direct lobbying, government membership on company boards, voluntary agreements, political action committees (PACS) and at times even bribery (Yoffie and Bergenstein, 1985; Spiller 1990; Ring *et al.,* 1990; Austen-Smith and Wright, 1996; Hansen and Mitchell, 2000; Delmas and Montes-Sancho, 2010; Okhmatovskiy, 2010). As it stands, this area of research is becoming more complex and requires further synthesis to understand its important theoretical dimensions. Not least as the pursuit of competitive advantage through political means can insulate firms from competition and be ethically problematic. This area of research has been criticized as encouraging a focus on the economic benefits of political activity that effectively condones unethical or sociopathic firm behavior (Mantere *et al*., 2009). The key motivations of this paper are to reflect on the various perspectives in the field, shed light on the dominant theoretical constructs in CPA and set out a future research agenda.

Scholarly research in the area of CPA - defined as corporate attempts to shape government policy in ways favorable to the firm (Hillman and Hitt, 1999) - has not kept pace with the prevalence of CPA practice in industry or across political systems. Important progress in understanding CPA has been made and derives from disciplines as far ranging as strategic management, marketing, economics, sociology, finance and political science (Hillman *et al.,* 2004). However, to some extent, Vogel's (1996) observation that the study of corporations and their interaction with government has yet to realize its potential remains true but for different reasons. When Vogel wrote those words, the collapse of the Soviet Union and the embrace of more market-led forms of capitalism in the developed world signaled the need to understand a greater role for business in the development and implementation of public policy. But in responding to this need, the dominant approach has been to import methods and perspectives that mirror the natural and formal sciences and relegate ethics and (irrational) human behavior to matters of secondary importance. Fuchs and Lederer (2007) similarly note that management studies often adopt a functionalist perspective in respect of CPA; seeing firm political involvement as apolitical and primarily concerned with regulatory compliance.

A second reason for the greater interest in the political activity of firms is that the business-government landscape has changed dramatically. The emergence of new market economies, including those with a significant element of state-led capitalism such as China or the Gulf states, demonstrates the need for greater comparative understandings of firms and governments in a range of institutional contexts (Sun et al., 2010; Barron, 2010). In the Western context, CPA, whilst controversial, is largely about legal, firm-level engagement with institutionalized political actors and structures. However, in many countries weak or incomplete institutionalization can lead to the development of informal - and potentially corrupt – political engagement by firms (Adly, 2009). As these states develop, their institutional structures may change and consequently so too may their patterns of corporate political behavior. But any convergence with Western practices cannot be assumed: the area requires more studies to establish the extent, if any, of convergence (Gould and Sickner, 2008).

Overall, the end of the first decade of the new millennium presented CPA scholars with a business-government landscape transformed in ways scarcely imaginable ten years earlier. Governments had reasserted their authority relative to markets and seized controlling stakes in firms across a range of industries. The forces of globalization were in disarray and the “runaway world” described by Giddens (2000) had lost its momentum. Catching up with events and making sense of this rebalancing of business-government relations is a challenge for management and CPA scholars alike.

In this paper we review the empirical evidence and theory on the development of CPA in companies. Our focus is primarily on research published in academic journals and books since the seminal works of Fainsod (1940) and Epstein (1969). We commence by looking at different perspectives within the CPA community (Shaffer, 1995). The findings of politically active companies demonstrate how CPA is developed in specific firms and this has implications for both strategic management and CPA research and practice (Lawton, 1999). We next review the dominant concepts and specific studies in CPA. We conclude our review with a future research agenda for the CPA community. Building on Hillman et al.’s (2004) influential review, the structure of this review is conceptualized using the framework of CPA literature that we highlight in Figure 1. The logic of our CPA ontology in Figure 1 is determined first, by our identification and codification of the theoretical constructs underpinning CPA research; and second, by the stated intent and epistemological objectives of individual research outputs. Consequently, we discerned three predominant perspectives that characterize the field of CPA.

Insert Figure 1 here

Mapping the Corporate Political Activity Landscape

The intellectual terrain of corporate politics in the 1980s and 1990s shaped the CPA community into several domains (Keim and Zeithmal, 1986; Shaffer, 1995; Getz, 1997; Hillman and Hitt, 1999). Building on Shaffer (1995), we found that Getz's (1997) study covered much the same material on CPA as Hillman et al. (2004) but with differing emphasis around collective action and outcomes. The Hillman et al. (2004) study focused more on the antecedents of CPA, the different types of CPA, how firms organize to implement CPA and the outcomes of CPA. Similarly, we also acknowledge that Hillman and Hitt (1999) provided an important contribution, which became the precursor to Hillman et al.'s (2004) influential review paper. This specific review paper was the first to attempt to map the CPA field into clear boundaries, levels and theories. It is from these key studies and other work that we discern a clustering around the conceptual lenses of resources and capabilities, institutions and the political environment to better understand and map the development of CPA studies. However, before looking at the three different perspectives in CPA, we must understand the CPA function in more detail.

Understanding the Corporate Political Activity Function and Strategy

The development of a community of CPA scholars has highlighted that it is not a management process in its own right. Instead, it occurs under the aegis of a broader public relations function. As Grunig *et al.* (1995) argue, public relations as a management function is concerned with identifying the stakeholders they affect and that affect them and the task of public relations managers is to build and maintain communication with these publics. Public relations is therefore a component of strategic management, using communication "to build relations with the strategic publics that shape and constrain the mission of the organization" (Grunig *et al.,* 1995, p. 164). Pinkham (1998) perceives government affairs as a subset or function of corporate communications and public relations. In this view, government affairs (or what we will call CPA), focuses on the creation and maintenance of a specific set of external stakeholder relationships and policy outcomes, specifically with political and regulatory publics (Getz, 1997). In so doing, CPA emerges as a primary process for achieving organizational aims and objectives.

An issue of value.

Organizations engage in CPA primarily to create or maintain corporate profits (Yoffie and Bergenstein, 1985; Frynas *et al.*, 2006; Bonardi *et al.*, 2006). Moreover, two ways of understanding the CPA perspective are first, how much CPA behavior firms are likely to undertake, and second, whether CPA will be undertaken individually or collectively within the industry (Baysinger, Keim, and Zeithaml, 1985; Vining *et al.,* 2005). These questions are important as they relate to both firm strategy and the relationship a firm might have with competitors (Coen 1998). Baysinger (1984) and Keillor *et al.* (2005) suggest that firms involved in CPA have several motives for engaging in political behavior: domain advantage, domain defense, and domain maintenance. The implied reason for engaging in political behavior can be a desire to pursue the firm's private interest (i.e. domain advantage), to manage public policy that might be at odds with the firm's strategic goals (i.e. domain defense), or to influence public policy that might threaten the means by which a firm achieves it goals (i.e. domain maintenance) (Baines and Viney 2010). A variety of political behaviors can be used to accomplish the firm's overall objective of dealing with political issues. These include business-government relations, corruption, political inducements and contributions and overt lobbying (Baysinger and Woodman, 1982; Baysinger, 1984; De Figueiredo and Tiller, 2001). The resulting benefits to the firm can include reduced environmental uncertainty, reduced transaction costs, and increased long-term sustainability (Hillman *et al.*, 1999). However one must bear in mind that competing in the political context is "not easy as firms must recognize the need for an exchange: they must give something valued by public officials in exchange for getting favorable policies" (Getz, 2002, p. 318).

An issue of options.

CPA research consists of presenting opinions, views and suggestions to influence institutions at national and international levels and it forms an essential part of a democratic process which is at the heart of the policy making process (Coen, 1997). Existing research on CPA tends to focus on the amount and type of lobbying that occurs and has largely omitted the options firms have to organize their lobbying, i.e. the process of lobbying from a corporate perspective. Since the work of Olson (1965), the literature has focused on the ability of individuals and groups to overcome the free-rider problem in creating collective action (Sandler and Tschirhart 1980; Bendor and Mookherjee, 1987). While the collective action literature has much to say about the amount of lobbying that occurs, it is less informative when it comes to the organization of lobbying process (Hillman *et al.,* 1999). The theories articulating the free-rider problem do not address whether firms will choose to internalize the lobbying function or do it through a common body in a specific type of context (Lenway and Rehbein, 1991). The only conclusion that can be drawn from the literature is that less lobbying occurs as a group when there are collective action problems (Bendor and Mookherjee, 1987).

An issue of choice and structure.

We argue that there are three important factors that determine the firm's choice in designing the organizational structural form for their lobbying activities. Size is the first important factor with regards to the CPA of companies (Hillman *et al.*, 2004). Whereas large players have enough resources to undertake individual lobbying, smaller actors often have to rely on collective action to be able to undertake political activities at different levels. For instance, in the EU multi-level system where activity can take place at local, national and supranational levels (Coen, 1997; Windsor, 2007). A key consideration among policymakers and stakeholders is the extent to which this effectively prevents smaller firms from individually undertaking CPA. The second major factor that determines the organizational structure of a firm's CPA operations is its corporate strategy (Bonardi *et al.,* 2005). The different market strategies of national niche players and large internationally oriented firms require different political strategies. Finally, the institutional environment of the firm is the third important factor to study in order to understand the national and international corporate political activities of private interests

(Baron, 1997). A close working relationship between state administrative elites and private interests at the national and/or international level might, for example, create a vertical interaction that affects the incentives of private interests for direct national level action (Windsor, 2007).

Research Process

Using the *ISI Web of Knowledge* citation and journal database as our research basis, we selected all CPA papers cited at least three times. The boundaries as to what constituted CPA were set in accordance with Hillman and Hitt's (1999) definition, as cited previously. The three domains were then developed through identifying theoretical approaches and conceptual patterns within and across the different papers. These patterns were next cross-referenced with seminal work and classifications, most notably Hillman *et al.* (2004). We created boundaries between the three perspectives but also acknowledged the potential overlaps between domain's A, B and C. However, to deal with this overlap issue, the methodology in selecting articles for inclusion in the literature tables (Tables 1-3) was based on providing summaries of the key papers that helped delineate between these disciplinary domains of CPA. Therefore, Domain A explores CPA papers that use resource-based view (RBV) concepts and frameworks and argues for a different potential for CPA effectiveness using the RBV. Domain B looks at the institutional context, particularly the extent to which institutional theory can inform our understanding of change and stability in CPA activities. Domain C looks more closely at national political structures, cultures and political risk – as distinct from generic theories relating to institutions – to consider how specific organizational aspects of political systems interact with CPA.

The Different Conceptual Underpinnings

Domain A: Resources and Capabilities Focus in CPA

Building on the RBV of the firm, the concept of organizational capability has emerged as a primary explanatory framework of competitive advantage (Teece *et al.,* 1997; Eisenhardt and Martin, 2000; Rosenbloom, 2000; Zollo and Winter, 2002; Helfat and Peteraf, 2003; Ethiraj *et al.,* 2005). A number of scholars have suggested that firm resources can be integrated into the nonmarket environment, notably in respect of relations with political authority, such as politicians or regulators. (Baysinger and Woodman, 1982; Baysinger, 1984; McWlliams *et al.,* 2002; Hillman *et al.,* 2004; Bonardi *et al.,* 2006; Frynas *et al.,* 2006; Capron and Chatain, 2008; Oliver and Holzinger, 2008), as shown in the summaries of these key papers in Table 1. However, the criticism of some of these CPA studies based on RBV of the firm is that they are not paying attention to the managerial coordinative processes and capabilities by which firms assemble and leverage political resources (Wood, 1990; Dahan, 2005a; Dahan, 2005b).

Nonetheless, CPA studies have focused on how firms use their strategic political resources and capabilities to improve their profitability (McWlliams *et al.,* 2002). However, the idea of political resources deployed by the firm in a concerted fashion to manage its political environment is not recent in CPA. Fainsod (1940) suggested that an industry obtains a favorable regulation by its capacity to mobilize three kinds of resources: financial (political campaign financing), human (the use of lobbyist and lawyers) and political (political coalition-building). However, the definition of political resources and capabilities was actually introduced by Attarca (2000). Dahan (2005a) builds on Attarca (2000), describing political capabilities as being mainly technical-economic expertise in lobbying government (i.e. technical, political or economic). While political resources are characterized and defined as having organizational resources (i.e. in-house office or permanent regulatory person), they also contain relational resources (i.e. formal relationships or information relationships with political actors), public image (i.e. perception of stakeholders), reputation resources (i.e. individual and firm responsibility) and financial resources (i.e. direct finance - political campaign contributions or indirect finance – events and conferences). Firms may possess these resources to influence the public decision maker (Dahan, 2005b). However, the weakness of these studies is that they fail to discuss the collective nature of these political resources, that is, how these might be combined in various ways by a firm in pursuit of competitive advantage. As a result, we believe that the RBV theory will be very useful in the future to understand the collective nature of these political resources to create political weight in corporate political activities.

Some CPA studies show that political resources have been leveraged by large organizations within a wide range of industries, including oil and gas (Frynas *et al.,* 2006), electronics (Yoffie and Bergenstein, 1985; Lawton 1996) and air transport (Brown, 1987; Lawton, 1999). Oliver and Holzinger (2008) used the CPA perspective with RBV theory to look at the capacity of firms to deploy skills and political resources to successfully manage and influence the public policy process. Though it is often the case that smaller firms find it difficult to compete with larger competitors in the non-market arena, Drope and Hansen (2008) note how many smaller firms opt for clever use of free-riding where they can consume resources without paying for it, while aligning with larger firms who support their policy preferences. However, in the case of

Indonesia, Bartley (2010) found that a set of large, well-connected firms were able to blunt pressures for the adoption of international certification standards for the protection of forests. This work demonstrates a concern seen in studies of corruption: that firms use CPA as a means to stifle competition (Robertson *et al.,* 2009). Other similar studies found CPA to be specific to the jurisdiction in which the firm operates and allow the firm to configure corporate political capabilities to fit the context of a particular situation (Jacobson *et al.,* 1993; Bonardi *et al.,* 2006). They include the networks of relationships between corporate employees and national and local political, regulatory, legal, and interest group actors who influence public policy (Park and Luo, 2001). These capabilities are based on the firm's experience in a specific country and so may not be portable (Coen, 1997, 1998; Bonardi *et al.,* 2006). They also include the aptitude to find political resources and patterns of behavior in different types of institutional environments, to correctly assess the source and nature of expropriation hazards and to successfully negotiate with political and regulatory actors (Bonardi *et al.,* 2006).

Developing political resources and capabilities in specific policy settings implies that the impact of a policy will be unequal across different firms (Coen, 1997, 1998; Bonardi *et al.,* 2005). Firms with differing resource bases to manage their nonmarket environment will develop different responses to expectations about profitability and investments in political situations (Oliver and Holzinger, 2008). Given the incremental nature of developing capabilities to configure resources, managers that seek to develop superior capabilities - in this case lobbying capabilities - as the basis of sustainable competitive advantage must prevent their capability development efforts from being adversely affected by different contexts (Helfat and Peteraf, 2003). Somewhat paradoxically, this makes the choice of which lobbying capabilities to develop an important factor to consider in dealing with specific endogenous and exogenous policy contexts (Lawton and Rajwani, 2011). Moreover, the context shapes whether firms and their actors recognize that lobbying is possible as well as what options are open to them. The context of such corporate political actions can often place such actions beyond the reach of certain firms, removing the notion of ‘choice’.

The literature suggests that political resources and capabilities can be primarily exercised in two distinct nonmarket policy contexts: endogenous and exogenous (respectively, predictable and unpredictable). The relevance of endogenous context has been discussed in the CPA field (Frynas *et al.*, 2006). It is one in which the firm expects to be confronted by policy decisions, stakeholders, issues or actions within a nonmarket political system, e.g. the onset of market deregulation (Kim and Prescott, 2005). As a result, the firm must react to this anticipated policy context through effective use of its political resources (Capron and Chatain, 2008).

On the other hand, exogenous policy contexts are those that may affect the firm, but are of a nature that the firm may not anticipate becoming involved. These exogenous situations can be thought of as a form of ‘shock’ to the firm’s political capabilities and resources, when a situation of sufficient novelty arises such that the firm must adapt its political resources or risk losing competitive advantage (Oliver and Holzinger, 2008; Lawton and Rajwani, 2011). Although the political science literature can often appear to start from the premise that firms are always deliberate and focused in what they want from the political process, the exogenous context shows how this is not the case. In her study of large EU telecoms transnationals, Wöll (2007) shows how many EU firms, most of which were former state-owned enterprises only recently privatized, were unready for the liberalization process under the aegis of the World Trade Organization

Telecommunications Agreement. She analyzes a process of organizational learning, where managers suddenly confront a dramatic change in the policy environment and need to adapt non-market capabilities in response.

Table 1 summarizes the most relevant papers based on our systematic review of resources and/or capabilities perspectives in the CPA field.

Insert Table 1 here

Domain B: Institutional Focus in CPA

Institutional approaches to CPA are useful in illuminating the degree to which firms – and by extension their political activities – are embedded in local cultures, laws and history. These external pressures produce tendencies for organizations to resemble one another, or as DiMaggio and Powell asked, 'why is there such startling homogeneity in organizational forms and practices?' (1983, p. 148). A given ecosystem of firms adopts isomorphic strategies in response to common institutional pressures. However, at the national level, institutional pressures can maintain diversity. In the 1990s, some institutional focused research attempted to explain why, in an era of globalization, distinctive, nationally-based patterns of economic life persisted (Hall and Soskice, 2001). Studies sought to identify forms of business systems and understand their resilience in the face of the homogenizing pressures of globalization (Whitley, 1999, 2007). It did so by stressing the importance of power in social relationships, and how this power is used through formal and informal institutions (Aldrich *et al.*, 1994; Djelic, Nooteboom and Whitley, 2005).

Institutional theory has two contributions to make to our understanding of CPA. First, it can give an account of how different political, social and economic arrangements affect firm – government relations. Peng *et al.* (2009) argue that strategic management continues to neglect context and an institutional perspective that complements industry and resource-based views is needed. Second, at the level of the firm, institutional theory can be linked back to RBV, as it directs us to understand how firms adapt (or not) to alterations and evolution in the non-market environment. This is particularly important in emerging markets, where economic development can place traditional institutional arrangements under strain. In respect of our understanding of how macro-level institutions shape CPA, Jackson and Deeg (2008) argue that international business scholarship remains gripped by a thin account of institutions and their effect on business performance. Even explicitly comparative studies develop only a superficial understanding of how different institutions and their context interact with firms - what Jackson and Deeg refer to as generic conceptions of influences that exist across all institutional settings (2008, p. 541). This is problematic because socio-political arrangements – comparative capitalism in Jackson and Deeg's formulation – help give an account of the non-market environment faced by firms.

Of course, part of the explanation for the dearth of comparative capitalist studies has been the relative lack of formal institutions to study in many emerging markets. Even Jackson and Deeg's call for more comparative work revolves mainly around greater awareness of Japanese and European institutional settings. The work on emerging markets, had tended to concentrate on how institutional voids shape firm development and operations (Khanna and Palepu, 2005). Work has drawn attention to the political role of western firms as providers of community services, such as education and social services, in emerging markets (Boddewyn and Doh, 20211). As Peng (2003) and Dieleman and Sachs (2008) note, the weak or fluid nature of institutions in emerging markets suggests political activity for firms revolves around social networks and the exploitation of family or other social connections. This is a complex process, as the work of Dieleman and Boddewyn (2012) shows. In studying the relationship of the Salim Group – a large Indonesian business group – with the Suharto regime, they note the complex internal arrangements within the group designed to manage multiple facets of its relations with the Indonesian government. This work draws attention to the potential liabilities of political ties, and the need for emerging market firms to create buffering mechanisms to insulate the firm from adverse effects if the political situation becomes less favorable.

Scholars speculate that for many emerging economies, CPA essentially involves corruption, or at least the extensive use of connections. The kind of structured CPA known in developed states has been presumed to largely not exist. What takes the place of legitimate CPA in many contexts is corruption or cronyism. The former is widely defined as abuse of authority (public office in this context) for private gain. There has been a strong emphasis in the business ethics literature on the demand side of corruption: that is, the opportunities and circumstances that cause public officials to behave corruptly. Corruption, framed this way, is a sign of institutional weakness or failure, not that dissimilar from the institutional voids perspective (Calderon, Alvarez-Arce and Mayoral, 2009). In the absence of strong institutions, informal networks and other forms of relationships structure the political activity of firms. The role of networks has also informed studies of cronyism. Khatri, Tsang and Begley (2006) highlight the important role culture plays in the prevalence and durability of cronyism, defined broadly as a social exchange that results in the disadvantaging of another party with an equal or superior value claim. They suggest that in more collectivist and hierarchical societies, cronyism can be both prevalent and buttressed by institutional lock-in. Further support for the role of personal ties and societal relationships in understanding cronyism comes from a study of executives in India, which found that political party affiliation and familial ties were strongly correlated with willingness to engage in corrupt practices vis-à-vis government officials (Collins, Uhlenbruck and Rodriguez, 2009). In their study of African business systems, Wood and Frynas (2005) develop the notion of a segmented business system characterized by deep and impermeable divisions between economic sectors. These divisions are underpinned by elite interests in maintaining separation, even at the expense of economic performance. They suggest that the defining feature of African business systems is 'the central role played by informal networks' in the interaction of state and market actors (2005, p. 244).

This is not to say that institutional pressures are absent in developing markets. Many studies have concentrated on the role institutions play in generating isomorphic pressures on firms, where corruption is undertaken as a CPA in response to competitive pressure. For instance, Venard's study of corruption in Russia found that the behavior of competitor firms was strongly associated with the willingness of a given firm to engage in similar activities. Venard found his work supported across a broader sample of countries. Corruption, the author argues, 'is largely explained by the mimietism of peers' (2009, p. 3). Similarly, Collins, Uhlenbruck and Rodriguez (2009) reported that managers often rationalized corrupt practices as a necessary competitive activity in the face of the behavior of competing firms.

The second contribution made by institutional theory is to help explain the process of change and adaptation in CPA in the context of globalization and pressures on national institutions to adopt internationally-accepted norms and rules. The expanding body of work on CPA in emerging markets suggests that the concept of institutional voids needs to be revisited and augmented by an appreciation of the interaction of firms and an emergent institutional environment (Khanna and Palepu, 2000). There is broad consensus that more developed institutional environments reduce corruption, *ceteris paribus* and that multinationals can play a role in transmitting improved practices to their subsidiaries (Venard, 2009a). To the extent that globalization reflects the internationalization of specific norms and practices in relation to commerce, we might expect changes in national institutional structures – and hence CPA - to manifest themselves as a change in the firm-state relationship. Global trade liberalization has various impacts on government – business relations and corruption. In a study of software piracy, lower levels of trade liberalization were positively associated with corruption, suggesting that domestic actors were able to exploit illicit contacts more easily in a less contested market (Robertson, Gilley and Crittenden, 2008). In some countries, the opportunities offered by regulatory change at the multilateral level have catalyzed changes in business-government relations at the national level. Shaffer *et al.* (2007) have noted how Brazil's aggressive (and successful) trade policy has been underpinned by new forms of business-government relations that approach the type of formalized and strategic relationships similar to those in the U.S. and Europe. Sun, Mellahi and Thun note that deep political embeddedness by foreign firms in emerging market political environments can have detrimental effects if this induces the firm to neglect the continuing exploitation of market-based capabilities (2010a, p. 1179).

Interestingly, Sun, Mellahi and Thun (2010a) suggest that even in China, elements of western-like CPA can be identified. Deng, Tian and Abrar (2010) specify a taxonomy of corporate political strategies in China that range from compliance to aggressive challenger strategies: elements of this taxonomy are instantly recognizable as corporate political activities undertaken in developed markets. Their work adds to the small but developing body of work on non-market strategy in China that seeks to get beyond a narrow conception of non-market strategy in China as constituting *guanxi*, or connections. Some of this work examines the *de facto* autonomy of local government officials in economic policymaking (Zhang and Liu, 2010). Tian, Hafsi and Wu (2009) employ widely-used perspectives on how strong institutions shape corporate activity to understand the evolution of non-market activity. They point out that the Chinese institutional environment is at once dense and strong – and fluid. Firms are thus presented with a complex institutional environment that presents significant opportunities - and attendant risks - for non-market strategy. As with the Indonesian case, some work on China emphasises the risks of political strategy by firms where it leads to the governmental actor able to exploit the relationship to extract rents (Sun, Wright and Mellahi, 2010b; Sun, Mellahi and Liu, 2011).

Notwithstanding the growth of work on emerging markets, it is the comparative richness of institutions that explains why studies of U.S. policymakers and CPA dominate the CPA landscape. As Vogel (1996) observes, this is not because U.S. firms had a deep-rooted interest in lobbying public officials. As he noted, until the 1970s the available research indicated that American firms did not engage in widespread CPA. One explanation for this lack of overt activity by firms was that the US political system was so accommodating to business interests that CPA was unnecessary. A more compelling reason was the dramatic expansion of the reach of the state in virtually all advanced industrial democracies, including the U.S. By the 1970s, U.S. firms were confronted with nascent environmental and development movements, as well as an increasing involvement of the U.S. government in a range of regulatory issues from employment to health and safety (Vogel, 1996). By the 1980s, there was clear evidence that U.S. firms had dramatically increased the resources devoted to CPA. By the mid-1980s, firms accounted for almost three-quarters of all registered lobbyists in Washington D.C. and business groups are now by far the largest component of the Washington policy community. (Werner and Wilson, 2010, p. 262; Schlozman and Tierney, 1986). Lobbying had ceased to be an episodic activity undertaken by US firms in response to specific policy proposals. Rather, lobbying is on its way to becoming a permanent feature of the policy landscape with firms devoting substantial resources to CPA. That said, there is a view that, given its alleged effectiveness, it might be expected that even more firms would lobby and that, if anything, it is the underuse of CPA that needs explaining (Mathur and Singh, 2010).

Two factors made the U.S. a better environment for CPA than other developed economies. First, campaign finance laws passed in the 1970s gave researchers the hard data they needed to conduct studies (Werner and Wilson, 2010). Combine this with the verbatim record offered by Congressional hearings and scholars were given ample material to develop and test hypotheses. In contrast, neither Japan nor most European states have the same degree of transparency as the U.S. For example, although the European Commission has both overhauled and improved the transparency of its relations with corporate actors, its register of lobbyists does not contain remotely the same volume and detail of data available in the U.S.

Second, Japan and Europe are characterized by firm-government relations that are more collegial and far less conflictual than those seen in the U.S. The fragmentation of the US political system leads to a fragmented and competitive CPA environment (Werner and Wilson, 2010, p. 262.) U.S. popular culture celebrates capitalism, but US economic history is replete with examples of public concern with big business. Standard Oil Trust, IBM, AT&T and Microsoft have all individually been attacked as an enemy of the public good, even as each enjoyed corporate success. Vogel (1996) also draws attention to the peculiarly American concern for high standards of behavior among managers. The evolution of CPA in the U.S. thus reflects both the greater transparency and the ambivalent attitudes many Americans have toward big business. In her study of comparative European – American lobbying practices, Mahoney (2008) found that U.S. lobbying practices were sharper and more confrontational than those in Europe, with American lobbying much more likely to revolve around blocking or defeating legislation than is the case in Europe.

Nonetheless, Mahoney's research is illustrative of the work of some scholars seeking to expand CPA research from beyond its U.S. domain. Until recently, much of this work involved comparisons with Europe: either specific states or, more typically, the European Commission. Coen (1999) suggested over a decade ago that European and American lobbying patterns might converge. Though one should not overstate the differences, European CPA reflects the differing institutional arrangements among member states that have been transmitted (or transplanted) to the European Commission in Brussels. EU CPA is markedly more consultative than that undertaken in Washington D.C., with corporate input occurring earlier in the legislative process. Whether the process is more inclusive is problematic. Coen (1999) refer to the role of the

Commission in orchestrating the involvement of business in the process, reflecting the Commission's comparatively small size given its responsibilities and the corporatist tradition of privileging certain societal actors. Table 2 summarizes the most significant papers that adopt an institutional perspective in their approach to and analysis of CPA.

Insert Table 2 here

Domain C: Political Environment Focus in CPA

A third dominant concept used in CPA is the political environment, in particular regulation, political risk and the effect that the type of political system has on the certainty of political processes. In many respects, this domain can be conceptualized as a constituent of Domain B, where institutions shape corporate political activity. There are, nonetheless, significant numbers of studies that look at the hard, more quantifiable aspects of institutions – their construction, norms, formal rules and enforcement – with little reference to the broader 'soft' concepts of institutions such as country culture, uncertainty and history. Consequently, we argue that it is important to separate these 'hard' and 'soft' aspects into distinct but interrelated domains. Discussions have typically expected that the CPA components in a firm's business strategy are conducted simultaneous with market strategies (Baron, 1995; Meznar and Nigh, 1995; Agarwal, 2001). The various studies using this unit construct have encouraged the use of quantitative techniques to model CPA and the associated search for stable equilibria (Baron, 1997). Other formal economic models of CPA incorporate repeated rounds of strategic choices and political uncertainty, with their primary role being to shape initial expectations and thus influence the joint market and nonmarket equilibrium choices of the firm (Baron, 2001; De Figueiredo, 2009).

The political environment as a setting has received much attention due to its implications for firm performance (Henisz, 2000; Brink, 2004). CPA scholars have tended to focus on political risk and country level lobbying concurrently (Milliken, 1987). High risk countries (usually developing nations) are characterized as politically hazardous (Henisz and Zelner, 2003; Delios and Henisz, 2003). Countries with extensive checks and balances in the formal policy-making apparatus (low political uncertainty), such as the United States, Germany and Switzerland, tend to have the lowest levels of policy risk as the multiple veto players involved in the policy-making process find it difficult to agree to change the status-quo policy. Political risk increases as the number of veto players' preferences becomes more heterogeneous. Such is the case in moving to a diverse parliamentary-presidential system, as typified by France or Brazil, to heavily factionalized parliamentary systems like Belgium, Israel or the Netherlands or to the (usually) winner-takes-all system of the UK (Henisz and Delios, 2004). The greater the scope for one actor to implement policy - for example, through the creation of a majority government in parliamentary systems - the greater the risk to firms of dramatic and potentially adverse policy change. The CPA scholars researching this area tend to focus on the transitional and non-democratic states to explore firm level political hazards and the impact on firm performance (Kobrin, 1979; Delios and Henisz, 2003). Frynas and Mellahi (2003) showed how, in the case of Nigeria, foreign companies could use the fluid and risky political environment to their advantage. In doing so, they seek to move international business scholarship away from a view that firms are largely passive or merely reactive in their interactions with political authority. Nor are firms always able to capture the political process. In the case of Central and Eastern European transition economies, Young (2010) argues that domestic Romanian firms have been unable to capitalize on the changing political environment. She argues that in contrast to expectations, 'market governance laws have been significantly reformed thanks to 'soft' international influences, in the context of the rise of a Western-style business elite' (Young, 2010, p. 26). The evolution of a political system can present incumbent firms with difficulties, as their previous CPA is rendered less effective in the new context. Adly's (2009) study of Egypt likewise finds that political elites retain considerable autonomy from firms and dispense political favors through a comparatively small and cohesive social network. In this political environment, the scope for CPA aside from corruption is severely circumscribed.

Aside from the political risk in CPA, we observed that CPA may be reinforced through industrial organization (IO) economic theory because firms do not explicitly consider future CPA choices when designing corporate strategies at an earlier stage. This is especially likely when firms adopt a transactional approach to their CPA, wherein they await the development of an important issue before building a strategy to affect this issue (Hillman and Hitt, 1999). In their model of CPA formulation, Hillman and Hitt (1999) contrast this transaction cost approach with a relational approach, where the focus is on building relationships to deal with nonmarket issues on a short-term basis. However, when entering foreign markets firms may deal with host government issues as and when they arise rather than develop a more comprehensive long-term nonmarket strategy, which implies that CPA will occur sequentially. The transactional approach is fairly weak here in failing to consider the learning in CPA and opportunity costs. It normally considers political uncertainty as a negative and does not consider the positive aspects of uncertainty in developing CPA in foreign markets.

Another important gap in the political environment perspective is that previous research has sought to provide evidence for corporate political activities with markets. Blumentritt and Nigh (2002) find that inter-subsidiary coordination of the political activities of transnationals is more likely when the firm is more economically integrated across subsidiaries. Their evidence again supports the integration of CPA with market strategies. While Shaffer and Hillman (2000), use few economic assumptions to explore the relationships between firm diversification and internal conflicts over political strategy. They argue that the greater the degree of diversification within a firm, the greater the likelihood of intra-firm conflict and the costs of coordinating political strategy, which again suggests a strong relationship exists between market movements and political activities.

Table 3 summarizes the most influential papers that adopt a political environment perspective in their approach to and analysis of CPA.

Insert Table 3 here

Corporate Political Activity and Performance

CPA scholarship has traditionally focused on performance rather than on exploring the antecedents of CPA (Caldeira *et al.*, 2000; Fisman, 2001; Lux *et al.*, 2011). While it is often difficult to isolate the CPA impact on organizational performance and policy outcome, the three seemingly dominant constructs highlighted in the previous domains have been used to understand performance. Researchers in the CPA area following Domain C have argued that a firm's political environment can be characterized as a marketplace in which demanders and suppliers transact over public policies (Mitchell *et al.,* 1997; Stigler, 1971; Snyder, 1990). This political markets approach theorized and tested a maxim common in the economics literature that government institutions adopt and implement public policies in the public interest (Buchanan and Tullock, 1962; MacAvoy, 1992; Schuler *et al.,* 2002). As an alternative, politicians exchange policy favors for resources from organized interest groups to maximize their electoral prospects (Bonardi *et al*., 2006). Resources that are valuable and rare include votes from supporting interest groups, financial resources, and information, all of which can influence election outcomes (Mueller, 2003). Since most voters stay rationally ignorant about policy features because of the costs of becoming fully informed, politicians have some capacity to trade policies that diverge from the public interest (Aranson, 1990). The inference is that firms, through the suitable implementation of corporate political strategies, can influence policy makers' decisions (De Figueiredo and Silverman, 2006). This in hindsight can impact their performance and help organizations create or sustain a competitive advantage (Dean and Brown, 1995).

Some studies in Domain A and Domain C have investigated the effect of CPA on performance and policy changes using the theories in this paper. For example, Grier *et al*. (1994) examined the determinants of PAC contributions using 124 industries over five election cycles and found that industry concentration, government sales, regulation, antitrust indictments, and firm size were important variables. Hansen and Mitchell (2000) similarly examined PAC contributions and the number of lobbyists using Fortune 500 companies. Furthermore, Shaffer *et al.* (2000) demonstrated the impact of CPA action on gross profits and market share. Other CPA studies using some aspects of the three domains include Schuler (1996), Kroszner and Stratmann (1998) and De Figueiredo and Tiller (2001). In their study of the influence of CPA on the tax regime in the U.S., Drope and Hansen (2008) suggest that there is little evidence that money, *per se*, is a decisive influence on U.S. policymakers. It is difficult to disagree with Aggarwal (2010) that evidence of the effectiveness of campaign contributions in the U.S. is decidedly mixed. Table 4 attempts to untangle the complicated interplay between CPA and performance.

Insert Table 4 here

Just as the efficacy of CPA is unclear in the American context, its effectiveness in emerging markets can also be contested (Tian, Hafsi and Wu, 2009). Firms are often seen as particularly powerful in weakly institutionalized settings. Thus, it is often true that CPA in developing states can be conceptualized as the asymmetrical capture of the process by firms. However, in some cases it is a co-evolutionary process where a powerful and active firm shapes – but is also shaped by – the institutional environment (Dieleman and Boddewyn, 2012). Political authority is in a position to exploit a firm's need for specific resources that can only be provided by a weakly institutionalized state.

Discussion and Future Directions

The purpose of this review paper is to serve as a step towards creating greater clarity on the perspective and scope of CPA. We highlighted in our systematic review the significant progress made in CPA since Hillman *et al.'s* (2004) review and provided a focused framework to understand the overall evolution of CPA. By doing so, our review advanced a number of gaps in the literature and highlighted new promising areas that need to be further explored by CPA scholars.

In addressing our approach, we focused on the nature of CPA, the dominant constructs from various CPA studies, the impact of CPA on performance and the future direction of CPA research. Despite some advances, CPA remains relatively disintegrated theoretically for both scholars and practitioners of strategic management. In particular, the CPA function, a subset of the non-market context, is a largely unexplained and indeterminate variable within companies' strategic decision-making processes. Although considerable research exists on CPA and more specifically on the influence of firms on public policy formulation (Ring *et al.*, 1990; Boddewyn, 1993; Boddewyn and Brewer, 1994; Lenway, 1991), theoretically CPA has been viewed through many different lenses such as stakeholder theory, resource dependency theory, RBV theory, institutional theory and collective action theory. Building on Hillman *et al.'s* (2004) paper and citation factors, our observations link to three dominant research areas that need further exploration in CPA.

In the first research domain, we find the number of resource and capabilities studies in CPA are gradually growing (McWilliam *et al.,* 2002; Dahan, 2005b; Capron and Chatain, 2008; Oliver and Holziger, 2008). Getz (2002) for example addresses the RBV in her study, which she calls a business strategy theory of CPA but does not explore the RBV appropriately to understand political resources. Moreover, Getz (2002) claims that the business strategy perspective of CPA only provides a foundation for explaining the rational action of firms, but not their motivations and choices of strategies and tactics.

However, the Frynas *et al.* (2008) study has shown that positively locating research on resources and capabilities within CPA can complement recent valuable insights into broader aspects of performance (as Bonardi, *et al.*, 2006 appear to believe).

Secondly, the institutional context is open to criticism, as seen in our reviewed studies (Jackson and Deeg, 2008). We find that few papers provide a conceptualization of the different institutions offered by management studies (See Getz, 1997 and Tian *et al*., 2007). Wöll (2007) attempts to address this shortfall by using different cases to showcase the various institutional contexts. While in our third domain in CPA, we found uncertainty in the political environment to be essential in understanding the structure of CPA (Delios and Henisz, 2003; Frynas and Mellahi, 2003). For instance, Nigeria and Russia have political risk where firms in specific industries like oil and banking use different combinations of political strategies to deal with that political risk. However, future researchers in the CPA field need to better understand the regulatory structures of CPA in different political risk environments in order to understand the performance implications.

Building on this review of the different perspectives in CPA, our work suggests reframing CPA. CPA is not theory in its own right, but it is also not vague or tautological. The value in using the CPA perspective lies in its ability to alter the resource base and institutional dynamics to understand performance. We have found a plethora of studies showing how CPA changes voting behavior for legislation but these studies neglect to show how such changes in the political arena feed back into the firm's CPA performance. Measuring political outcomes is difficult but scholars such as Kim (2008) have started to study the determinants of CPA through estimating the returns to lobbying as assessed by the financial markets. We believe that scholars need to use more RBV theory in CPA to understand sustainable performance through different political resource configurations using various lobbying expenditures. Our work suggests that the CPA perspective needs to move towards theory integration instead of theory disintegration if it is to be more useful in the future. In other words, we believe that having multiple lenses is fruitful, but having too many theories in CPA may also create less fruitful theoretical contributions in the future.

Directions for Future Research

As Figure 1 illustrates, CPA has been empirically dominated by studies in Domains A, B and C. In particular, studies examine performance and focus, with less emphasis on the antecedents. Traditionally, the point of departure for most economists and political scientists has been governments, with their distinct people and public policies, divergent capabilities, and relations with other members of the society of states. We believe that the CPA perspective needs to be further explored, either from within individual government affairs functions, collectively from within trade associations or using third party lobbying organizations. This focused perspective would allow CPA to be better understood, but also allows us to specify more closely the relationship between firms and governments. Building on this perspective, we recognize that there are three dominant areas that need to be further explored in the CPA perspective.

First, resources and capabilities. The resource-based theory and organizational capability theory have important implications for understanding how political resources are integrated, reconfigured and deployed in the context of non-markets that are fragmented between countries (Dahan 2005b). This paper complements earlier research which has used the resource and capability views to explaining CPA (Bonardi *et al.,* 2006; Oliver and Holzinger, 2008). Implicitly, building on these important studies, future studies may look at political resource configurations within different countries that are directly involved in market and nonmarket simultaneously. These could include the combination of political resources and capabilities with financial systems and their regulation, the labor market institutions and their regulation (trade unions, dispute settlement mechanisms, training, and education), the corporate sector (ownership types, trade associations; value/supply chain relationships) and the culture of the country (the attitudes towards business, as expressed, for instance, through the tax system). Building on these ideas is likely to advance CPA research and provide further insights into this exciting field of study.

Second, institutional constructs. As a step towards presenting the complex linkages between institutional constructs and country-level factors in CPA, we turn here to the notion of national business systems, particularly state institutions dealing with financial markets structures and labor market regulations. Most developed market countries have bank-based financial systems, whilst their financial markets have traditionally been used to allocate financial resources authoritatively for use by state corporations (France) or private industrial groupings (Korea). Labor market institutions are the product of national social contracts, the details of which can make all the difference as to whether an investment goes ahead or not. An up-and-coming challenge for CPA scholars is to understand non-market activity in emerging economies, thus moving beyond the institutional voids perspective outlined by Khanna and Pelepu (2005). As developing economies grow and assume greater importance for international business, it is natural to assume that their institutional arrangements become more elaborated. This may be due to domestic pressure or derive from the international economy, but often a combination of both. Scherer and Palazzo (2011) use the term ‘political CSR’ to describe what they view as the new, activist role of the firm in global governance. This role is not new – at least not for Western multinationals. The emerging research agenda in global governance is to understand how emerging market firms come to act politically. As emerging markets come to have greater stakes in the international economy, it seems plausible to suggest that their firms will, like their Western counterparts, come to see political activity as a necessary complement to their market strategies. Firms from emerging markets have significant market shares in areas as diverse as mining, construction, solar energy and banking. They will therefore be affected by global governance initiatives (McGuire, 2012). Thus, new work needs to understand how this development leads to new patterns of CPA. Shaffer *et al.* (2007) have detailed how Brazil’s business groups have learned to work with Brazil’s trade policymakers to use the WTO disputes process as part of an integrated strategy to open export markets. In each case, domestic support for greater liberalization was catalyzed by an international regime (the WTO) that assisted domestic constituencies in locking-in economic reforms. Future CPA research must not overstate the degree of convergence that emerging markets might achieve with developed economies. It seems likely that, while many states will develop stronger institutions, a high degree of diversity will remain.

Third, political environment. The political environment perspective that uses game theory, transactional cost view or structure-performance-conduct theory have helped develop a better understanding of the variety of business-government systems in the world. Future work here needs to recognize that markets are embedded in social and political institutions, and do not exist independent of the rules and institutions that establish them. Such political environments foster their own incentives for agents in markets and their continuation is dependent on particular forms of policy processes and levels of uncertainty. Future research in Domain C needs to measure political outcomes in a meaningful way, which is a major challenge for researchers in CPA. For instance, many scholars indicate the fallacy of perceiving U.S. Congressional floor votes on a piece of legislation as constituting the only relevant outcome, since most legislation never makes it to the floor. Even if we can establish that a given bill on the floor is important to a firm, the models that link CPA (usually measured with campaign contributions) to the votes more often fail to find a statistically significant relationship. With new quantitative methods to increase robustness, quantitative methods such as hazard models are going to be important in this area in the years to come.

Fourth, integrating the three domains. Another potential avenue is to promote integration between the three domains. In other words, to deepen this research area, a further opportunity is placed in integrating the assessment of political resources and capabilities within specific institutional and political domains. Rather than treat these research avenues as largely discrete (albeit with underlying overlaps) it might be beneficial to move towards a more integrated approach that links the different levels of analysis between the organizational and institutional levels (with the political domain revealing particular mechanisms). This would allow future scholars to develop an assessment of power based on specific political resources and the control over these resources, with a view of the firm which is institutionally embedded.

Finally, ethical considerations. The issue of political activities appears to have generated mixed attention in the CPA community. Much of the literature on CPA corruption does not frame the issue as one of non-market strategy or of firm performance. Rather, the emphasis is on how and why firms engage in corrupt practices. However, the corporate social responsibility and business ethics literatures provide some indirect ideas on perceptions surrounding responsible CPA behavior. Weber (1997) focused on corporations and human rights in developing countries, likening voluntary restraint in corporate lobbying to “unilateral disarmament” (Weber 1997, p. 75). Hamilton and Hoch (1997) proposed their own ethical model and eight general standards for ethical lobbying to create debate in firms. They aimed to translate ethical standards “into language which business persons can speak comfortably” (p. 117), implying that managers are not generally comfortable talking about ethics. While Stark (1997) evaluated the meaning of the term *quid pro quo* (he sees it as a kind of ‘sub-bribery’) in the context of US campaign financing. This highlights the significance of more research into transparent organizations that lobby responsibly and irresponsibly.

CPA scholars need to explore *all* areas of corporate activity including perceptions of responsible lobbying (AccountAbility and UN Global Compact, 2005). Empirically, this is not a straightforward process, as lobbying is a sensitive and often discreet activity and firms are justifiably reluctant to provide access to or information on their endeavors. There are, therefore, significant practical limitations to data acquisition and some researchers (Rehbein and Schuler, 1998; McWilliams *et al.*, 2006) have resorted to the use of proxy data. The extensive literature on corruption also has to grapple with the natural suspicion that firms, when questioned on the topic, will say one thing and do quite another (OECD, 2003). We argue that CPA scholars need to pay more attention to the ethical aspects of their subject, as failure to do so will weaken the community conceptually and thereby undermine its credibility and legitimacy. Elements of CPA can be applied to the corporate social responsible (CSR) environment to generate different views on perceived responsible lobbying, but these are adapted from other areas of focus and are incomplete.

Conclusions

In this paper we highlight the significant progress that has been made in CPA research since Hillman *et al.'s* (2004) review and provide a discussion of the dominant research areas that fit into the overall study of CPA. Our literature review has been structured around the interrelated concepts that have been identified as the research parameters for the CPA perspective. Our review attempts to synthesize and advance three dominant research themes that need to be extended by scholars in this community. We found that the body of knowledge about CPA perspective continues to grow, and that this reflects the increasingly complicated and varied international business environment. At the same time, CPA practices keep expanding in different countries but in more nuanced ways than might be expected. As commerce goes increasingly global, those goods and services cross more and more political jurisdictions, which in turn, bring in more and more political actors and institutions. Firms are also drawn to assist in the provision of social goods – whether health facilities, schools, or other collective goods – and in political settings where these goods are under-provided (Boddewyn and Doh, 2011). The challenge for scholars is to keep in sight these developments as we continue to develop our understanding of CPA. This, in turn, would allow for the greater integration of market and non-market conceptions of strategic management.

Figure 1 The CPA Framework

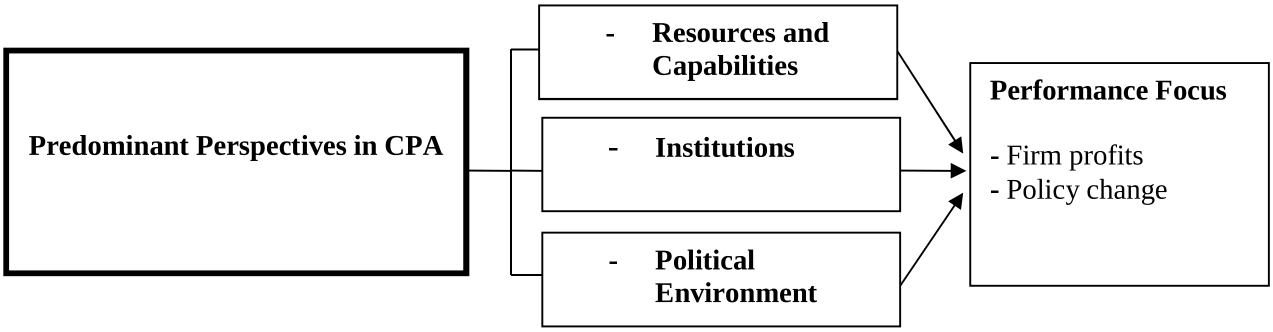

Table 1 Domain A: Resources and Capabilities Focus in CPA

Author	Year	Summary of key papers
McWilliams et al.	2002	This study extends the resource-based theory of the firm to show that it can be used to analyze the effectiveness of political strategies. It demonstrates that political strategies can raise rival costs by blocking the use of substitute resources.
Dahan	2005a	This paper is an attempt at improving existing conceptualizations of corporate political resources. It argues that existing typologies are too vague, simplistic and incomplete on several points. It applies a resource combination idea to political resources, showing that they can play three different roles in implementing two generic political strategies.
Bonardi et al.	2006	This investigation finds that the ability of firms to gain more favorable policy outcomes is increasing in the degree of rivalry among elected politicians and the opportunity to learn from other firms' recent experiences and is decreasing in the degree of rivalry from competing interest groups and the resource base of regulatory agencies.
Frynas et al.	2006	This article explores the long-term process of acquiring, sustaining and exploring firm-specific political resources in international business. It uses detailed case studies to understand the causal relationship between political resources and first mover advantages.
Wöll	2007	This paper examines the power and influence dynamics not only in the operationalization of business-government relations. It investigates political resources through various case studies in the United States and the European Union. Finally, it also looks at resource distribution and the interdependence on both sides, instead of assuming the dominations of business power over policy outcomes.
Capron and Chatain	2008	This paper looks closer at relationship between firm resources and competitive advantage by considering the strategic responses that firms take against their competition's resources in factor markets and political markets. They look at lobbying capabilities in more detail to understand these relationships.
Oliver and Holzinger	2008	This important paper uses the RBV to explore the various types of political activities that are dependent on firms' nonmarket capabilities to manage their political environment.

Table 2 Domain B: Institutional Focus in CPA

Author	Date	Summary of key papers
Vogel	1996	This paper offers an historical overview of the intellectual development of corporate political activity. Vogel outlines why the study of business and politics in its contemporary form developed first in the United States, and outlines the directions this work might take.
Khanna and Pelepu	2005	The Harvard case study addresses the problem of developing theory of CPA in many emerging economies by introducing the concept of 'institutional voids', issue areas where institutional and legal structures that characterize developed economies do not exist. The paper is also influenced by the political risk literature. The paper outlines how managers can identify these voids and, in so doing, learn to adapt business strategies in response.
Shaffer et al.	2007	Brazil's experience in World Trade Organization (WTO) trade disputes cannot be understood without reference to the creation within Brazil of new business-government consultative mechanisms. These developments were spurred partly because the growth of Brazilian firms made them keener on international expansion. The article explores how Brazil's diplomatic machinery adapted to become an effective advocate of Brazilian business interests.
Tian, Hafsi, and Wu	2007	This paper studies CPA in a setting that is at once highly institutionalized but also undergoing considerable transition – China. The authors suggest that most CPA seeks to accommodate rather than confront authority in Chinese settings. Interestingly, they suggest that the Chinese environment is more similar to some Western parliamentary systems than is appreciated, due to the wide scope for discretion by policymakers in both systems.
Jackson and Deeg	2008	This paper offers a critique of management studies perspectives on the role of institutions. It begins with a criticism of the 'thin' conceptualization of the business environment offered by management studies. It then articulates alternative richer views of the role of institutions in shaping national economies such as the varieties of capitalism literature.

Table 3 Domain C: Political Environment Focus in CPA

Author	Date	Summary of key papers
Baron	1997	This paper looks at firstly what is really at the core of the problem in regulated firms' relationships with regulators, secondly why these firms cannot overcome part of the problem by developing nonmarket strategies –lobbying, campaign contributions, etc– to influence regulatory decisions, and finally why they sometimes opt for international expansion rather than product diversification.
Hillman and Hitt	1999	This study provides a model to understand political action, two levels of participation in political activities and three generic strategies (information, financial incentive and constituency building), thus presenting a comprehensive taxonomy of political strategies.
Hillman et al.	1999	In this article the authors deploy a variety of political strategies (e.g. lobbying, contributions) to try to influence and gain access to the public policy making process. The authors use an event-study methodology to show linkages with the government positively affect firm value. The findings also show that firm-specific benefits may result from political strategies.
Shaffer et al.	2000	This article draws from the theories of business-government relations and Austrian economics to develop a model relating firm performance to the firm's market and nonmarket actions. The model uses data that covers airlines that service routes in the US. The results showed a positive relationship with performance (profits, market share and capacity utilization).
Blumentritt and Nigh	2002	This paper examines political action by integrating MNC political activities and international business-government interactions. It uses statistics to test hypotheses on factors that might influence the degree to which subsidiary political activities are integrated with affiliated organizations.
Delios and Henisz	2003	This study supports the role of experiential learning in the international expansion process by extending the stages model of internationalization to incorporate a sophisticated consideration of temporal and cross-national variation in the credibility of the policy environment. It provides several implications for understanding political uncertainty and political actors.
Frynas and Mellahi	2003	This paper builds on the political risk literature by incorporating corporate political activity into the analysis. Firms are not conceived of as merely reacting to risks in the political environment, but as actors capable of developing and deploying resources to shape fluid political environments to their competitive advantage.

Table 4: CPA and Performance

Author	Date	Summary of key papers
Fisman	2001	In this event study, the author attempts to value political connections, which accounts for the paucity of studies in this area. It looks at Indonesia, where the author is able to value political connections using variables from stock market data and data from group affiliations of all the firms.
De Figueiredo and Silverman	2006	This paper statistically estimates the returns to lobbying by universities for educational earmarks. The lobbying returns approximate to zero for universities not represented by a member of the Senate Appropriations Committee (SAC) or House Appropriations Committee (HAC). In addition to addressing questions about the federal funding of university research, this paper also discusses the impact of the results for the structure of government.
Bonardi et al.	2006	This paper builds on a framework that assesses the attractiveness of 'political markets' – where firms manage public policies with government policy-makers – it develops various hypotheses regarding the success or performance of firms' nonmarket strategies. It proposes that the ability of firms to gain more favorable policy outcomes is increasing in the degree of rivalry among elected politicians, the firm's recent experience with policy-makers, and the opportunity to learn from other firms' recent experiences; and is decreasing in the degree of rivalry from competing interest groups and the resource base of regulatory agencies.
Schuler et al.	2002	This paper looks closely at how politically active firms gain access using a variety of tactics. The authors model the determinants of corporate political activity as a single, multivariate phenomenon. They explore features such as firm size, government contracts, and industry concentration to better understand the multiple political tactics.
Kim	2008	This paper uses panel data of SandP 500 index firm covering 1998-2004 to understand lobbying performance. It focuses on the determinants of lobbying expenditures and campaign contributions and estimates the returns to lobbying tracked with the financial markets. It finds a positive effect on the firm's equity returns relative to the market and to some extent the industry.

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