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Business Is Not an Interest Group (And, By the Way, There's No Such Thing as "Business"): On The Study of Companies in American National Politics

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Introduction: The Business of Washington

To a much greater extent than the accumulated literature on American politics suggests, the business of Washington, D.C. is business. While dramatic issues of war, scandal, and injustice capture most of the political headlines, the day-to-day efforts of Congressional staffers, Supreme Court clerks, and executive branch bureaucrats are far more likely to be absorbed by mundane issues that affect cost, price, and market share. The emphasis on business in our nation's capital is even more pronounced outside of the halls of government. Organized non-governmental interests in Washington overwhelmingly consist of firms, trade associations, and their agents (law firms, consultants, and the like).

If the business of Washington is business, the business of American politics scholarship is anything but. Even the study of interest *groups* (as the subfield is unfortunately labeled) tends to concentrate much more on organizations like the Christian Coalition and Common Cause than those like General Electric and General Motors.

David Vogel, one of the few scholars who has built a career in political science by writing about American business (often in a comparative context), points out that "[t]here are no institutional or organizational vehicles that bring together scholars with a common interest in this topic."[2]

The deficit of scholarly effort is especially noteworthy with respect to individual firms. The slim literature on business in American politics tends to focus on mechanisms for collective action, especially the most encompassing business organizations, such as the U.S. Chamber of Commerce, National Association of Manufacturers, and Business Roundtable. While important, these organizations are exceptional. As Mark Smith shows, issues that unite the bulk of American businesses under the banners of encompassing groups "occur only rarely."[3] Most issues are particular to a few firms or even a single one. Such issues motivate firms to represent themselves in Washington and to provide the resources for and exert substantial control over many other entities, including trade associations, coalitions, and service providers like public relations and lobbying firms, that operate on their behalf.

The problem is qualitative as well as quantitative. There are too few studies of individual firms in American politics in part because the theoretical apparatus of the interest groups field does not fit them very well. Our theories tend to generate questions that lead us away from studying the most distinctive aspects of firms' political attitudes and behavior. The government affairs function of a large corporation has very different

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[1] An earlier version of this paper was presented at the 2002 Policy History Conference and benefited from comments by Rogan Kersh, Gary McKissick, Anthony Nownes, and Paul Quirk. Thanks also to Beth Leech for compiling data from her survey of interest groups.

[2] David J. Vogel, "The Study of Business and Politics," *California Management Review* 38:146-165 (1996), 158.

[3] Mark A. Smith, *American Business and Political Power: Public Opinion, Elections, and Democracy* (Chicago: University of Chicago, 2000), 17.

incentives and decision-making processes than those that characterize the ideal typical voluntary association of citizens that occupies the core of most theories of interest groups, Mancur Olson's *Logic of Collective Action* above all.

Two nascent threads of research aim to redress this deficiency. One approach extends the Olsonian microeconomic tradition, treating firms as unitary rational actors. Although I welcome further efforts in this direction, this approach has important weaknesses and ought not be the only one employed by political scientists. A more promising but even less developed approach draws on historical and institutional scholarship in political science and sociology. It focuses on "processes of information and communication" (as Raymond Bauer, Ithiel de Sola Pool, and Lewis Anthony Dexter put it in their 1963 classic *American Business, Public Policy, and the Politics of Foreign Trade*),[4] both within firms and across their boundaries.

This essay seeks to encourage scholarship on individual businesses in American politics, particularly historical and institutional scholarship. I begin by substantiating the empirical importance of the subject. I then review the mismatch between received interest group theory and the political operations of businesses, emphasizing mobilization, preference formation, and strategic choice. The next section briefly assesses microeconomic research in this area. The largest portion of the paper is devoted to explicating the historical and institutional approach, highlighting recent work that has laid a foundation for further research. I conclude by identifying high priorities for scholars who would build on that foundation.

[4]Raymond Bauer, Ithiel de Sola Pool, and Lewis Anthony Dexter, *American Business, Public Policy, and the Politics of Foreign Trade*, second ed. (Chicago: Aldine-Atherton, 1972), 3. Forty years after its initial publication, this book still stands as the gold standard in the study of business in American politics. Yet,

There's No Such Thing as "Business":

The Empirical Significance of Corporate Government Affairs

Research on the political views and activities of American businesses might be justified in a number of ways. One might reasonably refer to democratic theory, for instance, to provide a normative basis for such an effort. Although firms are "persons" from a narrow legal perspective, their claim to legitimate standing in the polity is questionable. Any level of political representation by firms, by this argument, would warrant investigation. Alternatively, one might argue that firms are disproportionately powerful. Even if only a few companies are active in Washington, this argument would go, their clout justifies our attention.

I am sympathetic to both of these sorts of arguments, but the justification that I am going to advance here is simpler and grounded in raw empiricism. Individual companies are represented in American national politics in large numbers. They are doing something, and we ought to learn what and why. We cannot do so, I assert, merely by studying peak associations or even trade associations, much less "interest groups" in general.

Interest group scholars have long concurred that "business" has an "advantage" in the "pressure system." Frank Baumgartner and Beth Leech's 1998 survey of the field traces empirical research substantiating this view as far back as the 1920s. Like many commentators, they add the Washington representatives of individual companies to those of business associations to show that "business" comprises at least half and probably

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ironically, it is best remembered for relatively minor findings, a fate it probably shares with many "classics."

substantially more than that of all interest organizations active at the national level. They do not note in this context that companies usually outnumber associations in the studies they discuss, even in Kay Lehman Schlozman and John T. Tierney's weighted sample of interest organizations, in which one might expect companies to be under-represented. Some studies of interest groups, including Jack Walker's two major surveys, systematically exclude firms (and other institutions, like state governments and universities) from their sampling frames.[5]

It seems likely that the balance between firms and business associations in the national interest organization community has changed over time. Several accounts identify the 1970s as a period of explosive growth in corporate government affairs organizations, and their growth seems to have continued at a more modest pace at least into the 1980s. Working in the 1950s, Bauer, Pool, and Dexter could reasonably equate pressure groups with business associations, but that equation has long been obsolete. Data compiled by Baumgartner and Leech (after they had published the book cited above) from reports made in 1996 under the Lobbying Disclosure Act clinch the point. Individual firms formed a substantial plurality of both interest organizations (41% of reports) and clients of lobbying firms (44%) in that year, and they reported more spending on lobbying than all other types of organizations combined (56%).[6]

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[5] Frank R. Baumgartner and Beth L. Leech, *Basic Interests: The Importance of Groups in Politics and Political Science* (Princeton: Princeton University Press, 1998), 93-97; Kay Lehman Schlozman and John T. Tierney, *Organized Interests and American Politics* (New York: Harper & Row, 1986), 77, 412-413; Jack L. Walker, Jr., *Mobilizing Interest Groups in America: Patrons, Professions, and Social Movements* (Ann Arbor: University of Michigan Press, 1991). Schlozman and Tierney weight their sample by press coverage, which, as they note, tends to inflate the representation of other kinds of interest organizations. Baumgartner and Leech's data drawn from the *Encyclopedia of Associations* (on 108-111) also exclude individual firms.

[6] Richard A. Harris, "Politicized Management: The Changing Face of Business in American Politics," in Harris and Sidney M. Milkis, *Remaking American Politics* (Boulder: Westview, 1989), 262-296; David Vogel, *Fluctuating Fortunes: The Political Power of Business in America* (New York: Basic, 1989), ch. 8; Alfred A. Marcus and Mark S. Irion, "The Continued Viability of the Corporate Public Affairs Function,"

Of course, firms and associations are interconnected and may well work toward the same ends. A major scholarly tradition, in fact, views the profusion of business political organizations as little more than foam that obscures a sea of business unity. Some who take this position focus on the "instruments" that allow business leaders to align their preferences and implement joint strategies, such as foundations, think tanks and the like (which William Domhoff labels collectively as "the programmatic political party for the upper class and the corporate community"[7]). Another strand of thought concentrates on "structural" power, particularly the threat of capital flight, which allows "business" to achieve its ends without having to resort to conventional political activity.[8]

The business unity perspective, in either variant, provides useful insights into the broad outlines of American politics. The norms maintained by the Council on Foreign Relations and other convocations of C. Wright Mills' "power elite" probably do help to keep nationalization of enterprises and other radical proposals off the policy agenda, even when the public mood might be receptive to such steps. Federal policy-makers surely do moderate their positions from time to time in order to avoid scaring investors. However, this perspective is often exaggerated and far from exhaustive. Business unity is more

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in in Alfred A. Marcus, Allen M. Kaufman, and David R. Beam, eds., *Business Strategy and Public Policy* (New York: Quorum, 1987), 267-281; Frank R. Baumgartner and Beth L. Leech, "The Business Advantage in the Washington Lobbying Community: Evidence from the 1996 Lobbying Disclosure Reports," Midwest Political Science Association, 1999, 10-11. It is likely that measurements of interest organizations underestimate the involvement of companies and other institutions in public policy relative to associations of organizations and groups of individual members because the former typically have headquarters and other offices outside the capital that they can draw upon and the latter do not.

[7] G. William Domhoff, *State Autonomy or Class Dominance: Case Studies on Policy Making in America* (Hawthorne, NY: Aldine de Gruyter, 1996), 29. C. Wright Mills, *The Power Elite* (New York: Oxford University Press, 1956) is the seminal work in this tradition. The text ignores a distinction within this tradition between neo-Marxist and "elitist" (a misnomer if ever there was one) scholars. They tap different theoretical veins, but reach the same empirical endpoint.

[8] Charles Lindblom, *Politics and Markets* (New York: Basic Books, 1977); Fred L. Block, *Revising State Theory: Essays in Politics and Postindustrialism* (Philadelphia: Temple University Press, 1987). Again, the text ignores distinctions between neo-Marxists and "polyarchists" (as one might label Lindblom in this phase of his work). The concept of structural power has recently been revived in a more sophisticated form

elusive than scholars in this tradition claim, and neither instrumental nor structural power is typically wielded with the force that they assert. Although "business" may "want" lower taxes, when real choices about who will pay how much get made, the united front tends to crumble. Most of the time, there simply is no such thing as "business" in American politics.[9]

The same argument applies to the literature on business peak associations. It is useful to have, but should not be mistaken for anything like a full understanding of business in American politics. Mark Smith argues that businesses are more likely to exercise power on narrow, obscure issues than the salient, conflictual issues upon which he and others who have examined peak associations concentrate.[10] Many issues related to taxation, regulation, trade, and appropriations, for instance, are simply ignored by peak associations. So too are key stages of the policy-making process, such as agenda-setting and implementation.

Studies of other sorts of business political organizations, such as industry associations, could help to fill this gap. Such organizations often take up issues that pit one group of businesses against another or that are raised by state or societal actors but are of significance to only a fraction of all businesses. This genre, however, has gone out of style. Occasionally, studies of particular issues or processes, such as Martha Derthick and Paul J. Quirk's *The Politics of Deregulation*, contain chapters that explore relevant

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in Jacob S. Hacker and Paul Pierson, "Business Power and Social Policy: Employers and the Formation of the American Social Welfare State," *Politics and Society* 30:275-323 (2002).

[9] Two key statements from which I draw this critique are David Vogel, "Political Science and the Study of Corporate Power: A Dissent from the New Conventional Wisdom," *British Journal of Political Science* 17:384-408 (1987); and Smith, *op. cit.*

[10] Smith, *op. cit.*

business associations.[11] I do not know of any effort to cumulate this vein of research in the interest of understanding associations.

Casual empiricism suggests that there are at least two major types of associations.[12] One type is like a citizen group, composed of many members, each contributing a small amount, and is largely staff-driven. The other includes a relatively small number of larger businesses, who use them to coordinate their activities on issues of common concern and to act on their behalf. No survey distinguishes among these types of organizations, although Olson's *Logic*, which was written in 1965, not surprisingly, cites E.E. Schattschneider and V.O. Key to the effect that the latter predominate. Beth Leech's 1995 survey, by contrast, showed that the mean number of members for the 221 trade associations in her sample was over 5,000, and the median was 240.[13]

The association-member firm relationship in cases in which the membership is small typically goes well beyond mere check-writing. Some fraction of the political resources of members are spent implementing agendas and strategies determined collectively through associations. A larger fraction of these resources, however, seems to be devoted to creating, shaping, and blocking such strategies. Government affairs executives in major companies usually view "association management" of this sort to be one of their major responsibilities. One cannot understand the workings of small-

[11] Martha Derthick and Paul J. Quirk, *The Politics of Deregulation* (Washington: Brookings, 1985), ch.5.
[12] By association here, I mean a permanent organization with businesses as members. I exclude temporary coalitions and organizations that are merely fronts for individual companies.
[13] Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965), 145; Beth L. Leech, personal communication, July 30, 2002.

membership associations (and perhaps large membership associations as well) without understanding how the members operate.[14]

We need to study individual firms, then, to understand their impact on collective activity. We also need to study them in order to understand how and why they pursue what R. Kenneth Godwin and Barry J. Seldon call "private goods." The benefits of private goods accrue exclusively to individual firms. Godwin and Seldon provide evidence that private goods dominate the agendas and resource allocations of at least some corporate Washington offices. "Airline lobbyists," they write, "reported spending 75-95 percent of their time on issues affecting only their firm or their firm and one other."[15]

Godwin and Seldon focus on private goods that contribute directly to the bottom line, such as landing rights for airlines and government contracts. Some firms look beyond immediate material benefits and seek to establish a reputation as a "good citizen" or "serious player" that will pay off over the long-term. This sort of private good may be acquired by taking a leadership role in collective activity or through individual company efforts. David Yoffie and Sigrid Bergenstein, for instance, describe how American Express "built political capital" by "developing an issue which had broad political appeal, and fit into the agendas of key politicians," even though that issue was not of great significance to AmEx's business.[16]

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[14] Large companies often try to manage associations with large memberships by participating in their formal governance processes and by staffing their committees. Such associations may well be constrained as much by the threat of dissent or defection among large members (who sometimes pay a disproportionate share of dues) as by the same among large numbers of members.

[15] R. Kenneth Godwin and Barry J. Seldon, "What Corporations Really Want from Government: The Public Provision of Private Goods," in Allen J. Cigler and Burdett A. Loomis, eds., *Interest Group Politics* (Washington: CQ Press, 2002), 205-224, quote from 216.

[16] David B. Yoffie and Sigrid Bergenstein, "Creating Political Advantage: The Rise of the Corporate Political Entrepreneur," *California Management Review*, Fall, 1985, 124-139, quote from 131.

As these examples (and others to be introduced later) illustrate, the set of political science researchers studying individual firms is not empty. It is, however, far smaller, than the subject merits, as reviews of research on interest groups have noted time and again. Reflecting on the dominance of companies in their 1996 lobbying report data set, Baumgartner and Leech, for instance, write that "A complete understanding of the role of groups in politics must involve significant study of the role of individual corporations."[17]

The fact that neither my assessment of the importance of the subject nor my observation about the lack of attention paid to it is original leads to a puzzle: why isn't there more work in this area? Possible answers include disinterest among political scientists in the substance of issues that concern businesses, dislike for the policy positions of businesses, and the difficulty of gathering information about businesses. All of these barriers, however important they may be, would be diminished if political scientists believed that such work would address important theoretical issues. Unfortunately, interest group theory as presently constituted does not have much to say about companies.

Businesses Are Not Interest Groups:
The Mismatch Between Interest Group Theory and the Corporation

The fundamental mismatch between interest group theory and the study of businesses as political actors is implicit in the term "interest group." The ideal typical

[17] Baumgartner and Leech, 1999, *op. cit.*, 14. Earlier reviews making roughly the same point include Robert A. Dahl, "Business and Politics: A Critical Appraisal of Political Science," in *Social Science Research on Business Product and Potential* (New York: Columbia University Press, 1959), 1-44; Edwin M. Epstein, "Business Political Activity: Research Approaches and Analytical Issues," *Research in Corporate Social Performance* 2:1-55 (1980); and Jeffrey Berry, "An Agenda for Research on Interest Groups," in William Crotty, Mildred A. Schwartz, John C. Green, eds., in Representing Interests and Interest Group Representation (Lanham, MD: University Press of America, 1994), 21-28.

interest group is a voluntary association of citizens who seek to influence public policy. The ideal typical corporation is a hierarchy that seeks to maximize profits. Investment in political capabilities is simply one among many means for doing so, and not necessarily the most important. These differences in structure and goals between the two kinds of organizations are so fundamental that we must develop a political theory of the firm that is distinctive in many respects from interest group theory.[18]

The need for such a theory is palpable in the study of mobilization, that is, the entry of interest organizations into the political sphere. Olson focused the attention of interest group researchers on mobilization in 1965, and much of the field's energy since then has been devoted to understanding how citizens surmount barriers to collective action. Some of this work is relevant to business associations, particularly those with large memberships. These organizations may well offer selective incentives, for instance, to their members and to the individuals who represent the members in association activities. However, as David King and Jack Walker show, these benefits are very different than those that accrue to citizens who join interest groups (or patrons who support them).[19]

Olson himself notes that his "byproduct" theory is of limited applicability to associations with small memberships, in which strategic considerations complicate interactions.[20] Similar limitations apply to to the mobilization of individual companies. Olson's framework is most useful in explaining why small firms rarely have any political

[18] My arguments here draw on (and draw inspiration from) Robert H. Salisbury, "Interest Representation: The Dominance of Institutions," *American Political Science Review* 78:64-76 (1984). Salisbury notes that "[l]ittle notice has been taken [of corporate government affairs offices] by political scientists."
[19] David C. King and Jack L. Walker, "The Provision of Benefits by Interest Groups in the U.S.," *Journal of Politics* 54:394-426 (1992). See also David Lowery, *et al*., "Collective Action and the Mobilization of Institutions," Midwest Political Science Association, 2002.
[20] Olson, *op. cit.*, 43-50.

capabilities. They usually free ride on the efforts of other actors, just as many citizens do.[21] Business units within a large, diversified firm may also fall prey to the collective action problem when the corporate government affairs function is highly dependent upon diverse units of the firm for support. In such an instance, no single unit perceives that it would benefit enough from investing in government affairs to do so, even though the investment from the perspective of the firm as a whole might be worthwhile.

More typically, though, government affairs reports to corporate headquarters.[22] Headquarters' control helps to assure that this function reflects the firm's general interests, rather than the parochial interests of its subsidiary units. Government affairs may even reflect the firm's expected general interests in the future if information from the firm's strategic planning process is incorporated into its management. Centralization of corporate government affairs limits coordination problems and reduces transaction costs, benefits of the sort that provide one major justification for the existence of corporate hierarchy in general.[23]

Selective incentives and the other mechanisms identified by Olson's followers and critics that solve collective action problems among autonomous individuals, such as Salisbury's notion of associational entrepreneurship,[24] are absent in this context. In principle, the chief executive officer (CEO) determines when the interests of the firm

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[21] The relationship between firm size and political activism is well-established in the empirical literature. See David M. Hart, "Why Do Some Firms Give? Why Do Some Give a Lot? High-Tech PACs, 1977-1996," *Journal of Politics* 63:1230-1249 (2001) and references within.

[22] Textbooks on business organization provide support for this assertion, but it is not based on a systematic study of corporate government affairs offices. My impression is that most such offices are formally responsibile to headquarters and engage the business units of the company less formally. The balance between the two creates a persistent tension and leads to continual adjustment. There are extreme cases, however, in which the government affairs organization must attract all of its resources from the business units.

[23] Oliver E. Williamson, "The Modern Corporation: Origins, Evolution, Attributes," *Journal of Economic Literature* 19:1537-1568 (1981).

warrant entry into or exit from the political process based on information flowing up from his[25] subordinates. Subordinates, in turn, implement the decision. This process may be conceived of in a variety of ways and has many pathologies, some of which are discussed below, but it is different from the mobilization process as it is usually understood in the interest group literature.

Hierarchy also has important implications for preference formation, such as the establishment of issue priorities and positions. Mainstream interest group theory assumes that groups reflect the values of their members. Some groups have formal procedures for consulting their memberships, and most presumably keep tabs informally. The ultimate check on any group, though, is its ability to garner resources. A constant stream of communication from the leadership is required to attract and retain members and to win lump-sum patronage. Groups communicate directly with resource providers, and they also rely on the media to demonstrate that their priorities and positions remain aligned with those of members and patrons. Media coverage gives supporters an independent source of evidence about group efficacy. If resources falter, groups may respond by changing their preferences.[26]

Corporate government affairs organizations do not express the values of a membership, whether conceived as the employees or the shareholders. As Salisbury puts it (speaking of institutions more broadly), "It is not member interests as such that are

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[24] Robert H. Salisbury, "An Exchange Theory of Interest Groups," *Midwest Journal of Political Science* 13:1-32 (1969).
[25] I will employ masculine pronouns in this essay as a matter of convention when referring to CEOs and senior managers. Although the presence of women in the ranks of business executives is growing, men still form a preponderant majority. Whether and how the political preferences of female CEOs are different from those of males might be an interesting research project.
[26] Terry M. Moe, "Toward a Broader View of Interest Groups," *Journal of Politics* 43:531-543 (1981); Cary Coglianese, "Unequal Representation: Membership Input and Interest Group Decision-Making," American Political Science Association, 1996.

crucial, but the judgments of organizational leaders about the needs of the institution as a continuing organization."[27] Regular communication within the hierarchy, both formal and informal, shapes these judgments and aligns the positions and priorities of government affairs with headquarters and other units. The corporate budget process and the hiring and firing of managers provide the ultimate checks in this system.

Preference formation is also significantly affected by the second key characteristic that distinguishes businesses from interest groups, the pursuit of profit. Companies are more likely and more able to drop issues and change positions than interest groups, because business conditions and strategies are more variable than the commitments of members and patrons. For the same reasons, businesses are more likely to be able to make compromises and demonstrate flexibility than interest groups. In addition, businesses are likely to be interested in a broader range of policies than most interest groups, which tend to benefit from specialization and appeal to narrow, intense member and patron preferences.

The political strategies and tactics of companies bear more resemblance to those of interest groups, because both operate in the same external institutional environment. It seems reasonable, therefore, to lump groups and companies together in, for instance, theories about the selection of venues for legislative lobbying or issue framing.[28] However, in this area, too, important differences should be noted. The most obvious are the potential scale of corporate political resources and the potential speed with which they can be deployed. Government affairs functions usually receive only a tiny fraction

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[27] Salisbury, 1984, *op. cit.*

[28] Marie Hojnacki and David C. Kimball, "Organized Interests and the Decision of Whom to Lobby in Congress," A*merican Political Science Review* 92:775-790 (1998); Frank Baumgartner, *et al*., "Advocacy and Policy Argumentation," American Political Science Association, 2000.

of corporate revenues, but in a crisis, the hierarchy can divert funds to match virtually any challenge.[29]

The scope of corporate political resources is also potentially broader than that of interest groups, and not merely because businesses have more money (although that helps, too). Business assets may be used to achieve policy goals in subtler ways than the heavy-handed capital strikes envisioned by structural power theorists. Prices may be altered temporarily to change the perceived need for political action, as research on the pharmaceutical industry has shown. Product design may also manifest political intent, as in the case of content filtering software and "safer" cigarettes. Employees, suppliers, and others who are subject to the control of the hierarchy may be instructed to act on behalf of the firm's political objectives, as I discuss in more detail below.[30]

Companies are also constrained strategically in ways that interest groups are not. Most obviously, they operate within a different legal regime, for instance, in the areas of antitrust and campaign finance. More generally, businesses are more likely to face public skepticism about their legitimacy and will tend therefore to use strategies and tactics that shield them from visibility. Whereas interest groups thrive on and may even require media coverage, businesses may well shy from it.[31]

These observations and conjectures about political mobilization, preference formation, and strategic and tactical choice illustrate my title's claim that businesses are

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[29] A possibly apocryphal anecdote making the rounds in high-tech political circles illustrates the point. A well-known entrepreneur was reputed to have said something like, "When I put $250,000 on the table in a business meeting, people laugh. In a political meeting, they bow."

[30] Sara Fisher Ellison and Catherine Wolfram, "Pharmaceutical Prices and Political Activity," National Bureau of Economic Research Working Paper #4842, September, 2001; Robert H. Miles, *Coffin Nails and Corporate Strategies* (Englewood Cliffs, NJ: Prentice-Hall, 1982) David P. Baron, "The Nonmarket Strategy System," *Sloan Management Review*, Fall, 1995, 73-85.

not interest groups. They are businesses. Interest group theory must be qualified and amended and some aspects of it discarded if we are to get analytic purchase on them. An alternative starting point for the study of firms as political actors is the economic theory of the firm.

Beyond Olson: The Neoclassical Microeconomic Approach

The firm is a peculiar entity when viewed from the microeconomic perspective. If all the assumptions of neoclassical microeconomic theory are fully realized, the firm need not exist at all. Individuals operating with complete information and optimizing at the margins would contract with one another and carry out the economic activity that is ascribed to firms. Studies of firm behavior, however, tend to treat firms themselves as economic individuals and to ignore what goes on inside of them. As Milton Friedman famously put it with respect to individuals, microeconomics assumes that firms act "as if" they were unitary rational maximizers.[32]

The "as if" approach was adopted by Olson and provides the standard assumptions for most economists who have delved into politics and for many political scientists as well. I welcome these efforts, but I worry that the microeconomists will gain monopoly power over this area of research. The neoclassical microeconomic theory of the firm may explain preferences and behavior well in some areas of public policy. However, its "as if" assumptions are highly problematic in many other areas. Competing

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[31] Kevin W. Hula, *Lobbying Together: Interest Group Coalitions in Legislative Politics* (Washington: Georgetown University Press, 1999), ch. 8 (but see also Marie Hojnacki, "Interest Groups' Decisions to Join Alliances or Work Alone," *American Journal of Political Science* 41:61-87 (1997) on this point).
[32] Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953)

theories of the firm, which were stimulated largely by the failure of these assumptions in market contexts, merit further exploration in the non-market context of politics.

George Stigler's theory of regulatory capture provides a good entry point into the neoclassical microeconomic approach to the politics of firms. Stigler assumes that businesses invest in political capabilities in order to maximize the rents that they receive through government policies that restrict competition. Stigler works backward from the results of government action to derive the parameters that determine firm behavior; "truly intended effects," he writes, "should be deduced from actual effects…"[33]

This approach has been developed most fully by scholars of international trade under the rubric of "endogenous tariffs." The idea is similar to that put forward by Stigler: businesses invest in influencing trade policy in order to create barriers against foreign competitors. At least, that is implied in endogenous tariff models; very often, scholars ignore the firm level and consider industry characteristics as independent variables and trade policy outcomes as dependent variables. Gene M. Grossman and Elhanan Helpman, in their influential 1994 article, "Protection for Sale," simply state "we do not at this point have a theory of lobby formation."[34]

More recent work has attempted to fill this void. A number of game-theoretic models have been developed to identify the conditions under which firms will choose to cooperate in seeking protection. Paul Pecorino, for instance, provides depth to Olson's concept of "intermediate" groups, exploring the relationship between the relative size of dominant and challenger firms and the propensity to cooperate. When the gap in size

[33] George J. Stigler, "The Theory of Economic Regulation," in Stigler, *Citizen and the State* (Chicago: University of Chicago, 1975), 114-141, quote from 140.
[34] Gene M. Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 84:833-850 (1994), 835.

between these firms is relatively modest, they have difficulty maintaining cooperation. Pecorino points out that his model predicts a non-linear relationship between standard measures of industrial concentration and levels of collective action, contrary to the specifications commonly used to test Olson's theory.[35]

Empirical work on endogenous tariffs has lagged behind modelling. Pecorino's observation bears on economists' disappointment "that the empirical literature is not more clearcut on the political advantages of high concentration."[36] By and large, researchers in this tradition use campaign contributions, particularly those of political action committees (PACs), to measure the political activity of companies. In doing so, they add to "a body of research infamous for its contradictory findings," in the words of Baumgartner and Leech.[37] As David Lowery and Virginia Gray have argued, PAC contributions are just one of many tactics that firms or their representatives can employ in their attempts to exert political influence, and they have the potentially significant disadvantage of being highly visible, thanks to disclosure rules.[38] In addition, PAC contributions are made for a wide range of purposes, of which influencing trade policy in

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[35] Paul Pecorino, "Market Structure, Tariff Lobbying, and the Free Rider Problem," *Public Choice* 106:203-220 (2001). See also Devashish Mitra, "Endogenous Lobby Formation and Endogenous Protection: A Long-Run Model of Trade Policy Determination," *American Economic Review* 89:1116-1134 (1999). Barry J. Seldon and R. Kenneth Godwin, "Firms' Involvement in Lobbying for Collective and Private Goods: Results from a Game-Theoretic Model," American Political Science Association, 1998, is a model in the same spirit, although not restricted to trade policy. For a general review of the endogenous tariff literature, see Dani Rodrik, "The Political Economy of Trade Policy," in Gene Grossman and Kenneth Rogoff, eds., *Handbook of International Economics*, vol. 3 (Amsterdam: Elsevier Science, 1995), 1458-1494.

[36] Rodrik, *op. cit.*, 1483. A couple of more recent empirical contributions include Pinelopi K. Goldberg and Giovanni Maggi, "Protection for Sale: An Empirical Investigation," *American Economic Review* 89:1135-1155 (1999); and Marc L. Busch and Eric Reinhardt, "Industrial Location and Protection: The Political and Economic Geography of U.S. Nontariff Barriers," *American Journal of Political Science* 43:1018-1050 (1999). There is a similar inconsistency in findings about the relationship between industrial concentration and PAC formation.

[37] Baumgartner and Leech, 1998, *op. cit.*, 133. Baumgartner and Leech are referring specifically to the literature that attempts to assess the political influence of PACs on members of Congress, but their point is generalizable.

conjunction with the efforts of other firms is but one. The reliance on PAC data provides an excellent example of what Godwin and Seldon call the "streetlamp problem" – looking only where the data are most easily available.[39]

[38] Virginia Gray and David Lowery, "Reconceptualizing PAC Formation: It's Not a Collective Action Problem and It May Be an Arms Race," *American Politics Quarterly* 25:319-346 (1997).
[39] Godwin and Seldon (2002), *op. cit.*, 206.

Lobbying disclosure reports, which have been filed since 1996, should help improve measurement of corporate political activity.[40] Douglas A. Schuler (who works on trade policy, but is a critic of the neoclassical approach) takes a promising further step by developing an index of political representation that uses several independent indicators.[41] Wendy Hansen and Neil Mitchell (who similarly seek to move beyond the neoclassical approach) have explored multiple dimensions of political activity as well.[42] Better measures will permit the neoclassical microeconomic theory of the firm to be tested more convincingly, not only in the domain of trade policy, but also in taxation and other policy areas that have not yet drawn as much attention.[43] Such empirical work will ultimately feed back to the model-builders and advance the whole enterprise.

Pursuit of the microeconomic research agenda will surely shed new light on corporate political activities, but there are good reasons to believe that some of the disappointment alluded to above reflects fundamental difficulties in the approach. The "as if" assumptions are simply too heroic to stand as a compete basis for our understanding of such an important subject. They serve best in areas like trade and tax policy, in which the costs and benefits of particular outcomes are quantifiable and relatively predictable. However, they are highly problematic in many other areas of policy, and even in trade and tax policy, they may not be realized.

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[40] Scott R. Furlong, "The Lobbying Disclosure Act and Interest Group Lobbying Data: Two Steps Forward and One Step Back," Vox Pop 17(3):4-6 (1998).

[41] Douglas A. Schuler, "Corporate Political Action: Rethinking the Economic and Organizational Influences," *Business and Politics* 1:83-97 (1999).

[42] Wendy L. Hansen and Neil J. Mitchell, "Disaggregating and Explaining Corporate Political Activity: Domestic and Foreign Corporations in National Politics," *American Political Science Review* 94:891-903 (2000).

[43] On tax policy, see Carla Inclan, Dennis P. Quinn, and Robert Y. Shapiro, "Origins and Consequences of Changes in U.S. Corporate Taxation," *American Journal of Political Science* 45:179-201; John T. Williams and Brian K. Collins, "The Political Economy of Corporate Taxation," *American Journal of Political Science* 41:208-244; and Dennis P. Quinn and Robert Y. Shapiro, "Business Political Power: The Case of

The weakest links in the chain have to do with information. In order to invest rationally in political capabilities, a firm has to "know" (at least probabilitistically) what policies will result from its investments and how those policies will affect its bottom line. The last element in this calculus is perhaps the most plausible, especially in areas like trade policy and over the short-term. A specific percentage change in the cost of a competitor's doing business, as in the case of a new tariff, can be estimated fairly precisely. Over the longer term, though, the calculation becomes much more complex. Foreign firms may, for instance, make new investments in the domestic market in order to jump trade barriers, as Japanese auto manufacturers did in the U.S. during the 1980s and 1990s. Other sorts of policy outcomes have even more ambiguous effects, even in the short-term. The costs of regulatory compliance or the benefits of government-funded R&D, especially relative to one's competitors, for instance, can be hard to guess.

The challenges of estimating how policies will affect profits seem relatively tame compared to those of estimating which policies will emerge under various scenarios of the firm's behavior.[44] Politics is notoriously fickle. Momentum can shift rapidly and unexpectedly. Elections, crises, and scandals sweep across the entire Washington landscape like tsunamis; turnover in key governmental positions can have comparable effects in narrower policy areas. The marginal contribution made by an additional lobbyist or advertising campaign to a winning or losing cause is often hotly debated, even in retrospect. There is ample room for credit-claiming or blaming.

Large firms face additional layers of complexity in making these decisions. A large firm typically must decide how to allocate its political resources across a wide range

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Taxation," *American Political Science Review* 85:851-874 (1991). Baumgartner and Leech, 1998, *op. cit.*, 128-136, provide a review of PAC studies across all policy areas.

of issues, each of which poses the informational challenges noted above. It may face tradeoffs because the same policy outcome has different effects on different products that it makes (or on current compared to future products). It may attempt to place a value on its political reputation, to estimate what it is worth to the "brand" to become known as a good citizen.

Firms, especially large ones, have to "know" a lot, then, in order to maximize the payoff from their investments in political capabilities. To be sure, simple rules highlighted by the neoclassical approach can reduce the complexity of the problem. Small firms tend to free ride. Large firms attend to private goods more conscientiously than collective goods. Yet, we observe firms (and entities that they control) to be significantly involved in policy-making in many other ways. Corporate government affairs officials often state candidly in interviews that they are simply guessing as they go about their work. Indeed, the degree to which their efforts should be evaluated in terms of calculable profit and loss is sometimes a matter of intense disagreement between the Washington office and headquarters.

The fact that such conflicts occur points to a second major line of criticism of the neoclassical microeconomic theory of the firm: the firm is not unitary. Even if particular people within the firm possess all the information required to make rational decisions, such decisions may not necessarily get made. Indeed, if all the employees of the firm are acting rationally individually, it is quite possible that a decision that is suboptimal from the organization's perspective will be made. Government affairs representatives might take advantage of their superior knowledge of the political landscape to advance their

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[44] I thank Paul Quirk for making this point clear to me.

personal preferences, rather than those of the firm, for example.[45] CEOs, similarly, may get involved in Washington in order to indulge a "taste" for national politics and enhance their celebrity. Suspicions about such behavior are common enough to have generated slang terms like "going native" and "Potomac fever."

This objection might be addressed by the application of principal-agent models. These models are regularly employed by economists who study investment and vertical and horizontal integration. They view the firm as a "nexus of contracting relationships."[46] Contracting, within this frame of reference, is an institutional innovation that helps to solve agency problems. This approach, of course, has been imported into political science under the label "the new economics of organization." Corporate political behavior, sitting on the boundary between the two disciplines, makes a ripe target for its adherents, as a recent paper on the "make or buy" decision in corporate lobbying by John M. de Figueiredo and Emerson H. Tiller makes clear.[47]

By maintaining the assumption of rational maximization even as it relaxes the assumption of unitary decision-making, the "nexus of contracts" theory of the firm multiplies the informational challenges described above. These challenges are particularly great for the firm's senior executives, its key decision-makers. These people are likely to have little time and attention for political matters, and they may lack critical

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[45] Rogan Kersh, "Corporate Lobbyists as Political Actors: A View from the Field," in Cigler and Loomis, eds., *op. cit.*, 225-248, observes this sort of behavior, as I discuss below.

[46] The quote here is from Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics* 3:305-360 (1976). See also Williamson, *op. cit.* Some contemporary debates in these areas were aired in "Symposium: The Firm and Its Boundaries," *Journal of Economic Perspectives*, vol. 12, no. 4, Autumn, 1998.

[47] Terry M. Moe, "The New Economics of Organization," *American Journal of Political Science* 28:739-777 (1984); John M. DeFigureido and Emerson H. Tiller, "The Structure and Conduct of Corporate Lobbying: How Firms Lobby the Federal Communications Commission," *Journal of Economic and Management Strategy* 10:91-122 (2001). Principal-agent models are common in the literature on lobbying, but they are generally applied to the lobbyist-legislator relationship, rather than the client-lobbyist relationship.

background knowledge to understand political processes. Yet, only these people have a grasp of the future direction of the firm, its overall strategy. These decision-makers are likely to turn to informational short-cuts and may well be vulnerable to political pressures within the firm. Under such circumstances, what Richard Cyert and James March call "the inefficiencies of history" tend to cumulate, rather than being continually squeezed out by optimizing behavior.[48]

These criticisms provide a starting point for an alternative political theory of the firm. I do not mean to dismiss the neoclassical and "nexus of contracts" theories of the firm. These approaches have substantial momentum, and their practitioners will continue to produce results worthy of attention. The danger is that, as Stigler once put it, it becomes "essentially inconceivable (but not impossible) that the theory of utility-maximizing is wrong." In this situation, it is possible to demonstrate the quality of one's understanding, as one well-known study does, by modeling the campaign contributions of the cigarette industry without making any reference to controversies about smoking and health.[49]

Alternative Foundations: The Historical and Institutional Approach

Should the neoclassical approach attain monopoly power in this area of research, responsibility will lie less with the exertions of its champions than with neglect by potential advocates of alternatives. There is a rich, albeit minority, tradition within economics that has built upon the insights of Cyert and March to construct a very

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[48] Richard M. Cyert and James G. March, *A Behavioral Theory of the Firm*, 2nd ed. (Cambridge: Blackwell Business, 1992), 215. This book was first published in 1963. Schuler, *op. cit.*, uses Cyert and March to make a similar argument.

different theory of the firm.[50] The core assumptions of the minority diverge dramatically from those of the majority and lead them to study different aspects of firms and use different methods. Whatever their merits for the study of economic behavior, I find these assumptions to be a compelling point of departure for the study of firms in politics.

One assumption is that rationality is bounded. Politics is usually so complex and uncertain that neither firms nor individuals within them are able to act as rational maximizers. In order to make decisions about a company's political agendas, positions, and strategies, executives rely on an array of devices to simplify calculations and resolve uncertainties. The personal views or instincts of the CEO at the top of the corporate hierarchy, for instance, substitute in some settings for a maximizing calculus.

Another assumption is that the internal organization of the firm affects its political attitudes and activities. March borrowed from pluralist political science to characterize "the business firm as a political coalition."[51] What people in the firm know and what they care about depends in large part on their location and responsibilities within the organization; as Graham Allison famously put it, "where you stand depends on where you sit."[52] Formal and informal processes, which may vary from firm to firm, shape the way that internal players interact in the making of organizational decisions.

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[49] Kevin B. Grier, Michael C. Munger, and Brian E. Roberts, AThe Determinants of Industry Political Activity, 1978-1986,≅ *American Political Science Review* 88:911-926 (1994), 920-921.
[50] A more thorough review of the economics and management literatures would in fact reveal multiple alternative theories of the firm, but they all share the key assumptions discussed in the text. For simplicity, then, I conceive of them here as variants on a single core alternative theory. One recent compendium of work in this area is Nicolai J. Foss, ed., *Resources, Firms, and Strategies* (New York: Oxford Univeresity Press, 1997). The debate in economics does antedate Cyert and March, as they discuss on *op. cit.*, 10-13, but their contribution is clearly a landmark. I draw on their epilogue in this section. There is, of course, a similar debate about rational choice in political science.
[51] James G. March, "The Business Firm as a Political Coalition," *Journal of Politics* 24:662-678 (1962).
[52] Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (HarperCollins, 1971), 176. Allison attributes the phrase to Don K. Price.

The final key assumption of the alternative approach is that the environment is not so constraining that it allows firms no real choices. "Imperfect environmental matching," as Cyert and March refer to this assumption,[53] means that firms (and units and processes within them) typically survive even when they make suboptimal choices. The political environment is probably much more forgiving in this respect most of the time than the economic environment. Two businesses may thus react to the same political outcome in different ways, depending on how they interpret events and their experiences. Absent a crisis, these interpretations tend to be self-reinforcing, and small initial differences can produce large divergences over time.

The assumptions that underpin the alternative of theory of the firm dovetail nicely with those that underpin the historical and institutional approach to political science, expressed in American politics mainly by the subfield of American political development. Although the primary focus of this scholarly community has been the development of the welfare state, there is a somewhat scattered literature that provides insights into businesses. In the rest of this section, I attempt to draw together both newer and older work on this subject that provides a promising basis for further research.

Simplifying Devices: Ideology, Instinct, and Abdication

If individuals and organizations are only boundedly rational, they must rely on informational shortcuts to understand their environments and make decisions. Scholars have identified at least three such simplifying devices (although not necessarily in these terms) that businesses use in the political sphere. Ideology serves as a set of cognitive

[53] Cyert and March, *op. cit.*, 215. This assumption is quite important in another major work in the minority tradition in economics, Richard R. Nelson and Sidney G. Winter, *An Evolutionary Theory of Economic*

filters and predispositions that reduces the inherent uncertainty of politics. Businesses may also simplify decision-making by deferring to the views of an individual, usually at the top of the hierarchy, but sometimes at the bottom.

David Vogel characterized the ideology of American corporate executives in 1978 as "hostility, distrust, and not infrequently, contempt" toward government.[54] This ideology contrasts with those of executives abroad whose close linkages with the state give them greater confidence in its efficacy and greater acceptance of its legitimacy. Vogel claims that this anti-statism is "a function of the history of American industrialization."[55] After making modest early investments in infrastructure and capital markets, he argues, the American state played a fundamentally passive role during the second half of the nineteenth century. The business community did not need the state as an ally to accomplish the essential tasks of building the institutions of industrial capitalism. Indeed, the state could only be a threat, as twentieth century reform periods demonstrated, reinforcing the predisposition to oppose it.

Vogel's assertions about contemporary ideology are reinforced by David Plotke's research. Plotke identifies a "discursive project" among conservative scholars and policy activists during the 1970s that enhanced the credibility and social legitimacy of antistatism. Monetarism, the law and economics movement, and supply side economics, among other intellectual currents, provided interpretations of the economic troubles of

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Change (Cambridge: Belknap, 1982).

[54] David Vogel, "Why American Businessmen Distrust Their State: The Political Consciousness of American Corporate Executives," *British Journal of Political Science* 8:45-78 (1978), 48. Vogel is quoting his own prior work in this passage.

[55] Vogel, 1978, *op. cit.*, 55.

that decade that resonated in business circles and led businesses to support deregulation, tax cuts, and trade liberalization more avidly in the following decades.[56]

Vogel's historical proposition about the prevalence of antistatism has not fared as well in subsequent scholarship. The "conservative Keynesianism" of the post-World War II period may reasonably be interpreted as a grudging acceptance of the inevitable, although the "vital center" (for whom the federal government was a key agent of economic stabilization) also won important converts among businessmen.[57] The pre-World War II period, on the other hand, was marked by substantial support within the business community for tariffs and for federal regulatory policies that aimed to avert "ruinous competition." John Gerring's study of Republican Party platforms, for instance, dates a shift in that party's view of state power to the 1920s. Before that time, the state was seen to free businesses from external threats; after that, it became the biggest perceived threat to the autonomy of businesses. The ideological shift, from this perspective, is intertwined with but goes well beyond the move from protectionism to free trade which preoccupied previous generations of political scientists, such as Schattschneider and Bauer, Pool, and Dexter.[58]

If Vogel is wrong empirically, then his causal argument must be revised as well. Something happened in the first third of the twentieth century that was strongly

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[56] David Plotke, "The Political Mobilization of Business," in Mark P. Petracca, ed., *The Politics of Interests* (Boulder: Westview Press, 1992), 175-198. In this vein, see also Thomas Ferguson and Joel Rogers, *Right Turn: The Decline of the Democrats and the Future of American Politics* (New York: Hill and Wang, 1986); and Cathie J. Martin, *Shifting the Burden* (Chicago: University of Chicago, 1991).
[57] Robert M. Collins, *The Business Response to Keynes 1929-1964* (New York: Columbia University Press, 1981);Louis Galambos and Joseph Pratt, *The Rise of the Corporate Commonwealth: U.S. Business and Public Policy in the Twentieth Century* (New York: Basic, 1988), ch. 7.
[58] John Gerring, *Party Ideologies in America, 1828-1996* (New York: Cambridge University Press, 1998); Ellis W. Hawley, "Herbert Hoover, the Commerce Secretariat, and the Vision of an 'Associative State,' 1921-1928," *Journal of American History* 61:116-140 (1974); E.E. Schattschneider, *Politics, Pressures, and the Tariff* (New York: Prentice-Hall, 1935); Bauer, Pool, and Dexter, *op. cit.*, chs. 9-10.

reinforced by the polarization between businesses and unions and between the two major political parties during the 1930s. Unpleasant experiences with the emerging administrative state, the extraordinary growth in the capabilities of large American businesses, and the changing backgrounds of top executives may have contributed to the ideological realignment.[59] These speculations aside, the key point is that the dominant ideology of American businessmen was not locked in permanently by an accident of its birth, but has changed and might do so again.

Ideology can be a particularly powerful force in business political decision-making when the CEO has strong views and takes an interest in politics. In such cases, the business's positions is likely to echo his personal positions. Small firms, family-owned firms, and firms run by their founders are most likely to fit this model. Edwin Epstein, in his pioneering 1969 book on *The Corporation in American Politics*, supplies a number of examples of this type, including Henry Ford and his eponymous automobile company. Not surprisingly, the CEOs whom Epstein cites and the businesses they ran clustered on the right side of the political spectrum, supporting anti-Communist and conservative causes.[60]

The importance of ideology depends on the circumstances. The stylized fact that Americans in general are ideologically conservative but operationally liberal has its counterpart among American business executives. General disdain for government is frequently overridden in pursuit of specific benefits. Companies run by "corporate

[59] Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: Belknap, 1977); Galambos, 1988, *op. cit.*, chs. 3-5; Stephen Skowronek, *Building a New American State* (New York: Cambridge University Press, 1982); Neil Fligstein, *The Transformation of Corporate Control* (Cambridge: Harvard University Press, 1990).
[60] Edwin M. Epstein, *The Corporation in American Politics* (Englewood Cliffs, NJ: Prentice-Hall, 1969) 129-131. See also Robert F. Burk, *The Corporate State and the Broker State: The DuPonts and American National Politics, 1925-1940* (Cambridge: Harvard University Press, 1990).

political entrepreneurs" anchor the pragmatic end of the spectrum. David Yoffie coined this phrase to describe a CEO whose strategy depends fundamentally on some change in policy or politics.[61] The simplifying device in such a setting is not ideology but instinct. The corporate political entrepreneur establishes his firm's positions and strategies. His hallmark is flexibility; ideology may provide him motivation and justification, but building the business is what counts. He resembles in his objectives the rent-seeker modeled in the microeconomic approach, but he is far from being fully informed in making his decisions. Risk-taking under uncertainty is intrinsic to entrepreneurship, in politics as well as business.

Yoffie's archetype corporate political entrepreneur is William McGowan of MCI. MCI's success would have been impossible without deregulation of the telecommunications industry, particularly the end of AT&T's monopoly on the provision of long-distance telephone service. The political task was daunting; AT&T was one of the world's largest businesses, its stock widely held by widows and orphans, its clout, legendary. McGowan, among other things, moved MCI's headquarters to Washington, D.C., in order to move the deregulatory process along, which it ultimately did with spectacular consequences. As telecommunications policy analyst Eli Noam puts it, McGowan and his allies "did not so much bust a trust as split a policy coalition."[62]

The concept of the corporate political entrepreneur has not been much developed beyond Yoffie's sketch. While they are surely exceptional among their peers, these CEOs may be particularly valuable to study because of their substantive and symbolic

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[61] Yoffie and Bergenstein, *op. cit.*; David B. Yoffie, "Corporate Strategies for Political Action: A Rational Model," in Alfred A. Marcus, Allen M. Kaufman, and David R. Beam, eds., *Business Strategy and Public Policy* (New York: Quorum, 1987), 43-60.

impact. Henry Kaiser, for instance, recently the subject of a biography by Stephen Adams, catalyzed changes in public policy and business in areas as diverse as construction, defense, and health care.[63] More recently, Kenneth Lay of Enron seems to fit the description of a corporate political entrepreneur, with consequences that are not yet clear. It seems likely that the growth of the Federal government over the past century produced an increasing number of such people and businesses at the national level, although as the MCI and Enron examples suggest, the rollback of government may provide promising entrepreneurial opportunities as well.

Many CEOs have neither strong ideological views nor strong political instincts. Some, in fact, abdicate responsibility for the political activities of the firm altogether. Such a manager may well lead a business that has no such activities at all. However, he may also delegate political responsibility to an agent who has sufficient autonomy that her[64] own preferences may then be equated with those of the business. Rogan Kersh's direct observation of eleven business lobbyists, some of whom are Washington representatives of companies, leads him to conclude that that this situation is not rare. "[M]ost clients," Kersh writes, "know little of Washington activity and decisions, in part because of the ambiguous and complex nature of the policy process." Washington representatives are therefore able to do what they please most of the time, keeping the

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[62] Eli Noam, "Entrepreneurship and Government in Telecommunications," in David M. Hart, ed., *The Emergence of Entrepreneurship Policy: Governance, Start-Ups, and Growth in the Knowledge Economy* (Cambridge University Press, forthcoming).
[63] Stephen Adams, *Mr. Kaiser Goes To Washington: The Rise of a Government Entrepreneur* (Chapel Hill: University of North Carolina Press, 1997).
[64] Women have made substantially more inroads into the lobbying business than they have into the ranks of CEOs, although full equality may still be elusive.

“big bosses” in the dark or persuading them that the lobbyists know what’s best for the business.[65]

Kersh’s findings pose a challenge to the conventional wisdom in the interest group literature that lobbyists are faithful agents of their employers.[66] Whether they can be generalized beyond the lobbyists whom he has followed around remains an open question. Establishing credible claims about autonomy is complicated by the paucity of the written record and the interests of all parties in providing accounts that conform to the expectation of faithfulness. It seems likely, though, that abdication by the CEO is not the only prerequisite for lobbyist autonomy; the institutional processes of the firm must also permit it.

Institutional Processes: Specialization, Compensation, and Cultural Norms

My guess is that the political agendas, positions, and strategies of most American businesses most of the time are not determined exclusively by the CEO (whether ideologue or entrepreneur) nor by a gone-native Washington representative, but rather through a "conversation" (a word one hears frequently in discussing the process with practitioners) within the firm. The shape of this conversation – the voices heard, the terms of the argument, the way it is resolved into a decision, and so on – is determined primarily by institutional processes, that is, formal and informal patterns of interaction and behavior that are taken for granted within the company.[67] The larger the business, the more diverse its products, and the more widespread its facilities, the more complex its

[65] Kersh, *op. cit.* 235-236.
[66] John P. Heinz, *et al.*, *The Hollow Core: Private Interests in National Policy-Making* (Cambridge: Harvard University Press, 1993).

conversations are likely to be. As one executive in a large multinational company who had also served in senior positions in the U.S. government put it in an interview with me, politics at corporate headquarters was just as byzantine as that in Washington and "there's no *Washington Post* to tell you what's going on."

Cathie Jo Martin adopts an institutional perspective in her recent book, with some impressive results.[68] Martin argues that the conversations that occur within businesses that employ public policy experts tend to produce positions that deviate from the dominant conservative ideology in the realm of social policy. Some of what Martin labels "corporate policy capacity" arises as a byproduct of day-to-day work that engages businesses with government. Many of the human resource managers whom she interviewed, for instance, had become familiar with the intricacies of health care regulation and job training programs by dint of experience. Another source of policy expertise is the government affairs function. In large corporate government affairs organizations, "issue managers" are responsible for monitoring and advising the hierarchy with respect to specific areas of policy. Martin argues that coalitions of these two types of policy experts can exert a powerful influence on a company's political attitudes and behavior.

Persuasion may account for much of this influence. Experts, to state the obvious, know things that others do not. Martin finds, for instance, that firms that employ policy experts are able to make better estimates of the expected impact of proposed policy changes and of the likelihood that proposals will be enacted. Experts also derive

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[67] Pamela S. Tolbert and Lynne G. Zucker, "The Institutionalization of Institutional Theory," in Stewart R. Clegg, Cynthia Hardy, and Walter R. Nord, eds., *Handbook of Organization Studies* (Thousand Oaks, CA: Sage, 1996), 175-190.

authority and legitimacy from their standing within external professional communities. Edward A. Parson's research on the stratospheric ozone convention, for instance, focuses on the deliberations of inter-company groups of manufacturing experts. These groups, Parson argues, produced substantially larger estimates of potential reductions in the use of ozone-depleting chemicals and thus validated tougher policy positions than their employers had expected. Moreover, they helped their employers realize and even exceed these estimates by becoming internal champions of the new policy.[69]

In addition to altering the content of the conversation, the presence of experts may change its structure. Formal reporting relationships typically affect who pays attention to whom. When the government affairs function reports directly to the CEO, for example, policy expertise is more likely to be considered in the decision-making process than when there is no such function or when it reports through an intermediary, such as the general counsel. A subtler form of structural influence may be exerted when, as is often the case, a policy expert is assigned to manage the conversation within the firm that bears on her issue. By determining who gets a say and in what context, she may shape the allocation of attention and the alliances that form around particular positions.

The degree to which firms are willing to invest in policy expertise and in the creation of the functions that use it is related to firm size. Corporate policy capacity is a fixed cost that does not obviously contribute to the bottom line. Larger firms are more likely to be able to amass the overhead to cover this cost than smaller firms. As Martin puts it, "the story of decision-making presented here offers insights into the way size

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[68] Cathie J. Martin, *Stuck in Neutral: Business and the Politics of Human Capital Investment Policy* (Princeton: Princeton University Press, 2000).
[69] Edward A. Parson, *Protecting the Ozone Layer: Science and Strategy* (New York: Oxford University Press, 2003). Martin, similarly, finds that businesses whose representatives participated in expert groups

matters" in determining preferences.[70] It is not the absolute size of the rents that may accrue to large firms, as the Olsonian tradition suggests, that make their preferences different from those of smaller firms, but rather variations in their institutional processes that stem from organizational differences and functional specialization.

Hiring and compensation practices comprise another set of institutional processes that can have significant consequences for businesses as political actors. Firms that reward the acquisition of policy-relevant knowledge and skills and the investment of time in political activities among non-experts probably act differently than those that do not. CEOs are sometimes hired, for instance, in part because of their political capabilities.[71] These capabilities may well be valued for private reasons, such as the need to manage global strategic alliances and engage in other forms of "corporate diplomacy." In many cases, though, public policy is a key element in the firm's strategic environment, and the CEO is hired with this fact in mind. "The biggest single change in management during my career," Pfizer CEO Edmund T. Pratt, Jr., told a Harvard Business School researcher, "has been the increase in time that managers spend dealing with government."[72]

Regardless of the reason that his skills are valued, a CEO who is good at politics will tend to orchestrate sophisticated conversations about policy. In addition to participating in the formulation of his firm's political strategy, such a CEO is likely to be a valued asset in its implementation, particularly in lobbying. The diffusion of the "CEO club" model of business association, beginning with the formation of the Business

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like the Washington Business Group on Health had significantly different preferences on health policy than those that had no such representatives.

[70] *Ibid.,* 125

[71] Max Holland, *The CEO Goes to Washington* (Chief Executive Press, 1994). The promotion of Richard D. Parsons, a former aide to New York Governer Nelson Rockefeller and President Gerald Ford, to CEO at AOL Time Warner is an example.

Roundtable in 1972 and extending to narrower groups like the Semiconductor Industry Association, illustrates the increasing use of CEOs as political spokesmen.

A less prominent but potentially more important facet of hiring and compensation pertains to lower-level managers. If these employees share the political interests of the firm and are willing to act on them, they may be deployed in "grassroots" campaigns. Such campaigns are not new, as Kenneth Goldstein points out in his work on the subject, but they are "being used in different, more sophisticated, and potentially more powerful ways."[73] Businesses, especially those with widely dispersed workforces, have made much greater use of grassroots mobilization techniques in recent years. They gain access and credibility when they are able to deliver a common message through different voices in different districts. Goldstein notes that some businesses now include participation in government affairs activities in their evaluation of key employees, such as plant managers. These local elites or "grass-tops" are the linchpins of lobbying strategies that may also extend to the rank-and-file workforce. When employees are unavailable or unsupportive, suppliers or customers may serve just as well. David Baron advises managers to consider their entire "rent chain" as a potential source of political advantage.[74]

As Goldstein describes, new technologies have made it easier to identify and mobilize the grass-tops and grassroots. However, he does not fully explore the differences between businesses and other interest organizations that use these tactics. Control over the paycheck (or accounts payable) is the biggest of these differences.

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[72] Michael A. Santoro, "Pfizer: Global Protection of Intellectual Property," Harvard Business School case 9-392-073, April, 1995.
[73] Kenneth M. Goldstein, *Interest Groups, Lobbying, and Participation in America* (New York: Cambridge University Press, 1999), 23.

Businesses also have the advantage of having a dedicated electronic communication infrastructure in place, which is regularly in use for non-political purposes. The employee who logs into the company intranet is likely to be a more reliable messenger than the citizen who gets an email at home from a group to which she belongs. The employee may also be more motivated, particularly if the issue under consideration poses a threat to her livelihood.

Of course, employees and their employers do not necessarily see eye to eye on political matters. Practices that are perceived to provide information about and incentives to take action on policy issues in one organizational context may be seen as high-handed intimidation in another. Such differing perceptions reflect differing cultural norms that prevail within firms. Elizabeth Fones-Wolf chronicles employer efforts to shape such norms during the 1940s and 1950s. Quaker Oats' IGHAT ("I'm Gonna Holler About Taxes") postcard and petition drive among its employees is a vivid illustration.[75] In that period, unions aggressively sought to establish counter-norms and to mobilize employees for their own political purposes. With the decline in union density over the past half century, this important influence on corporate political culture has diminished substantially.

On the other hand, the workforce is more educated than it used to be, and "knowledge workers" may be more likely to question the company line than their parents or grandparents would have been in the absence of independent unions. In the high-technology industry, for instance, many in the rank-and-file hold libertarian and anti-

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[74] Baron, *op. cit.*. Step-by-step instructions for mobilizing corporate grassroots are supplied by Edward A. Grefe and Marty Linsky, *The New Corporate Activism* (New York: McGraw-Hill, 1995).
[75] Elizabeth A. Fones-Wolf, *Selling Free Enterprise: The Business Assault on Labor and Liberalism, 1945-1960* (Urbana: University of Illinois Press, 1994), 83.

authoritarian views. Efforts to mobilize them for relatively narrow corporate purposes may lower morale or even provoke a backlash. At least one high-technology business that I have studied refrains from conducting grassroots campaigns (and from making campaign contributions as well) for these reasons.

The institutions of the firm affect the availability of policy-relevant information, the attention paid to it, and the ways it is perceived. Those that I have discussed -- specialized functions, compensation practices, and cultural norms -- by no means exhaust the set of institutions that may be relevant to corporate political attitudes and behavior. Of course, institutional analysis inevitably leads to inquiry into the origins and malleability of institutions. If particular environmental conditions always produce similar institutional responses, the latter become little more than transmission belts for more fundamental causes. If, on the other hand, the assumption of imperfect environmental matching holds, researchers are impelled to complement institutional analysis with historical analysis.

Imperfect Environmental Matching: Learning, Path Dependence, and Crisis

Cyert and March's claim that the environment in which firms operate typically falls far short of constraining their choices is perhaps the most controversial aspect of their critique of the neoclassical microeconomic theory of the firm. If (as the latter theory holds) similarly positioned firms imperil their survival by failing to follow similar courses of action in response to similar environmental conditions, institutional and other differences between them become irrelevant. Either these differences are eliminated by choice or by bankruptcy, or they become equally good and equally unimportant means to the same end. Either way, it is “as if” they were fully-informed, unitary, rational decision-makers. If, on the other hand, the environment permits such firms to vary, then one must open the organizational “black box” to understand why.

The economic environment is sometimes harsh and unforgiving. Small stumbles may be magnified by the reactions of investors, customers, suppliers, and employees, as has often been the case since the collapse of Enron in 2001. The political environment is less often so. Failure to attain an electoral, legislative, or regulatory objective only rarely jeopardizes a company’s existence or even makes an obvious dent in the bottom line. Moreover, as I argued above, the compexity and opacity of the policy process make credit and blame are difficult to assign. When virtually every outcome is subject to interpretation, similarly positioned firms can easily reach different conclusions about what to do next.

One might characterize this process as “learning,” following Sandra Suarez's *Does Business Learn?* Suarez studied how large pharmaceutical firms responded to success and failure in securing tax breaks for facilities located in Puerto Rico over multiple legislative episodes across a couple of decades. In some episodes, these firms worked together as political allies; in others, they did not. Suarez argues that a poor policy outcome in one episode prompts a change in strategy during the next one and that a good outcome leads to maintenance of the same strategy. Learning in this account is little more than “an automatic response guided by prior experiences.”[76] Suarez finds that firms do not consider whether something other than their strategies led to the initial

[76] Sandra L. Suarez, *Does Business Learn? Tax Breaks, Uncertainty, and Political Strategies* (Ann Arbor: University of Michigan Press, 2000), 109.

outcome nor whether the political environment has changed significantly between episodes. Nor are lessons derived that span issues or transcend firm boundaries.

Cathie Martin's research on a broader range of issues and firms produces a more nuanced vision of corporate political development. Martin identifies a range of "policy legacies" that systematically shape the perceptions and actions of companies over time. The most interesting form of policy legacy is institutional change within the firm. Employer-provided health insurance constitutes such a legacy, according to Martin. The repeated failure of reformers to establish national health insurance led employers (often under union pressure) to offer health insurance as a "fringe benefit." The corporate human resources bureaucracies that arose to administer these benefits constitute, as we have seen, a major element of corporate policy capacity. More important, the pattern of costs imposed by the private provision of benefits and the pattern of behavior induced by it powerfully influenced the preferences of firms, so much so that they ultimately hardened into norms.[77]

Imperfect environmental matching may allow not only for durable variation in firm responses to external stimuli, but also for the endurance of internal idiosyncracies. The quirks of company founders, for instance, are often perpetuated by their successors, and these may have important political consequences. IBM CEO Thomas Watson, Jr.[78] adopted a code of conduct banning corporate political contributions in the 1970s; in 2000, IBM was one of only 9 firms in the *Fortune* 100 that had neither formed a PAC nor contributed soft money. Watson's early successors maintained his policy out of shared

[77] Martin, *op. cit.* See also Jacob S. Hacker, "The Historical Logic of National Health Insurance: Structure and Sequence in the Development of British, Canadian, and U.S. Medical Policy," *Studies in American Political Development* 12:57-130 (1998).

beliefs and loyalty. His later successors were constrained by both internal and external perceptions that IBM's political style precluded such giving; being such a large and long-standing non-contributor gave the firm a certain cachet that counter-balanced the costs of opting out of the money game.[79]

"Path-dependent institutional development" is a broader, more neutral, and more accurate description of these kinds of historical processes than "learning." Once networks, organizational structures, and norms are set in place – whether as a result of careful, conscious reflection or by automatic reflex – they may well become self-reinforcing. In a relatively peripheral function of the firm, in the confusing domain of politics and policy, "timing and sequence" as Paul Pierson puts it, matter even more than they do in the economic sphere.[80] This vision of firms having distinctive political competencies derived from historical choices and accidents accords nicely with the emerging "resource-based" theory of the firm, which posits an analogous process in the development and execution of corporate strategies.[81]

The "inefficiencies of history," to invoke Cyert and March's phrase again, though, may not cumulate forever. Moments of crisis, whether induced by the political or economic environment, tend to shake things up. Microsoft, for instance, quite deliberately eschewed significant investments in its political capabilities during the

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[78] Thomas Watson, Sr., founded IBM; his son succeeded him as CEO and brought the firm into the computer business in the 1950s.

[79] David M. Hart, "Red and White and Blue All Over: The Political Development of IBM," Kennedy School of Government Working Paper RWP01-003, January, 2001. Campaign contribution data drawn from Center for Responsive Politics website (www.crp.org), accessed August 14, 2002, using the 2000 Fortune 100.

[80] Paul Pierson, "Increasing Returns, Path Dependence, and the Study of Politics," *American Political Science Review* 94:251-268 (2000); Paul Pierson, "Not Just What, But When: Timing and Sequence in Political Processes," *Studies in American Political Development* 14:72-92 (2000).

[81] Richard R. Nelson, "Why Do Firms Differ and How Does It Matter?," in Foss, ed., *op. cit.*, 257-267; and David J. Teece, Gary Pisano, and Amy Shuen, "Dynamic Capabilities and Strategic Management," in *ibid.*, 268-295.

1990s, even as it grew to be the most powerful company in one of the country's most important industries. The Department of Justice's 1998 lawsuit, which threatened to break the firm up, finally prompted the firm to engage intensively with Washington and to become more like its brethren in the Fortune 500 in this regard.[82]

The Microsoft case illustrates a possible difference between path dependence in political institutions, as advanced by Pierson, and corporate political capabilities. Pierson portrays crises as momentary "critical junctures" in which seemingly small events (the metaphoric "butterfly's wings") place institutions on paths that get "locked in" during ensuing longer periods of normality. The institutional theory of the firm reverses this sequence. Environmental slack during long periods of normality allows path-dependent divergences to appear; crises, like Microsoft's, produce conformity, because the external constraints on firms are much tighter.

This hypothesis suggests that the predictions of the neoclassical and institutional theories of the firm may converge during crises, whereas Pierson's argument suggests that the rational choice and path dependence theories of politics diverge in these periods. When firms are competing with one another (as Microsoft and its adversaries are), convergence makes sense. The competitors must quickly determine what works or go under. After the crisis passes, they can drift onto distinctive paths. When a group of firms faces a crisis together, on the other hand, collective, monopolistic institutions like those that Pierson has in mind may well emerge. A self-regulatory code, for instance,

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[82] David M. Hart, "High-Tech Learns to Play the Washington Game, or the Political Education of Bill Gates and Other Nerds," in Allan J. Cigler and Burdett Loomis, eds., *Interest Group Politics*, 6th ed. (CQ Press, 2002), 293-312. Ironically, Microsoft's aloof stance may have been due in part to Bill Gates' perception that IBM, which had previously dominated the high-tech industry, had been distracted by its involvement with Washington.

may bind these firms to particular strategies and practices that long outlive the crisis that precipitated the code's imposition.

Temporary convergence of this sort may be interpreted two ways. One possibility is that the neoclassical theory of the firm should be viewed as a special case of the institutional theory that is useful when particular conditions obtain, including a fierce selection environment and intense attention to the political domain. Another possibility is that, even if the predictions of the theories converge, their underlying mechanisms remain distinct. In particular, if one conceives of crises as characterized by even more uncertainty than routine politics, the assumptions of the neoclassical theory are even less likely to be realized under these conditions. The Microsoft case seems to me to fit the first interpretation better, since antitrust is a relatively routinized policy process; the recent "corporate responsibility" crisis precipitated by Enron, the second.

Conclusion: Looking Forward

These ruminations merely reinforce the main point of this paper: we need to do more work, both theoretical and empirical, on businesses as actors in American politics. They are present in large numbers in Washington, but we have only a vague idea of what they are doing and why. To be sure, they are participating in and "managing" associations, but that is far from all. If scholars of American politics believe that they understand "business" because they understand associations, they are sorely mistaken. That conclusion, unfortunately, is what received interest group theory leads us to believe. Businesses are conceived to be much like individual citizens and our attention is focused on when and how they overcome the collective action dilemma. The weaknesses of the analogy are obvious, but usually ignored.

If we begin with the theory of the firm, rather than interest group theory, I have argued, we gain much more leverage on the political attitudes and behavior of firms. The neoclassical theory of the firm, in which it is seen as a unitary, profit-maximizing actor, has been begun to be developed in this regard. The insights from this approach are likely to be valid when the calculations that it assumes can be made relatively easily or when the environment weeds out those who do not act as if they have made such calculation. I believe that these conditions are not realized much of the time. We need, therefore, to move build an alternative to neoclassical theory.

Such an alternative theory of the firm exists, and it meshes well with the historical and institutional tradition in political science. A few pioneers, like David Vogel and Cathie Martin, have begun to plow this terrain. Their efforts have unearthed valuable findings and point toward new territory that warrants exploration. One important set of questions revolves around CEOs (and other senior executives) who are presumed to be the ultimate decision-makers within firms. We know precious little about their political activities or even the amount of time they devote to them, but they loom large from a theoretical perspective. Another high priority for research is organizational structure and its intersection with corporate culture. Corporate government affairs executives assert that "the boxes on the org chart" mean little and that informal relationships (or, as one put it to me "senior executive buy-in") are the key to understanding why they do what they do. Martin's work suggests otherwise; the factional cleavages that define "the firm as a political coalition" are rooted in organizational structure. A third promising area for future work is hiring, evaluation, and compensation. The way that a firm assesses and rewards its employees shapes its "conversations" about policy issues as well as its capacities for taking action. In each of these areas and many others that might be added, historical analysis is likely to be essential for understanding cross-sectional variation.

I have justified the need for more research on individual companies on crass, empirical grounds. There is a gaping hole in what we know about Washington. In doing so, I am being expedient. That hole in our knowledge, though, has a normative significance that is worth emphasizing in conclusion. The Internet "revolution" notwithstanding, large companies remain, as Peter Drucker observed in 1946, the leading institutions in American society.[83] They exercises substantial power over people in their roles as workers and consumers. As citizens, however, the people are meant to have a check on this power. We need not presume that companies act malevolently when they take part in politics, nor even that their pursuit of their interests will necessarily redound to the detriment of the general interest. But we ought to find out what it is that they are doing, so that we can make these judgments in an informed way and, perhaps, to reform the political system as a result.

[83] Peter Drucker, *The Concept of a Corporation*, Mentor Executive Library ed. (New York: Mentor, 1964).