

Corporate Political Activity: An Integrated Model

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Abstract

This paper reviews the current state of research in the area of corporate political activity to build an integrated model. This model segregates the related but scattered corporate political activity constructs in literature into enablers, motivators, moderators, choices, and outcomes of corporate political activity. This model can be help in reconciling contradictory results in literature. For instance, several studies have found evidence positive, neutral, and negative effect of CPA on performance. This model suggests that CPA-performance relationship is enabled and moderated by several factors, and controlling them may yield a better picture of CPA effect on performance. We further suggest gaps in current literature and give suggestions for future research in this area.

Keywords: corporate political activity, antecedents and outcomes of CPA, CPA performance link

1. Introduction

World's largest democracy, India, recently held elections to elect a new government. The main issue in elections this time was corporations and the perceived benefits they have received from different political parties. In Thailand, the Prime Minister, after facing protests over her role in trying to save her businessman-politician brother from corruption charges levelled during his term as prime minister, was forced to resign. In the United States businessman Sant Chatwal has recently pleaded guilty of violating electoral law while raising funds for Hillary Clinton's presidential bid. Several businessmen are occupying or have occupied important public offices, including head of state, around the world. In the United States businessmen Michael Bloomberg, Bob Corker, Mitt Romney, and Mark Warner have held public offices. In Pakistan the incumbent prime minister is a steel tycoon who entered politics to secure his rights to his business when it was nationalized by the then government. Former Italian Prime Minister Silvio Berlusconi who served three terms as prime minister of Italy is a businessman with interests in media. Sebastián Piñera, who till recently was president of Chile, is among the richest businessmen of his country. These anecdotes seem to suggest that political participation of businessmen is quite widespread. Scholars of political participation by corporates have found evidence in support of this. (Faccio, 2006) observed that political participation by firms is widespread, existing in 35 of the 47 countries she studied. The countries where political participation by business exists are quite varied: they have different levels of corruption, market development, economic development, and different types of government. Corporations today are feared to "have not only become prominent actors in society, but they may have become only kind of actor with significant cultural and political influence" (Stern & Barley, 1996). For example, although government is elected by plebiscite, election campaigns are largely financed by corporations with the aim of getting favorable legislation. Corporations affect legislation by employing lobbyists, political action committee, and government membership of boards.

This has triggered an increase in academic interest in the political activities of firms. Literature in management, economics, finance, political science, and sociology is sprinkled with empirical investigation of corporate political activities. Corporate Political Activity (CPA), defined as attempts by corporations to influence government policy to make it favorable for firms (Baysinger, 1984), is, along with CSR (Corporate Social Responsibility), a major ingredient of non-market strategies employed by firms (Baron, 1995) in both developed and developing economies.

Theoretically, CPA has been studied from different perspectives. Public interest theorists view policy as an outcome of interest group competition. Business is seen as a monolithic entity which works collectively in interest group competition to secure policies favorable to business; undermining public interest and democratic processes (Lowi, 1969). This can be recently echoed by Barley (2007). Economic theorists see CPA from a

political exchange perspective wherein favorable public policy - such as direct subsidies and control over entry and prices (Stigler, 1971) - is traded with financial support and votes by industries (Shaffer, 1995). The unit of analysis here is industry and industry characteristics which favor political action such as industry concentration, industry size, and free riding are studied. The resource dependency perspective of CPA suggests that firms highly dependent on government are more likely to engage in political action to influence public policy (Hansen & Mitchell, 2001; Hart, 2001; Schuler, Rehbein, & Cramer, 2002; Schüler, 1999). Such firms include those which derive a significant proportion of their sales from government, or those which have a significant portion of their costs imposed due to government action (Hillman, Keim, & Schuler, 2004). The corporate political behavior research is focused on the conditions under which firms engage in political activities, and the benefits they derive from such activities.

Empirically, the fundamental question being investigated 'does corporate political activity lead to superior firm performance?' is at the heart of strategic management. However there is no consensus in literature regarding the superior returns from CPA. While Cooper, Gulen, & Ovtchinnikov (2010), Fisman (2001), Frynas, Mellahi, & Pigman (2006), Goldman, Rocholl, & Jongil So (2009), and Jayachandran (2006) found positive performance effects of CPA, Aggarwal, Meschke, & Wang (2012a), Ansolabehere, De Figueiredo, & Snyder Jr. (2003), Hadani & Schuler (2013a), Hersch, Netter, & Pope (2008), Okhmatovskiy (2010), Siegel (2007), and Sun, Wright, & Mellahi (2010) found negative or no effect of CPA on performance.

Despite the widespread presence of this important phenomenon, literature on CPA remains fragmented theoretically and empirically, and has been compared with the proverbial eight blind men touching an elephant (Lux, Crook, & Woehr, 2011). We still don't know how different theoretical perspectives interact in the CPA decision process. We don't know how the different theoretical perspectives can be integrated to predict outcomes of CPA. This presents an opportunity to review and integrate literature on CPA.

A synthesis of CPA literature can lead to interesting insights into firm behavior. For example, in contrast to the view that firm takes the environment as given (Industrial Organization view) and try to make efficient economic decisions within these institutional boundaries, firms may be actively engaged in changing the environment and institutions. It is of great interest to strategic management scholars in general and institutional theorists specifically, to know how firms influence their environment and institutions. This has great implication for the way we conceptualize corporations in management literature. We argue latter in the paper that CPA research can lead to better understanding of many theories in strategic management, most notable of which are institutional theory and the industrial organization view.

This research is further necessitated by the phenomenon such as Occupy Wall Street. Similar demonstrations were held around the world. The rising feeling in general public about subversion of democracy and public good by corporations needs scholarly attention.

This paper reviews and integrates the research in this sub-area of strategic management. Going beyond the existing review of (Hillman et al., 2004) of identifying antecedents of CPA, in this review we propose a model of CPA process to answer five questions: (1) What motivates a firm to establish political connections? (2) What aids the establishment of political connections?, (3) What are the different types of political strategies of firms, (4) What affects the performance of these strategies, and (5) What are the outcomes from political activity. We propose an integrative theoretical model to respond to these questions. Then we identify the areas of future research and how this research can be linked to larger question of corporate influence on institutions and democratic systems. To make this review broad based, which is essential given this theme, we take into our initial consideration set all papers which have at least five citations. Additionally we make it broad based by using Google scholar, along with traditional academic databases.

2. Proposed Model of Strategic Political Behaviour

The proposed integrative model of strategic political behavior is as shown in Figure 1. We classify the antecedents as motivators of CPA, the enablers of CPA, moderators affecting CPA choice and outcomes, and CPA outcomes. The dotted portions represent scope for future research.

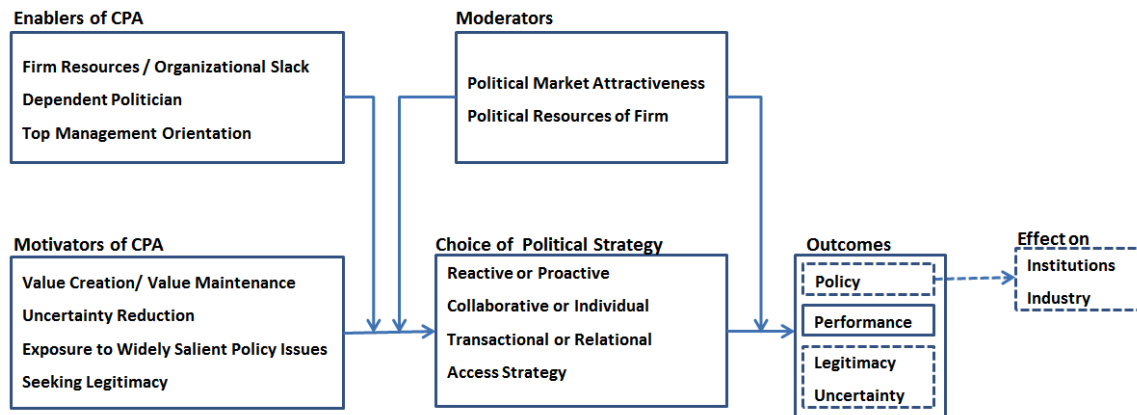


Figure 1. An initial integrative model of CPA research. The dotted portions denote future areas of research

3. Motivators of CPA

Motivators can be categorized into four types. Most frequently identified motivators are related to **value creation or value maintenance**. The resource dependence perspective suggests that firms which depend on government for their revenues - sales or contracts, or firms in highly regulated industries in which regulation imposes significant cost burden on firms are more likely to engage in political activity (Hansen & Mitchell, 2000; Hart, 2001; Mitchell, Hansen, & Jepsen, 1997; Schuler, Schnietz, & Baggett, 2002; Schüler, 1999).

Another important motivator is **reduction in uncertainty**. Interviewing managers for reasons of getting engaged in CPA, (Barron, 2010) identified uncertainty reduction as the main factor. Exports has been identified as another source of uncertainty due to dependence on government and are identified as determinant of CPA (Martin, 1995; Schüler, 1999). Another determinant is firm diversification level (Hillman & Hitt, 1999; Schuler, 1996). A diversified firm will have higher exposure to government policies, and would try to reduce uncertainty by influencing policy.

Issue salience has been described as most important factor motivating CPA (Vogel, 1996), and it has been argued that firms choose their political strategy by estimating the effect of policy change on firm's performance (Schuler & Rehbein, 1997a). Cho, Patten, & Roberts (2006) found empirical support for the hypothesis that poorer environmental performers spend more on CPA as compared to better performing counterparts. Levy & Egan (2003) had similar observation regarding pull out of USA from Kyoto Protocol arguing that the incumbent President's closeness to oil industry was the deciding factor, even though rest of the industry seemed willing to accept the protocol.

Legitimacy is vital for survival or any organization, as it is necessary for continuous flow of resources and sustained support by organization's constituents (Pfeffer & Salancik, 2003; Weber, 1978). Many firms engage in CPA to create legitimacy (Boddewyn & Brewer, 1994) as being associated with governments at high level is the ultimate form of legitimacy an organization can acquire (Hillman, Zardkoohi, & Bierman, 1999).

4. Enablers of CPA

Given the motivators to engage in CPA, the actual decision of a firm to engage in political processes or to take a more hands off strategy depends on the presence of enablers. An important enabler identified is presence of **slack resources** (Meznar & Nigh, 1995; Schuler, Rehbein, et al., 2002; Schuler & Rehbein, 1997a; Schuler, 1996). It has been argued that presence of slack enables a firm to engage in CPA, the resources can be used for political donations or soft money contributions or setting up infrastructure such as political embassies for CPA activities. Firm size is another enabler frequently cited in literature, arguing that a bigger firm will have more resources (Schuler & Rehbein, 1997b), and higher political - due to larger number of stakeholders and thus larger number of votes - and economic power. The resource argument has been bolstered by the observation that smaller firms engage in political activity by coming together (Cook & Fox, 2000).

An interesting enabler is dependency of politician on a firm. If a firm is responsible for majority of economic activity in a congressional district, employing large number of voters, supplying financial resources to the politician; then the interests of the politician are aligned with the interests of the firm. In such a situation it becomes relatively easy for the firm to exploit politician's dependency on firm (Lux et al., 2011).

Political orientation, functional, and educational background of top managers is another important enabler of CPA (Blumentritt, 2003; Cook & Barry, 1995; Ozer, 2010; Rudy & Johnson, 2013).

5. Types of Political Strategies

Broadly there are two types of political strategies: reactive and proactive. Reactive political strategies entail responding to the changes in policy by focusing on internal capabilities. An example can be banks trying to follow the capital adequacy norms once they are enforced or automobile manufacturers trying to meet emission norms once they are changed.

Proactive strategies have been refined to include three distinct strategies: (1) anticipating policy change by hiring government experts and establishing practices to deal with expected policy changes, (2) maintaining value by influencing policy to create entry barriers and maintaining status quo, (3) raising standards and influencing government to legislate the higher standards (Oliver & Holzinger, 2008). An example of the third type of strategy can be building vehicles with emissions lower than the standard, and then influencing policy so that new standards are adopted.

Firms may choose to engage in CPA in a relational manner or in a transactional manner. Recent empirical work in this direction using the Enron mail archive suggests that managers pay very little attention to transactional approach to CPA (Drutman & Hopkins, 2013). To access politicians, firms may use information, financial incentives or constituency building (Hillman & Hitt, 1999). In one of the few empirical studies regarding the choice of access strategy, Antia, Kim, & Pantzalis (2013) suggest that firms use PAC (political action committee) contributions to placate the incumbent politicians, and lobbying for securing access to political power. This lends support to Drutman & Hopkins (2013) argument that lobbying is primarily for information transmission.

Firms may additionally choose to collectively engage in CPA or may go individual. This decision depends on issue salience, resources available to firm, and the attractiveness of political market.

6. Moderators of CPA Choice, and of CPA Outcome

Some factors affecting both, the choice of CPA, and the outcome have been identified in literature. Most of these factors exist outside the boundary of firm, and need to be taken into account while choosing a particular CPA strategy. The most important factors can be collectively labeled as: political markets attractiveness (Bonardi, Hillman, & Keim, 2005). The most important factors affecting attractiveness of political market are discussed next.

Issue competition is an important factor in determining political market attractiveness, and is a moderator of CPA choice and outcome. (Bonardi et al., 2005) argue that firm's decision on political participation is affected by degree of attractiveness of the market; the attractiveness being less when competition is high. This competition can come from other firms or from non-corporate actors such as unions and NGO.

Political competition is the number of parties competing over a policy (Olson, 1965; Yoffie, 1987). Since politicians are interesting in appeasing maximum number of politicians, a low competition is favorable for those demanding policy. A firm needs to factor in political competition before choosing to participate in CPA. Related to political competition is industry concentration. A concentrated industry is less likely to have free riders, and more likely to have consensus on policy demand (Esty & Caves, 1983; Pittman, 1976). A consensus in policy demands makes it easy for suppliers of policy to provide demanded policy (Olson, 1965; Yoffie, 1987). Foreign competition in an industry is also seen similarly in literature. Policy suppliers will be more willing to listen to domestic firms as they form the voter base.

Firms need to evaluate the **ability of politician to deliver demanded policy**, which in turn depends on the politician's ability to get elected and remain in office. Incumbent politicians have higher chances of getting re-elected than first time politicians winning an election (Evans, 1988). Thus a politician with high probability of re-election is favorable for CPA. Related to this is the ideology of politician as she must be willing to provide demanded policy. A politician with pro-business views may be more receptive towards business demands of policy (Grafton & Permaloff, 2005 ch4; Grier & Munger, 1993).

Political resources of firm have been identified as another set of moderators. They include firm reputation, CSR and philanthropic activities of firm. CSR enhances institutional legitimacy, relational wealth, and gives opportunities to firms to interact with government policy makers (Hadani & Coombes, 2012). (Wang & Qian, 2011) argue that corporate philanthropy enhances sociopolitical legitimacy, and help evoke positive responses from stakeholders and help gain political access. (Fooks & Gilmore, 2013) demonstrate the use of corporate philanthropy to influence health policy related to tobacco using confidential documents.

7. Performance Outcomes of CPA

Empirical evidence is also mixed. There is evidence in support for both positive (Cooper, Gulen, & Ovtchinnikov, 2010; Fisman, 2001; Frynas, Mellahi, & Pigman, 2006; Goldman, Rocholl, & Jongil So, 2009; Jayachandran, 2006) and negative (Aggarwal, Meschke, & Wang, 2012a; Ansolabehere, De Figueiredo, & Snyder Jr., 2003; Hadani & Schuler, 2013a; Hersch, Netter, & Pope, 2008; Okhmatovskiy, 2010; Siegel, 2007; Sun, Wright, & Mellahi, 2010) effect of CPA on business performance. (Tian, Hafsi, & Wu, 2009) suggest that even in emerging economies the effectiveness of CPA is not uncontested.

8. Paths for Future Research

The brief initial model discussed above delineates paths for future research. The motivators of CPA have been identified as value creation, gaining legitimacy, influencing policy on widely salient issues, and reduction in uncertainty. While scholarly attention has been devoted to effects of CPA on performance, the effects of CPA on policy has not received much attention. Study of influence on policy can have significant implications for organizational scholars. The multitude of factors required to make CPA outcomes favorable seem to give an impression that it is difficult to secure policy outcomes favorable to firm. Given the wide range of requirements to make political markets attractive, studies have indeed documented some instances where corporations have failed to secure favorable policy. Drope & Hansen (2009) suggest that there is little evidence that CPA has a decisive influence on tax regime. (Berry, 2010) pointed out that social issues vis-à-vis economic issues have gained in importance in congressional agenda, to the point that in 1991 social agenda was about 10% more than economic agenda. Hadani & Schuler (2013b) compare usage of CPA secure favorable legislation to sixteenth century explorers on the hunt for lost gold city of El Dorado who always came back empty handed. However, corporations do many a times get what they want. Levy & Egan (2003) state that although most of American industry seemed willing to accept Kyoto Protocol, the new Bush administration pulled out of the treaty under influence of oil industry with which he had particularly strong ties. Another instance is the bankruptcy act of 2005 (Bankruptcy Abuse Prevention and Consumer Protection Act) which (Barley, 2007) argues was against the interest of general public. Similarly Barley (2007) points out the increasing privatization of military in USA.

How do firms affect policy, and to what extent? How does corporate influence on policy affected institutions. How does industry structure get affect by policy changes? Asking these questions can help understand the pervasive influence of corporations on democracy and public good (Schuler, 2008), murmurs about which can already be heard in editorial introductions but not beyond.

Other areas lacking scholarly attention is the goal of legitimacy gaining. Are firms able to gain legitimacy by participating in political processes? Such studies may help improved understanding of institutional theory. The goal of uncertainty reduction as a motivation of CPA has also not received much scholarly attention. Study of these three factors (policy, legitimacy, and uncertainty) can help improve understanding of CPA beyond performance. If CPA helps in uncertainty reduction or enhances legitimacy; then this may provide basis of participation in political activities despite occasional neutral or negative effect on performance. Such studies are only possible when the horizon of studies is extended to larger time horizons than the usually 5-10 year time periods currently studied. Study of effects of CPA in these different dimensions would help in better understanding of profit persistence as CPA may help in performance indirectly by enhancing legitimacy or reducing uncertainty.

9. Summary

Corporate political activity is a significant phenomenon of importance to strategic management scholars. As corporations have grown more and more influential, there have been calls from within academia for increased for studying political activity of business (Barley, 2007) and its influence on democracy and public good. Despite theoretical pluralism, understanding of corporate political activity is still evolving. This has been reflected in empirical studies which have produced conflicting results. We propose a model based review of literature which seeks to integrate how different theoretical perspectives interact with each other. This model can be help in reconciling contradictory results in literature. For instance, several studies have found evidence positive, neutral, and negative effect of CPA on performance. This model suggests that CPA-performance relationship is enabled and moderated by several factors, and controlling them may yield a better picture of CPA effect on performance. For example, Hadani & Schuler (2013b) found that CPA does not, in general, lead to superior financial performance. They conjecture that this might be due to agency issues. They, however, found positive returns for firms in regulated industries. This model too suggests that CPA will be beneficial only when the motivators of CPA are present one of which in industry regulation.

This model also helps explain why some factor which make sound theoretical arguments of correlation with CPA

have not been empirically observed. For example, slack resources have been linked to CPA. But empirical studies have not found this correlation significant. This model suggests that slack resources play a role of enabler of CPA, and it can be correlated with CPA in presence of CPA motivators.

An implication of this model is that CPA research should factor in the presence of moderators which affect the choice of CPA strategy and the CPA outcomes. It can also add to shareholder interest literature by suggesting which cases of CPA are suspect of agency, and which are not. CPA research has immediate implications for investors as large institutional investors have voiced their preference to corporations not engaged politically.

Most importantly, scholarly attentions must be paid to the effect of organizations on their environment. The anecdotes mentioned at the beginning of the proposal give an impression that business politics connections are deep rooted, and corporations might be having deep influence on institutions and systems surrounding it. This has given rise to resentment in general public, as was evinced in the Occupy Wall Street movement. Similar demonstrations were held around the world. It's time we, organizational scholars, pay attention to influence of firm on environment to avoid being spokesperson for corporations.

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