Leveraging the Feds:
An Assessment of the Effectiveness of Corporate Political Strategies

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ABSTRACT

At the close of 2008, the United States was perched on an unknown precipice, anticipating a presidential election that was widely viewed as a referendum on class and special interest groups. At the same time, it was riding the leading edge of an economic downturn that experts worried might represent a coming recession or worse yet – a depression. The ensuing maelstrom of government activities designed to prevent the freefall of the U.S. economic collapse were without precedence, perhaps reflecting enormous shifts in the political tectonic plates, the end of a wave in which the market power of labor was subordinated to the market power of capital. The relationship between big business and government in the United States in the later decades of the 20th Century is well established in the literature. Corporate non-market strategies now routinely include political activity, most often reflected by investments in lobbying and political action committees as firms advance their own interests in an effort to reduce uncertainty, minimize the adverse effects of government regulation, and/or enhance opportunities for government contracts. Despite these well-known facts, there has been no comprehensive empirical examination of the effectiveness of aggressive corporate political strategies as they are associated with the financial performance of Fortune 500 firms. This study fills that gap in the literature by examining the effectiveness of lobbying and political action committees on firm financial performance and the dollar value of the federal government contracts they are awarded. More importantly, it investigates for the first time the effectiveness of the personal service strategy, a less common strategy designed to co-opt government policy-making, regulatory and oversight

authority, when put into place well beyond the Cabinet level through multiple tiers of the federal hierarchy. It provides evidence that corporate political activity yields significant return on the investment in the long-term and that the personal services strategy, when incorporated as one element of a comprehensive corporate political strategy, yields exceptional returns over the long haul in good economic times and bad.

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Chapter 1: Introduction

"Did you ever expect a corporation to have a conscience, when it has no soul to be damned, and no body to be kicked?"[1]

Edward, First Baron Thurlow
1731 – 1806

1.1 Introduction

By all indicators, the U.S. economy is in trouble. The unemployment rate is at a twenty-seven-year high, with almost ten percent of able-bodied Americans out of work.[2] Nearly one million new foreclosures forced families out of their homes in the first six months of 2009 and experts predict that number will rise to 2.4 million before the year is over.[3] The freefall began in 2008. An early casualty was Bear Stearns, sold in March of that year to JPMorgan Chase (Boyd, 2008). Within six months, no financial firm was safe. The federal government took control over Fannie Mae and Freddie Mac in early September. After watching its stock price fall 97% between February 2007 and September 2008 (with a one-day freefall of 45%), Lehman Brothers sought bankruptcy protection when the Treasury Secretary refused to provide federal support (Sorkin, 2008). One week later, insurance giant AIG, determined to be "too big to fail," was put on life support by the Secretary of Treasury, who injected $85 billion into the ailing firm and insisted that the firm's CEO step down (Karnitschnig et al, 2008).

On September 25, 2008, federal regulators seized Washington Mutual and the firm was sold to JPMorgan Chase for $1.9 billion (Cash & Sorkin, 2008). In January

[1] Cited in Coffee, J. C. (1981) "No Soul to Damn: No Body to Kick": An Unscandalized Inquiry into the Problem of Corporate Punishment. *Michigan Law Review.* 79(3):386-459.
[2] From 2000 to 2007, thirty (30) banks failed in the United States; in the year 2008, thirty-two (32) banks failed. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey,' http://www.bls.gov/cps/tables.htm.
[3] The Center for Responsible Lending, http://www.responsiblelending.org/mortgage-lending/.

2009, Secretary of Treasury Henry Paulson pressured Bank of America to acquire Merrill Lynch, guaranteeing Treasury's investment of $20 billion in the deal to stem Bank of America's hemorrhage on bad loans. Bank of America had purchased Countrywide financial months prior and Paulson threatened to remove Bank of America officials if they backed away from the purchase of Merrill Lynch (Applebaum, 2009a; 2009b). By November, the crash had affected retail sales as Americans reeled in their day-to-day spending, fearing the worst was yet to come (Rosenbloom, 2008).

Ford and General Motors, rode the leading edge of the economic downturn and, unable to rebound, saw their Chief Executive Officers summoned to Capitol Hill to explain to angry members of Congress how their fortunes could have been reversed so radically and how much government money it would take to prevent their complete insolvency. By June 2009, General Motors was bankrupt. Banks are failing at a rate that will see the number of failures in 2009 triple that of 2008.[4] Government bailouts abound, yet those firms that were bailed out by the Department of Treasury are now paying record bonuses to their corporate executives (Dennis, 2009). Few citizens are unaffected. Unemployment benefits are running out (Eckholm, 2009). Retailers already fear that the lifeblood of their holiday season financing, CIT Group, will be bankrupt just when their need for funds peaks (Mui & Cho, 2009). Most Americans are angry and everyone's looking for someone to blame.

Although it will be years before we have a good understanding of what really happened, if the elections of 2008 were any indication, the majority of Americans hold

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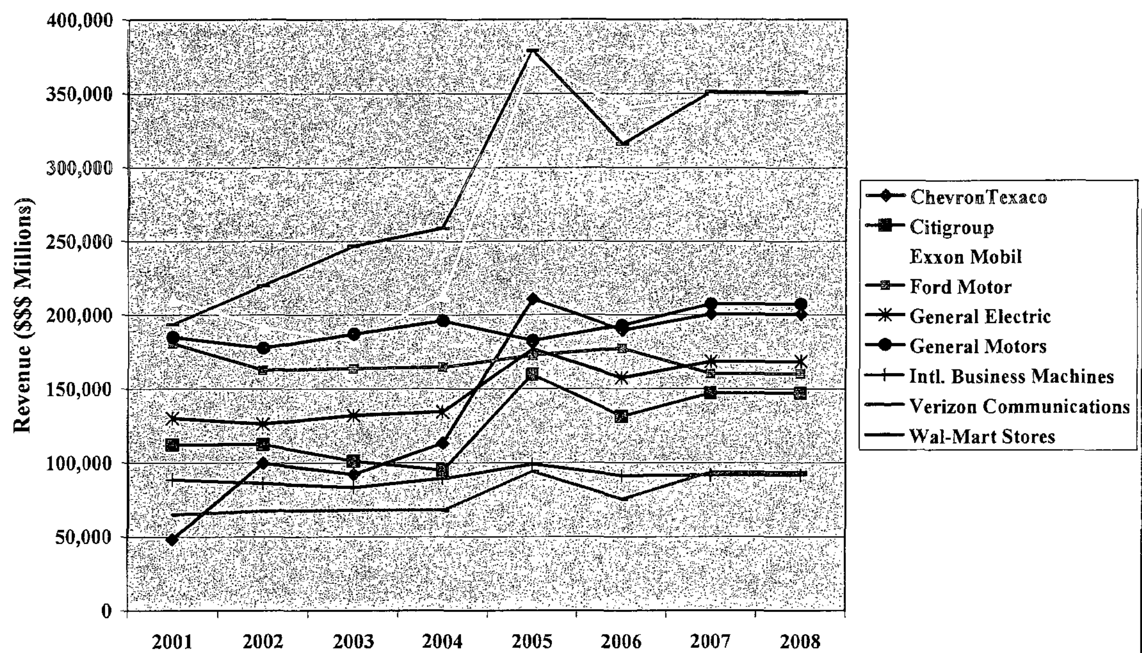
[4] Ninety (90) banks are expected to fail in 2009 at the current rate. Federal Deposit Insurance Corporation, Historical Statistics on Bank Failures in the United States (http://www2.fdic.gov/hsob/HSOBSummary).

corporate CEO's and the Bush administration accountable. Nobel laureate and *New York Times* op-ed columnist, Paul Krugman, cited American bankers as the cause of the crisis describing them as "empowered by a quarter-century of deregulatory zeal, {leading} the world in finding sophisticated ways to enrich themselves by hiding risk and fooling investors" (Krugman, 2009a). He zeroed in on Goldman Sachs (Krugman, 2009b) and others appear to be following suit (Montopoli, 2009; Whitman, 2009). Economist Joseph Stiglitz, Chief Economist at the World Bank, agreed, referring to the government bailout initiative as "Cash for Trash" (Stiglitz, 2009). Who was asleep at the switch inside corporate America? Could the crash have been prevented? Where were the government regulators responsible for the day-to-day oversight of these complex business arrangements and why were corporations not reined in? What occurred at the nexus between big business and big government? Americans want names and they want answers.

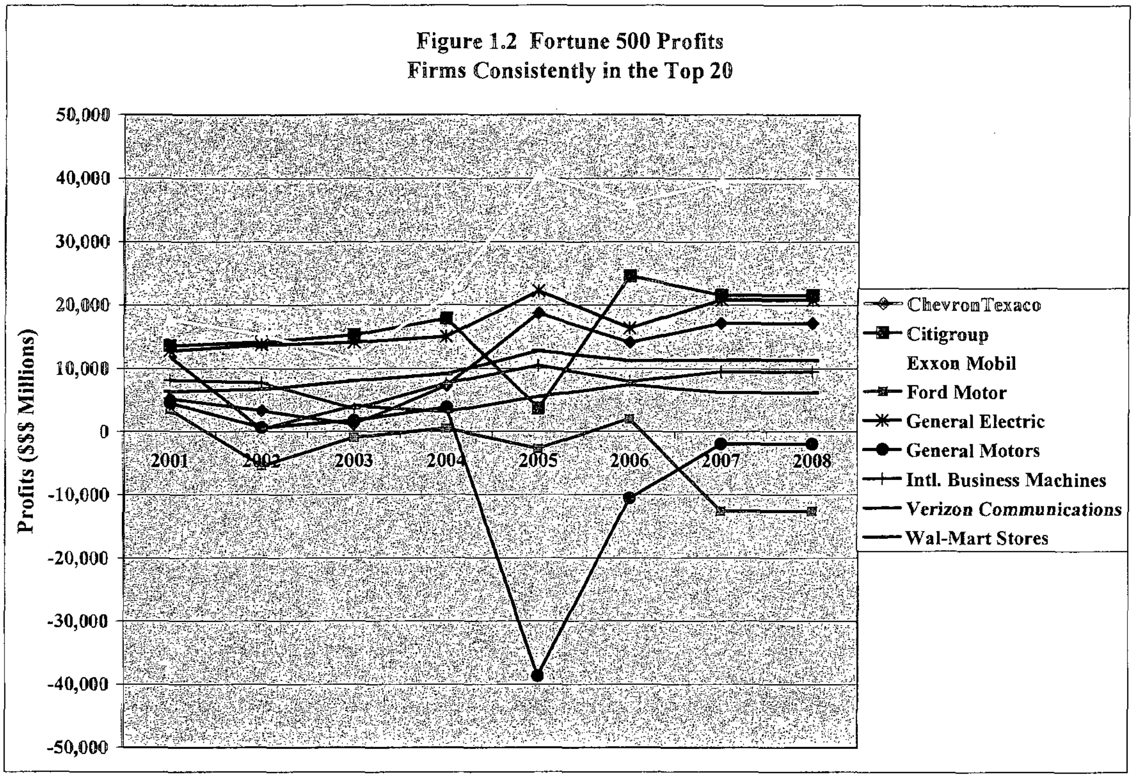
Despite the economic crisis, some firms seem to thrive with those at the top of the heap reporting record revenues and profits year after year (Figure 1.1). Seven companies have maintained their position in the top eighteen slots on the Fortune 500 every year since 2001.[5]

[5] ChevronTexaco, Citigroup, ExxonMobil, General Electric, IBM, Verizon, WalMart (compiled from annual reports available at Money.CNN.com).

Figure 1.1 Fortune 500
Firms Consistently in the Top 20



Exxon Mobil climbed from its 2003 position as the 13th largest firm in America to hold the number one or two spot in 2006, 2007, and 2008. Citigroup climbed similarly from the number 14 position to hold steady at number 8 every year since 2006. General Electric has not fallen below the number 10 spot in any year during the period 2001 – 2008. The unwavering behemoth, Wal-Mart, held the number one position in every year from 2001 through 2008, with the single exception of 2005, when rival Exxon Mobil nudged it out by less than $6 billion on revenues of $378 billion and $372 billion respectively. Profits over the years 2001 – 2007 in these firms were enormous, as were losses. Exxon Mobil pocketed nearly $39.5 billion in 2008, nearly twice that of its nearest competitors (Citigroup - $21.5 billion; General Electric - $20.8), while Ford lost $12.6 billion and General Motors nearly $2 billion (Figure 1.2).



Clearly, there were big winners and big losers during the eight years of the Bush administration. Could we have predicted, before the collapse, which firms would fall out on each side of the equation? Clues may reside in the nature of the relationships between the firms and the federal government. Watchdog groups maintain vigils over internet sites that harvest and categorize campaign contributions into searchable databases. Similarly, incensed non-profit organizations bird-dog government agencies in order to capture and promulgate information on corporate lobbying activities. Anecdotal reports about the "revolving door" caution that we should worry about corporate insiders' routine movement between the Fortune 500 and positions inside government. Despite the abundance of interest, especially with the economic crisis of 2008 – 2009, no single repository comprehensively collects, analyzes, or reports on the entire range of activities at the nexus where corporate America touches the reins of federal power to answer the most compelling questions about the relationship.

Using publicly available information, this study assembles for the first time a unique database that includes all elements of corporate investment in the political process at the federal level. From Fortune 500 CEO's personal campaign contribution to their "bundling" of others' contributions; from lobbying investments to the number and seniority of former Fortune 500 executives serving in the top tiers of government as political appointees, the study examines in complex detail the tools employed by Fortune 500 firms to leverage the federal government. It seeks to determine whether the aggressiveness of Fortune 500 corporate political strategies reliably and predictably boost the bottom line as measured in revenue, gross profit, net income, market share, and/or lucrative government contracts. The research answers questions about the nature and effectiveness of corporate political strategies that involve not only lobbying investments and campaign contributions, but more importantly questions about the effectiveness of the personal services strategy – one in which corporate surrogates serve inside the President's inner circle as decision-makers, policy-makers, regulators, and enforcers.

1.2 Corporate Largesse

Corporate America has had its relationship with government high on the list of strategic priorities since the founding of the nation. It was the Reagan administration of the 1980's, however, that ushered in a collective corporate investment strategy that has ballooned to billions of dollars annually in grooming, shaping, and massaging the business-relationship through lobbying, political action committee campaign contributions, and the exchange of key executives through a revolving door between business and government.

> Once mobilized, the superior economic and organizational resources of corporate interests confer important advantages at the various levels of political power present in liberal-democratic states: candidate selection and electoral influence, policy formation, influence of state officials and policy implementation through lobbying, and ideological hegemony through the influence of public opinion. (Akard, 1992:599)

Business has not only thrived in its relationship with government since the Reagan Administration; its representation in the National Capitol has metastasized into a caricature of its former self. More money was spent on corporate campaign contributions, political action committees, and lobbying in the past decade than ever before. Since 1990, a cottage industry of firms that can be contracted to provide corporate political services has flourished, from those that "teach businesses … how to begin to match organized labor's vaunted ability to turn out voters and raise funds" to those that teach businesses how to "grow" existing corporate political action committees (Hitt & Hamburger, 2002). Overall, the amount of money spent on campaigns in the United States ballooned from $200 million in 1972 to $3 billion in 2000 (Ansolabehere et al, 2004a). "Soft money contributions for 2000 (a record $457.1 million) … {were} 98 percent more than the $231.1 million raised during the same period of the 1995 – 1996 election cycle" (McChesney, 2002:348). Democratic and Republican soft money receipts (combined) for the presidential election cycles 1992, 1996, and 2000 rose from $67.3 million to $209.7 million to $295.5 million respectively (Dwyre & Kolodny, 2001). "During the 2004 US election cycle, donors with business interests contributed US$1.5 {sic} billion to politicians and political parties" (SustainAbility & WWF, 2005:1.2).

The U.S. Presidential election of 2000 witnessed the art of campaign financing elevated to a near-science, as all previous record were shattered. The 2000 campaign of George W. Bush raised over \$193 million; that of Al Gore raised just under \$133 million.[6] Support provided by the private sector was substantial. Business donors delivered \$24.1 million in 2000 and \$76.5 million in 2004 (TPJ, 2004):

> The top 20 service contractors ... spent nearly \$300 million since 2000 on lobbying and ... donated \$23 million to political campaigns. We've created huge behemoths that are dong 90 or 95 percent of their business with the government," said Peter W. Singer, who wrote a book on military outsourcing. "They're not really companies, they're quasi agencies." Indeed, the biggest federal contractor, Lockheed Martin, which ... spent \$53 million on lobbying and \$6 million on donations since 2000, gets more federal money each year than the Departments of Justice or Energy. (Shane & Nixon, 2007)

Corporate contributions to political campaigns rose to all time highs in 2004 with industry making unprecedented contributions through their corporate political action committees. The 2004 Presidential election was "the most expensive presidential contest in the nation's history," (Edsall & Grimaldi, 2004:A01). The 2008 election witnessed the candidates raising more than \$1 billion for the first time as corporate contributions again broke all previous records.[7] Corporate America took the lead (Table 1.1).

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[6] www.opensecrets.org/2000elect/index/AllCands.htm.

[7] Compiled from data available at the Center for Responsive Politics website: www.opensecrets.org.

Table 1.1 Corporate Campaign Contributions 2008		
	2004	2008
Agribusiness	$6,607,222	$9,445,146
Communications/Electronics	$20,776,967	$45,929,267
Construction	$12,768,645	$20,587,919
Defense	$1,386,188	$2,887,944
Energy & Natural Resources	$5,968,493	$11,281,561
Finance, Insurance & Real Estate	$58,530,363	$130,634,154
Health	$21,824,404	$41,779,505
Lawyers & Lobbyists	$56,073,579	$94,846,398
Transportation	$6,379,854	$7,883,441
Miscellaneous Business	$43,638,558	$83,571,006
Totals	$233,954,273	$448,846,341

Corporate political activity represents a significant investment in time, energy, and resources. Corporate largesse now associated with the American political process is widely regarded as a sound investment for the corporate manager interested in boosting profits. Shareholders certainly have not complained. The popular press reports enormous returns on the investment:

> A few years ago, a coalition of 60 corporations – including Pfizer, Hewlett-Packard and Altria – made an expensive wager. They spent $1.6 million in lobbying fees – a hefty amount even by recent K Street standards – to persuade congress to create a special low tax rate that they could apply to earnings from their foreign operations for one year. The effort faltered at first, but eventually the bet paid off big. In late 2004, President Bush signed into law a bill that reduced the rate to 5 percent, 30 percentage points below the existing levy. More than $300 billion in foreign earnings has since poured into the United States, saving the companies roughly $100 billion in taxes. (Birnbaum, 2006)

Rational managers of firms engaging in these strategies must have a reasonable expectation of return on the investments, assuming a wellspring of benefits will flow from an aggressive government strategy for those corporations willing and able to engage in it. These benefits include deep reach into the executive and legislative process through unfettered access to Presidents and their staffs; a voice with key members of Congress; tax exemptions; lucrative government contracts; reduced regulatory and oversight interference; enhanced labor or trade positions; and other benefits, all of which improve the corporate bottom line.

The benefits that come with corporate access to political figures are far from trivial. Quinn & Shapiro (1991:861-862) demonstrated that Democratic administrations are associated with a 1.5 – 2.5% mean increase in business taxation, but more importantly, that "the greater the number of business PACs relative to other PACs, the lower the taxes on business firms … efforts by business firms in financing political campaigns have the expected effects." Scholz & Wood (1998:149) demonstrated that "the IRS is responsive to national political principals" with "Republican preference for (and Democratic opposition to) easing the tax and enforcement burden on corporations {providing} a clear prediction that Republicans favor lower corporate-to-individual audit odds."[8] The authors found that "consistent with past research on other agencies, the mix of IRS audits … respond to changes in the presidency as well as changes in the leadership and ideology of members of congressional oversight committees" (Scholz & Wood, 1998:160). Santa-Clara et al (2005) found "evidence that even controlling for a host of other factors, the {Nuclear Regulatory Commission} reduces its inspection at nuclear plants whose operators make large contributions to political campaigns … {and} that operators tend to reduce their political expenditures when mishaps at their plants necessitate mandatory inspections by the Commission" (p. 258).

[8] A "Democratic shift of audits toward corporations, with a matching shift in the opposite direction under Reagan" was demonstrated by "odds that an audit was corporate changed by about 0.009 in each case, corresponding to a one in 110 shift. To put this in perspective, the Carter shift would have amounted to an additional 650 corporate audits and $126 million in additional taxes and penalties from corporations based on 1990 data and assuming constant yields and no change in individual audits" (Scholz & Wood, 1998:155).

Fortune 500 corporate political strategies run the gamut. Some firms make no investment. Others are aggressive, sophisticated, and strategic. There is significant evidence that impact is possible all the way down to the individual firm level. Legislation that created the 1986 Tax Reform Act, for example, included

> hundreds of provisions that were never subjected to public scrutiny ... one example was a clause limited to a single company, identified only as a "corporation incorporated on June 13, 1917, which has its principal place of business in Bartlesville, Oklahoma," that is Phillips Petroleum. Cumulatively these provisions were worth many billions of dollars; a company that gained access and succeeded in inserting such a clause could benefit substantially even if it were unable to influence the way a member of Congress ultimately voted on a bill. (Clawson and Neustadtl, 1989:752-753)

Federal Express went to extraordinary effort to influence legislative action on labor rules in 1996.

> Federal Express' nonmarket strategy was to have its Senate allies introduce in conference committee a provision in an authorization bill for the Federal Aviation Administration. The provision would make Federal Express's labor relations subject to the RLA by declaring Federal Express to be an "express company." The provision was accepted by the conference committee. However, when the bill came back to the Senate in October 1996 for final passage, senators aligned with organized labor sought to block the bill until the provision was dropped. They began a filibuster. Federal Express sought to build a supermajority of at least 60 votes in the Senate to invoke cloture to stop the filibuster. Passage of the authorization bill was certain if it were brought to a final passage vote. If cloture could be invoked and hence the provision retained, Federal Express would have achieved its objective, since the House was also certain to pass the bill with the provision. (Baron, 2001:50-51)

1.3 Research Approach

Despite the rich history upon which research in the area of corporate nonmarket strategy rests, surprisingly few researchers have attempted to link corporate political involvement with the corporate bottom line. In standard study models, firms seek to gain access to the political process in order to exert influence on legislative proposals or decisions (Keim & Zeithaml, 1986) and corporate political activity research is typically parsed into two types of activities: (1) lobbying investment, and (2) campaign contributions through corporate political action committees (Hansen & Mitchell, 2000). An abundance of research addresses the nature of corporate campaign contributions; a slightly less robust stream of research addresses the nature and impact of corporate investment in lobbying. Rarely, a third type of activity is included – the exchange of corporate executives or experts between Fortune 500 corporate positions and key federal government positions, known in the popular press as the "revolving door," in the literature as "personal services" (Hillman et al, 1999), the "transfer of human capital," or the "addition by subtraction" strategy (Gely & Zardkoohi, 2001). Few studies address the nature or effectiveness of the personal service strategy. Although rarely studied (most likely because of the difficulty associated with data collection), the personal service approach is one more tool in the corporate political arsenal, the over-arching goal being to influence or "shape government policy in ways favorable to the firm" (Hillman et al, 2004:838).

In one of the most widely cited (and early) studies that attempted to identify the relationship between corporate political activity and the firm's bottom line, Zardkoohi (1985:808) identified those economic factors that "account for or affect corporate campaign contributions" and demonstrated the specific relationships between corporate political investment and market share.[9] Langbein & Lewis (1990) later found that "both money and lobbying have substantial impact" on legislators' voting behavior, but did not explore the interactive and/or moderating effects of individual corporate political strategy

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[9] In a dataset of 412 firms representing 110 industries, he found that "a one percent increase in the market share of regulated firms would increase campaign contributions by $86,519 … significant at the .0001 level. A one percent increase in the concentration ration … would increase campaign contributions of regulated firms by $19,143.13 … significant at the .001 level" (p. 815 – 816).

approaches.[10] Shaffer et al (2000) found that "firms {in the airline industry} that undertake nonmarket action are more likely to experience above-normal performance." Fisman (2001:1098) found that the stock market values of politically connected Indonesian firms were strongly correlated with events related with the regime of President Suharto. Schuler et al (2002:659) "modeled the conditions under which firms are more likely to combine political tactics," finding evidence that firms engaging in one form of political activity are more likely to engage in multiple forms.[11]

> A firm that has a PAC is over 13 times more likely to have in-house lobbyists than a firm without a PAC; in addition, a firm with in-house lobbyists is over 13 times as likely to have a PAC than one without in-house lobbyists. Likewise, a firm that has a PAC is almost 6 times more likely to have hired political consultants than a firm not using a PAC {and} ... firms that use external political lobbyists are almost 6 times as likely to also have PACs than those without outside lobbyists. (p. 666-667)

Several authors have examined the relationship between firms making campaign contributions and the short-term value of their stock immediately after the election. Valkanov (2003) found evidence of a positive relationship between the stock value and the political outcome of presidential elections. Mattozzi (2004) provided evidence that changes in the value of firm stock prices were positively correlated with their association with either Al Gore or George Bush in the Presidential election of 2000. Cheng (2005:3) found that as the probability of George Bush winning the 2000 Presidential election increased, so did the value of a portfolio of stocks that had been designated "Bush sectors." At the same time, as the probability of John Kerry winning rose, so did the

[10] Examining the effectiveness PAC activity on gun control lobbying.

[11] Examining how firm characteristics affect the decision to employ lobbying or campaign contributions to influence public policy, they demonstrated that "politically active firms combine tactics," with the main thrust of all corporate political activity being to gain access to those who make policy. Their model provide evidence that "lobbying and campaign contributions seem to be complementary activities that can be used to gain and maintain access to policymakers, a seemingly necessary condition for exercising political influence" (Schuler et al, 2002:662).

value of a portfolio of stocks that had been designated "Kerry sectors." Shon (2006:2-3) found a "positive (negative) relation between campaign contributions to Bush (Gore) and stock returns" during the 37-day recount period incident to the 2000 Presidential election recount. Knight (2007) found strong evidence that Presidential policy platforms are capitalized into equity prices, drawing from a sample of seventy (70) firms that would benefit from the 2000 Bush platform. Related analysis in the same study demonstrated the relationship between campaign contributions and policy platforms. Goldman et al (2006) searched for and found evidence of a positive relationship between the political connection of corporate board members and the allocation of procurement dollars.

No one has specifically sought to measure the effectiveness of an aggressive corporate political strategy that includes all forms of these activities. "Little attention has been paid … to how firms should allocate resources across different branches of the government in order to achieve the greatest effect on ultimate public policy" (Holburn & Vanden Bergh, 2002:3). No attempt has been made to determine relative effectiveness or moderating effects of the two most common strategies (campaign contributions versus lobbying), and few studies attempt to measure the effectiveness of the use of personal services. Attempts to determine the interactive effects of combination strategies vis-à-vis the corporate bottom line are absent from the literature.

A resurgence of research interest in corporate nonmarket strategy is underway, much of which is beginning to fill these gaps to assess the impact and effectiveness of corporate political strategies on firm performance. The *Journal of Economics & Management Strategy* devoted special issues to its study in 2001 and again in 2007. In the introduction to the 2007 issue, David Baron and Daniel Diermeier describe the importance of new research in the area:

> All economies are defined by formal and informal norms and regulations that structure market competition. These "rules of the game" vary significantly across countries. Many barriers to imitation and entry, for example, originate from specific legal rules or government policies that favor some capabilities over others. These rules, and in many cases their enforcement, are not fixed, well-defined constraints, but are determined, implemented, and interpreted by legislatures, government administrative agencies, judicial institutions, public sentiment, and ethical consensus. The resolution of ambiguity and direction of change is neither exogenous nor divorced from strategic considerations. Rather, the process involves interest groups interacting within a system of institutions that includes but is not limited to the various branches of government, the media, and nongovernmental organizations. Both competitive advantage and industry profitability are affected by this interaction. Effective business strategies thus should include actions to influence the outcome of such processes.

Writing in the *Journal of Management Inquiry* at about the same time, Barley (2007:201) described the "silence" on the part of organizational theorists about "how organizations shape their environment" as "particularly troubling, given that organizations, in general, and corporations, in particular, now wield inordinate political power."

> So powerful have large corporations become that their decisions affect the welfare of entire states and nations. Democracy itself has increasingly become the province of organized action. Although officials are still elected by a plebiscite, elections are disproportionately financed by organizations to which candidates must appeal for support. Battles over legislation are fought by an army of lobbyists employed by organizations claimed to represent the interests of groups of citizens. (Stern & Barley, 1996:147 cited in Barley, 2007:148)

In the July 2008 issue of *The Academy of Management Review,* Palazzo & Scherer call for a "fresh view on the role of business in society," particularly given what they describe as a "growing positive and negative impact of corporations on democratic institutions."

This study joins scholars working to fill recognized gaps in the literature concerning the effects and effectiveness of corporate political strategies, but breaks entirely new ground with an in depth exploration of the effectiveness of the sparsely researched personal service strategy as one component of the arsenal of tools comprising the overall corporate political strategy. We argue here that over and above routine investments in lobbying and corporate campaign contributions through political action committees, an advantage is gained through patronage appointments of corporate or industry representatives ("surrogates") to key policy-making, oversight and enforcement positions within the executive branch. These plum assignments give industry representatives authority over agencies that draft policy and legislation, enforce regulations, and have responsibility for oversight activities of the sector of the economy from which the appointees came and to which they will likely return after government service.

We examine the effectiveness of this personal service strategy when used in concert with those corporate political strategies that have been more widely examined (lobbying and corporate campaign contributions). We empirically test Stigler's "capture theory" – the notion that corporate surrogate are placed inside the government in key political appointments in return for corporate political support. Once inside, the surrogates gain direct control over policies, oversight, and rule making – the government apparatus intended to exercise control over marketplace activities. The study examines (for the first time) the effectiveness of the personal service strategy when pursued strategically, deep within the federal bureaucracy to the fourth and fifth layers of the hierarchy. It examines personal services vis-à-vis the more traditional approaches of lobbying and campaign contributions. It examines all three strategies when implemented in isolation and in combination as firms leverage the federal government to advance their own interests. It also sets the stage for deeper examination of the morality and ethics of the deep reach inside government afforded by aggressive corporate political strategies.

To narrow the focus of the project, from the larger group of non-market actors acknowledged as relevant in corporate non-market strategy (state and federal legislatures, executives, regulatory agencies and courts), attention is focused exclusively on the federal sector. Within the personal service strategy, attention is focused on Senate-confirmed political appointees in the federal government within the executive branch, not those placed through non-political processes (career civil servants). Presentation of the research will proceed as follows. Chapter Two places the argument in context of the federal political process. Chapter Three places the argument in historical and theoretical context. Chapters Four, Five, and Six provide brief histories and perspectives on three types of corporate political activity: lobbying, campaign contributions and personal services. Chapter Seven lays the groundwork for and develops the research hypotheses. Chapter Eight explains the research design and methodology. Chapter Nine provides descriptive statistics of the variables, including two unique datasets collected specifically for this study. Chapter Ten presents analysis and examines results. Chapter Eleven examines three industrial sectors in depth. Chapter Twelve concludes by discussing the implications of the findings for what they may reveal about the ethics of corporate America, but as importantly, the implications of the findings on American democratic processes.

Chapter Two
Implementation of the Presidential Mandate

"Public policy is no longer a spectator sport for business."

Weidenbaum, 1980:46

2.1 The President's Prerogative

Absent a foundational description of the process through which appointments are made to the most senior policy-making positions within the executive branch of the federal government, it would be difficult, if not impossible to present a meaningful discussion and examination of the personal service approach to corporate political activities. We pause here to develop that foundation.

Change-out of the senior leadership of the executive branch of government incident to the election of a new President offers tremendous opportunity for the placement of key corporate representatives into pivotal decision-making, policy-making, and enforcement positions. Unlike the private sector, the executive branch of the federal government is literally bifurcated into two teams of senior executives who hold policy and decision-making authority over the 2.5 million-strong workforce – those who hold their positions by virtue of their personal appointment by the President ("appointees"), and those who hold their positions by virtue of a competitive process based on their credentials, background, experience, and performance over time ("careerists"). The Executive branch of government is managed by just over 5,700 executives; 1,200 of these positions are filled by the President through the political appointment process with confirmation by the Senate after vetting of the nominee's credentials. Five hundred hold cabinet and sub-cabinet level authority[12] (Light, 2002b:2); an additional 1,287 positions are available for the President to fill on a case-by-case based on their "confidential" or "policy-determining" authority. These positions are often used to repay "patronage obligations" (Lewis, 2007:22).

Change-out of the most senior leadership in the federal government incident to the election of a new President is no small feat. Quite literally, at the close of every U.S. President's term, political appointees depart en masse, leaving the reins of government in the hands of career executives, who fill the vacuum until the next President can nominate and put into place his own team to execute the Presidential political mandate. Politically appointed members of the outgoing team of appointees begin making their departures during the last year of the administration. The large residual base of career executives continues the business of government, anticipating their indoctrination into the incoming administration's agenda. The government apparatus is placed in "night watchman" status in the hands of the career executives until the next President's team can be put into place. When all is said and done, a management team that has been in place for four (and often eight years) is gutted just prior to the inauguration. In the ensuing early months of the new administration, fresh appointees are selected and put into place, at which point the careerists are expected re-calibrate their activities and execute the new Presidential agenda.[13]

Upheaval in the ranks of federal service commensurate with the changing of Presidents has been considered the normal course of business in American governance

[12] Including 14 secretaries, 23 deputy secretaries, 41 under secretaries, 212 assistant secretaries.
[13] Lewis (2005:502) reports that "after tenures under one party's control, the top managers in agencies are more likely to share the policy preferences of the president they serve."

from the earliest days of the republic. As presidents enter office under the people's mandate, they strive to put into place policies that are in keeping with the ideology of their supporters, their party, and the American people. The incoming President surrounds himself with people he believes are most capable of executing his political strategy and implementing his political mandate. From Washington to Lincoln to FDR, the time of transition and replacement of key personnel has been viewed as a "house-cleaning." Eisenhower entered the Office of the President after twenty years of Democratic control, having focused his campaign on the need to "throw the rascals out." "Housecleaning was a dominant note and reorganization and reduction of agencies and personnel were to be the big brooms" (Somers, 1954:131). Similarly, Nixon entered the Oval Office convinced that career government executives were disloyal, at one point directing his Director of Office of Management & Budget to take whatever action necessary to get the message across that passing the loyalty "litmus test" was a requirement to keeping the job.

> You've got to get us some discipline, George. You've got to get it, and the only way you can get it, is when a bureaucrat thumbs his note, we're going to beat him ... They've got to know, that if they do it, something's going to happen to them, where anything can happen. I know the civil Service pressure. But you can do a lot there. There are many unpleasant places where civil Service people can be sent. We just don't have any discipline in government. That's our trouble. Now I'm getting a little around the White House, uh, but we got to get it in these departments ... So whatever you – well, maybe he is in the regional office. Fine. Demote him or send him to the Guam regional office. There's a way. Get him the hell out." (Aberbach & Rockman, 1976:457)

Nixon's politicization of the federal bureaucracy was described as "more intense, more calculated, and far more political in design than that of any previous president" (Cole & Caputo, 1979:399). It nonetheless represents a common concern that programs of the incumbent administration attract and retain ideological supporters in the ranks of career employees, and that these loyalists must be purged or brought under control in the initial months of the new administration.

Reagan rode such a platform, railing against the government bureaucracy, all the way to Presidential victory. His "drive to cut employment in domestic agencies had much the same effect as more overt politicization or reorganization in some circumstances since it altered the career-appointee balance in many agencies" (Lewis, 2007:5). "The Reagan presidency, more than any other, epitomized the use of political appointments to affect political control. The Reagan transition team spent months screening those who could serve, emphasizing loyalty and ideology above all other attributes" (Wood & Waterman, 1991:804).

The practice of patronage is not new. Presidents have rewarded their supporters with plum positions since the earliest days in the nation's history.[14] "Presidents face constant pressure to reward supporters, repay political debts, and fulfill obligations to their party by filling agency posts with patronage appointees" (Lewis, 2007:13).[15] Funders, backers and supporters expect a return on their investment, be it time, money, energy, or the rallying of other supporters to the candidate's cause.

> The second {problem is} your deputy and key assistant secretaries, and here, kind of a Mideast bazaar attitude prevails: the bargaining with the White House over who gets those key positions really should not be observed by sane people, because there is a great backlog of people who have worked in the campaign, some of considerable talent and some who turn out to be your most valuable aides, but you also want to kind of tug at the sleeve of the White House personnel people and say you now, I happen to have a couple

[14] After more than two decades of Democratic control of the federal government, Republican President Dwight Eisenhower asked for a list of positions available for political appointments. The list, first printed in 1960, is published every four years by the Senate and House Committees on Government Reform and is affectionately referred to by Washington insiders as "The Plum Book" (GPO, 2004).

[15] Although Lewis points out the "members of Congress repeatedly refused to give up control over regional appointments such as U.S. Marshals, U.S. Attorneys, and regional USDA officials because those persons would set policy regionally in a way that was sensitive to the needs of a members' reelection coalition: (Lewis, 2007:15-16).

> of people here that I'd like to see, even thought they didn't work in the campaign, and they can be Nobel laureates or PhDs or whatever, but there's some reason you want them there. And this bargaining process can be extremely excruciating and taxing, and it is. I can say from sad experience, ignored at the peril of the cabinet member, because there is a prerogative on the part of the President and his team to have some of the people placed. (AEI, 2001c:5-6)

It is generally agreed that a system of reciprocity does exist, and that there is a direct relationship between the level of appointment and the amount of political support rendered by the appointee, with a "patronage-placement network" orchestrating the system of rewards (Patterson & Pfiffner, 2001:426-427). One news analyst reported that

> The price of a fine ambassadorship has gone up dramatically in recent years. Maybe oil and the always-hot D.C. housing market have gone up more, the but plum postings, especially some of the cushy ones in Europe, are now going for a couple hundred thousand dollars each in political contributions. The Netherlands went to Roland Arnall, who contributed perhaps a record-breaking $1.1 million. Portugal went to Florida developer al Hoffman, who chipped in more than $400,000 – and the Vatican went to Oklahoma businessman L. Francis Rooney III, who forked over a quarter-mil. (Kamen, 2005:A13)

George H. W. Bush, went so far as to designate his son, George W. Bush, to be in charge of the "Silent Committee," a group responsible for ensuring his father's political loyalists were "taken care of" in presidential appointments after the election (Patterson & Pfiffner, 2001:420).

> The list of the deserving was determined and we were able to figure out … the allocations per cabinet department. I briefed the cabinet in a memorable moment telling them the number of Schedule C positions they had and that we would send over names for people to fill those positions … the whole purpose of this was to reward the people who had worked in the Bush Campaign. (From an interview with Chase Untermeyer, White House Director of Personnel Policy cited in Patterson & Pfiffner, 2001:420)

Historically, the Executive Office of the President insists upon sequestration of the residual careerists away from the incoming appointees with the President's "lieutenants" working largely sequestered and apart from the career decision- and policy-making executives. Because people who did not work on the campaign for the presidential candidate are viewed as untrustworthy and unreliable in effectively implementing the ideological agenda (Kumar, 2000:6), information is compartmentalized to limit their involvement.

> Let me deal with the potential dangers that any transition has to face. I have often thought about an appropriate metaphor for an outgoing President. I think ... of an outgoing President's authority like a large balloon with a slow leak. He's got all of the authority constitutionally there, but you've got all these forces making little pin pricks in the balloon. You've got the incoming team that naturally wants to, first, stop the political appointees from burrowing into the civil service. You want to stop the midnight Executive Orders, the last minute issuance of regulations, the kinds of things that will tie the hands of the new team, the perfectly natural concerns that any incoming team would have. (AEI, 2000:18)

For the new administration to be up and running, over twelve hundred appointments need to be made, background checks and administrative vetting conducted, and forwarded to the Senate for confirmation hearings before the new team is in place to execute the Presidential mandate. The pool of candidates consists largely of those people who have been supporters and campaign workers, along with a group of Washington experts who have served in previous administrations and are willing to serve again (Kumar, 1998).

> Half of those that you know will be disqualified for one reason or another. And you must always beware of the free lancers, the people who run out after a Presidential election, who go abroad or who begin speaking on behalf of an Administration. This is always a lot of fun because you spend half your time on certain days knocking down the free lancers who have, sort of like the spontaneous in the bull ring, the spontaneous fellows who jump out of the stands having become emotionally excited and hold up a red kerchief and get creamed by the bull. But it's very important to cut the legs out from under the spontaneous ... as quickly as you possibly can ... Another {concern} is to take care of your friends, be sure of that. But beware of the fair weather post-election new friend. There's a certain category of people that I call the friends of November are {sic} the ones that come to you after the election and tell you how much they were supporting you during that period of time before the election but doing so quietly because they were are more effective that way. This is – there will be all these friends of November {who} were strap hangers as they're called ...And I can remember, you know, walking into the Pier Hotel ... and sitting there in the morning ... and someone would bring in and open up the dossier and say, okay, today, and say deputy secretary of such and such. And someone would say, what does he do? I don't know. Anybody got any ideas? Look around the room and nobody would have any idea, and go on to the next person. Now, we did this for two or three days, you know, on, week after week. And we knew some people. But after a while we had run out of time. We had run out of friends. We didn't know any people. (AEI, 2001a:6-7, 10)

> One of the most difficult aspects of a transition into the White House is the need to accommodate in the government those who work in the campaign while at the same time integrating into the operation those who know the President even though they did not work in the campaign, and those with White House and Washington experience, and people who have substantive knowledge in the areas of social, economic, and national security policy. 'You want somebody who at least served in the upper echelons of the White House staff and knows what goes on, knows how that place runs. You've absolutely got to have that. I would then say with that person you're going to assign one of your top campaign people who knows people, knows personnel and knows the politics of the President and who they screwed and who they don't want to screw and brings a political sense to that. That's the best combination. If you can get those two in one person you're even better off. If you can get those with two people that can work together that's good as well."[16] (Kumar, 2000)

Paul Light estimated in 2001 that a realistic pace for Senate-confirmed nominees to make their way through the process might be twenty to thirty nominees per week (Light, 2001b). He revised that estimate in 2002 upward to forty legislative weeks, with nominees moving through the process at the rate of ten to fifteen per week (Light, 2002a). Even working fourteen hours a day, seven days a week, the incoming administration has only about one thousand hours to review the many thousands of applications and credentials of those people recommended for political appointment – about 20 minutes for each appointment (AEI, 2000c).[17]

All told, the White House seeks key advisors for special commissions and blue ribbon panels and advertises "over 7,000 Federal civil service leadership and support positions in the legislative and executive branches of the Federal Government."[18] Since 1952, the quadrennial publication of the "Plum Book" has advertised these noncompetitive appointments, available for placement of politically like-minded people into policy and regulatory jobs through which they take the reins of government and drive

[16] The White House 2001 Project, Interview with Leon Panetta.
[17] In the 2000 Presidential election, the intervention of the Supreme Court truncated that already tight timeline. As a result, for George W. Bush, the amount of time from the final determination of the outcome of the election to the time the new team needed to be in place was about seventy days.
[18] U.S. Government Printing Office (www.gpoaccess.gov/plumbook/about.html).

the ship of state in the political direction desired by the President. Appointment to these key positions serves as reward for campaign contributions, ideological or financial support, and above all – loyalty.

2.2 The Bush 43 Agenda

Two weeks before the inauguration of the 43rd President of the United States, a seemingly obscure policy analyst at Washington DC think tank, "The Heritage Foundation," produced what to all outward appearances were just two more similarly obscure thought pieces. From his position as Director of Domestic Policy Studies, he drafted two policy documents – "Personnel Is Policy: Why the New President Must Take Control of the Executive Branch (also known as "Backgrounder 1403") and "Taking Charge of Federal Personnel" (also known as "Backgrounder #1404). According to the author, Robert Moffit, one of the greatest (if not *the* greatest) challenge the new President, George W. Bush, would face would be the willingness of career government employees to commit themselves to his agenda, to develop and implement policies and regulatory initiatives in complete accord with his conservative views. Responding in part to a *Washington Post* Op-Ed piece by a Democratic former Secretary of Labor in the Clinton Administration (Harris, 2000) who suggested that delays in the Presidential election vote recount would actually result in a shorter, more effective, and less ideologically driven transition, Moffit argued that failure to gain swift control over senior career government officials would in fact allow career government officials to obstruct the President's "ideologically driven agenda."[19] Within just a few months of the inauguration, the management approach advocated by Moffitt had spread through the federal government. The two documents written by Robert Moffitt appeared to have become the source code for the President's approach to managing the federal workforce.

The method suggested by Moffitt was for the President to quickly appoint "key lieutenants" not only at the Cabinet level, but more importantly to second and third tier policy-making positions, since "a politically neutral class of federal civil servants should not be given the task of formulating major policy changes" (Moffitt, 1404:2). What set his strategy apart from those of previous administrations was the goal to drive political appointees deeper into the bureaucracy, to further isolate and exclude career experts in government, "placing trusted political appointees who are dedicated to the president, rather than to their own personal or narrow agency agendas, throughout the bureaus of government" (Moffitt, 1403:9).

> This in turn means that the Office of Presidential Personnel (OPP) must make appointment decisions based on loyalty first and expertise second, and that the whole governmental apparatus must be managed from this perspective. Picking appointees who are 'best for the job' merely in terms of expert qualifications can be disastrous for an Administration genuinely committed to change, because the best qualified are already in the career positions and not part of the status quo – the permanent government.

Moffit 's guidance reflected what political scientists describe as politicization,[20] the addition of political appointees on top of existing career civil service employees or

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[19] Political ideologies here are those described by Kalt & Zupan (1984:281), "Political ideologies are more or less consistent sets of normative statements as to best or preferred states of the world. Such statements are moralistic and altruistic in the sense that they are held as applicable to everyone, rather than merely to the actor making the statements. Accordingly, political ideologies are taken … to be statements about how government can best serve their proponent's conceptions of the public interest."

[20] It can also mean, however, a number of related practices associated with political intervention in administration, including the practice of recruiting appointees only on the basis of party loyalty, involving civil servants in political fights, and making appointment and promotion decisions in the civil service on the basis of political attitudes."

the practice of placing loyal political appointees into important bureaucratic posts formerly held by career professions (Rudalevige & Lewis, 2005:4). The resulting "administrative state," while less efficient than it could be" (Lewis, 2007:38), would ensure loyalty to the presidential mandate. One analyst described the process as a demonstration of "hubris," an irrational process that would never be contemplated in the corporate world:

> What corporation would ever think that someone who was a deputy assistant collector of fire ants in the Department of Agriculture in Georgia could be ready to be ready to be promoted to the Deputy Assistant to the President of the United States. But those kinds of things happen all the time. You have this, this tendency to appoint people for whom the White House job is a quantum leap in prestige and influence. And you do it because they're loyal, because you're comfortable with them, and you're not thinking ahead about what it really means to govern. Those are the people that tend to get in trouble. Those people who don't have a life outside of this Presidency and this White House. And, yet, I've seen it happen so many times when there is … this effect of the hubris and the pride allowing you to do things in appointments that you come to regret much later on. (AEI, 2000:19)

Political scholar Paul Light of the prestigious Brookings Institution has documented what he calls a "thickening" of government, characterized by the addition of "layer upon layer of political and career management to the hierarchy" in order to (among other things) "control the federal government bureaucracy through ever-denser networks of political appointees" (Light, 2004). According to Light, "the Bush administration has overseen, or at the very least permitted, a significant expansion in both the height and width of the federal hierarchy. There have never been more layers at the top of government, nor more occupants at each layer" (Light, 2008).

What Light calls "thickening" may in fact represent the enlargement and expansion of one element of an over-arching non-market strategy through which forward-leaning corporations, either directly or indirectly, engage the federal bureaucracy to enhance their market position and bottom line through the design and implementation of a corporate political campaign. We know that corporate involvement in political activities has increased across the board since the 1980s. We also know that the political machinery of the U.S. has become increasingly dependent upon corporate support and that the issue of loyalty has become paramount in the placement of political appointees in government. What we do not know is whether or not the corporate strategy has either purposefully or coincidentally produced an increase in the number of political appointees who have come directly from or are linked to corporations in the U.S., or whether or not the politicization has yielded financial returns.

On the day of his inauguration, newly elected President George W. Bush sent forward his nominations for fifteen of twenty coveted Cabinet level positions – positions that brought with them power over the machinery of the United States government. Within nine days of the inauguration, all but two Cabinet level nominations had been made. Within one hundred days, 140 nominations had been submitted for Senate confirmation. The goal was to jump-start the machinery of the federal government to implement the President's political goals. George W. Bush believed he had been given a mandate by the people to the alter course of the nation. Following through on his campaign promises would require that he "structure and staff the {federal} bureaucracy in a way that {would make} bureaus responsive to {his} presidential dictate" (Rudalevige & Lewis, 2005:2).

President Bush's agenda had been described by his Political Advisor, Karl Rove. It included a five-part strategy of tax cuts, education, faith based programs, Medicare and

Social Security reform, and defense modernization (AEI, 2001a). It had been carefully laid out in the run up to the election, crafted over a period of months by supporters, strategists, and financiers of the candidate's campaign. The detailed elements of the plan were chronicled in a lengthy document entitled "Republican Platform 2000: Renewing America's Purpose. Together" (outlined again in "2004 Republican Party Platform: A Safer World and a More Hopeful America"). Clay Johnson (who directed the Bush transition team) shed additional light on the President's view of his mandate. Privatization of government functions through contracts with the private sector was *the* cross-cutting priority within the President's broader agenda (AEI, 2001:25).

Both before and after Bush was elected, he and his team met on numerous occasions with corporate executives from the energy, banking, financial and technology sectors. "Executives from big oil companies met with Vice President Cheney's energy task force in 2001," specifically "with Cheney aides who were developing a national energy policy, parts of which became law" (Milbank & Blum, 2005:A01). The meetings included "officials from Exxon Mobil Corp., Conoco (before its merger with Phillips), Shell Oil co., and BP America, Inc." Rove described these business executives as "one of our best sources of advice … during the campaign" (AEI, 2001:6).

The Bush Administration's relationship with big business was well recognized. Hundreds of former industry executives sat at the helm of the ship of state and after seven years in office; the drive to privatize and contract out major elements of the government's work had become well established. The popular press described government contractors as the "virtual fourth branch of government," the federal government as "a government

… run by corporations," with the "revolving door" under the Bush administration "spinning out of control." Examples (Sarasohn, 2005) included a mining executive who became the Assistant Secretary of Mine Safety and Health after working for thirty years in the mining industry; then after serving in the Bush administration, he resigned to take a job as a mine-industry consultant. An attorney who worked for DaimlerChrysler served as the Chief Counsel and later as Deputy Administrator of the National Highway Traffic Safety Administration. The Chief of Staff to the Secretary of Agriculture was appointed directly from a job with the national Cattlemen's Beef Association. The Undersecretary of Agriculture for Natural Resources and the Environment, dual-hatted as head of the U.S. Forest Service, reported to the job from a position as Vice President of the American Forest and Paper Association. The Agriculture Secretary's Assistant Secretary for Congressional Relations came from a position as Legislative Counsel for ConAgra Foods. At the Department of Energy, the Assistant Secretary for Congressional Affairs was appointed by the Bush Administration directly from a lobbying position advocating the interests of mining and oil companies. The Deputy Administrator of the Environmental Protection Agency came to the position from Monsanto Company and left to take a position with DuPont.

> Among the advocates-turned-regulators are a former meat-industry lobbyist who helps decide how meat is labeled; a former drug-company lobbyist who influences prescription-drug policies; a former energy lobbyist who … helps determine how much of the West … former clients can use for oil and gas drilling. (Mulkern, 2004).

Such was the picture of political patronage under Bush George W. Bush. The President's outsourcing initiative was similarly successful. Federal spending on contracts rose from $208.8 billion in 2000 to $430.1 billion in 2007,[21] in keeping with the administration's "philosophy that {encouraged} outsourcing almost everything the government does" (Shane & Nixon, 2007). "A {2007} congressional report estimated that federal spending on contracts awarded without 'full and open' competition ... tripled {between 2000 and 2007}, to $207 billion ... with a $60 billion increase in {2006} alone." (O'Harrow, 2007:A01).

The government began to contract out some of its most sacred core competencies. The Defense Intelligence Agency moved to sign contracts worth $1 billion for intelligence collection and analysis despite the fact that "a government civilian employee costs on average $126,500 a year, while the annual cost of a core contractor, including overhead and benefits, is $250,000" (b, 2007b). The Department of Defense contracted out some of its internal intelligence functions, along with security functions in hostile environments in Iraq and Afghanistan. The Department of Justice, in a new twist on enforcement, devised a criminal monitoring system that allowed corporations to avoid prosecution by paying hefty fines and entering into multimillion-dollar no-bid corporate "monitoring agreements" in which former Justice Department prosecutors and officials (including former Attorney General John Ashcroft) would "impose internal reforms without going through a trial" (Lichtblau, 2008; New York Times, 2008). The affected firms included Monsanto (alleged to have bribed an Indonesian official to relax environmental controls over corporate cotton crops and covered the bribes with fraudulent invoices); Merrill Lynch, the Bank of New York, AmSouth Bank, KPMG and others (for export control violations, obscenity violations, Medicare and Medicaid fraud,

[21] www.fedspending.org

kickbacks and environmental violations). In another unorthodox arrangement, State Department and Commerce Department (Mufson, 2008) officials facilitated no-bid contracts between the Iraq Oil Ministry and five major Western oil companies. The chief executive of one of those companies, Hunt Oil, advised the administration on the situation while also serving also as a politically appointed member of the President's Foreign Intelligence Advisory Board (Glanz & Oppel, 2008).

CHAPTER 3: HISTORICAL & THEORETICAL CONTEXT

> *"In a Republican district I was a Republican; in a Democratic district, a Democrat; in a doubtful district I was doubtful, but I was always for Erie {Railroad}.*
>
> *J. Gould*
> *Owner, Erie Railroad*

3.1 Introduction

Few entities affect business more directly or more pervasively than government as it engages in not only the establishment and enforcement of regulatory, environmental, and labor policies, but also the award of large contracts. Public policy plays a pivotal role in allowing or denying competitive advantage through regulations on trade, regulations that control the size, structure, and cost of industry (Gale & Buchholz, 1987; Schuler, 1996), government involvement in bankruptcy bailouts, development of favorable or unfavorable tax codes and tax credits (Gale & Buchholz, 1987:32 - 34).

> Government decision makers have the ability to alter the size of markets through government purchases and regulations affecting substitute and complementary products; to affect the structure of markets through entry and exit barriers and antitrust legislation; to alter the cost structure of firms through various types of legislation pertaining to multiple factors, such as employment practices and pollution standards; and to affect the demand for products and services by charging excise taxes and imposing regulations that affect consumption patterns. Indeed, the power of government over business practices has become so substantial ... that the expansion of government regulation since the 1970s has fundamentally altered the relationship between business and government and ... these changes are tantamount to a second managerial revolution ... As early as 1969, Epstein argued that "political competition follows in the wake of economic competition: and that the government may be viewed as a competitive tool to create the environment most favorable to a firm's competitive efforts." (Hillman & Hitt, 1999:826)

To be sure, some firms and industries are more affected by government than others. Heavily regulated industries and firms that rely heavily on government contracts have greater and more focused interest on government activities than those that do not. "Firms operating in more regulated environments, ... those that perceive a high degree of dependence on government policy, may have a number of important issues at any given time likely to affect them" (Hillman & Hitt, 1999:829). Firms with a stake in trade policy care more about legislation and executive branch policy than those that do not. Businesses that are labor intensive have greater stake in labor policies and legislation than those with fewer employees or only white-collar employees.

Political scientists and business scholars generally agree that firms engaging in corporate political activity do so "in an attempt to use the power of government to advance private ends" (Mitnick, 1993 cited in Hillman & Hitt, 1999:826). The goal is to minimize the real or perceived adverse effects of government oversight, regulation and control; and/or to enhance the opportunity to compete for government contracts (Schuler et al, 2002). The desired result in any case is to improve the firm's position vis-à-vis the federal government and therefore vis-à-vis the competition. The idea is not new. It has played a dramatic role in the evolution of business and governance in the U.S. since the nation's founding.

3.2 Business and Government in the Early Republic

Social and political scientists have long been engaged in debate over the interplay between capitalism and the carefully crafted American form of representative republican government. Some scholars hold the likes of Thomas Jefferson, Alexander Hamilton, James Madison, and John Jay out as men fiercely determined to establish a framework of government in which the common good and best interests of all the nation's citizens were represented (Hofstadter, 1969; Barley, 2007). Others question the moral motivation of the Founding Fathers, describing them as wolves in sheep's clothing – elites who constructed an illusion of plurality in order to protect their own economic self-interest – set upon building a government that *appeared* to represent all citizens, but through which elite interests could best be served (Beard, 1935; Whitt, 1979; Parenti, 1995).

The early American republic reaped the rewards of seemingly limitless human and natural resources. Between the years 1803 and 1805, she was the veritable queen of freight commerce, "the largest carrier of goods from European ports" (O'Connor, 1968:10). As the War of 1812 slowly choked off the nation's commerce, it was the industrialists who responded with enterprising vigor, investing capital to establish a thriving textile industry. When the war ended, American enterprise demanded a return to pre-War profits. Mills sought protection from the president and Congress, and shippers demanded open access to world trade (O'Connor, 1968:10). The stakes were increasingly high and the need for government to act seemed imperative in order for business to sustain itself as the backbone of the economy so directly linked to the foundation of the republic. By 1819, the House of Representatives had established special Congressional Committees to represent the interests of commerce and manufacturing and the relationship between business and government was consummated. Businessmen who ran for congressional elections and won could gain an immediate grip on legislation affecting manufacturing or trade. Through the 1830's political interests represented the interests of financiers over the issue of the National Bank. So powerful were these interests that President Andrew Jackson cautioned against their power in his State of the Union Address of 1833:

> In this point of the case the question is distinctly presented whether the people of the United States are to govern through representatives chosen by their unbiased suffrages or whether the money and power of a great corporation are to be secretly exerted to influence their judgment and control their decisions (Barley, 2007:203)

As the stakes were raised throughout the 1840's and 1850's, there was increasing evidence of business financial support to political causes, primarily toward the territorial expansion and slavery issues and it became increasingly common for parties or political committees to seek financial contributions from manufacturers as parties shifted and formed coalitions to bolster their position. At stake were the family fortunes that had been amassed since the earliest days of the republic, which would face collapse and ruin if the Union dissolved (O'Connor, 1968). When the peace of the 1850 Compromise abruptly ended with the opening of Nebraska and Kansas, it was the prominent businessmen of New England, with righteous feelings of betrayal and motivated toward the greater social cause, who dedicated their fortunes to sponsor settlers who would ensure the establishment of Kansas as a free state. As the Civil War ended, Abraham Lincoln echoed the cautionary words of his notable predecessors:

> We may congratulate ourselves that this cruel war is nearing its end. It has cost a vast amount of treasure and blood ... but I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. As a result of the war, corporations have been enthroned and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the Republic is destroyed. I feel at this moment more anxiety than ever before, even in the midst of the war.
>
> (Barley, 2007:203)

In 1883, it was the American Manufacturers Association that called for reform of the spoils system, their ability to make a profit having been adversely affected by corruption in the Bureau of Customs as port inspectors enjoyed the opportunity to take bribes and/or confiscate goods (O'Connor, 1968).[22] After 125 years of co-evolution, it was difficult to draw a clear line between business, the parties and the government. Even Franklin Roosevelt, the nation's "knight in shining armor wielding the sword of righteous vengeance against the robber barons in the skyscrapers of downtown Manhattan," confided in a personal letter to a friend,

> The real truth of the matter is, as you and I know, that a financial element in the larger centers has owned the Government ever since the days of Andrew Jackson – and I am not wholly excepting the Administration of Woodrow Wilson. The country is going through a repetition of Jackson's fight with the Bank of the United States – only on a far bigger and broader basis. (Sutton, 1975:14)

3.3 Reining in Big Business

A host of scholars has focused attention on the close relationship between business and government during the long FDR Presidency claiming it provided a clear "path by which prominent financiers … pushed for national planning and control for their own benefit and that ultimately evolved into the Roosevelt New Deal" (Sutton, 1975). Regardless of outlook in this regard, there is agreement that the system of checks and balances embedded in the system does facilitate periodic shifts of power. Public management scholars have described these shifts and cycles as they are manifested in the relationship between government and business (Schultz & Maranto, 1998).

The shift in power between labor and business in the 1980s that was underway was in fact the third of three waves that have swept over the relationship between business and government in the United States. The first came at the turn of the 19th century with the passage of legislation that would regulate trusts and control working

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[22] *Ibid.,* p. 61.

conditions for labor. It was an era that saw the establishment of the Interstate Commerce Commission and Federal Trade Commission. The second wave brought with it the New Deal, and along with it regulation over securities, banking, and labor-management relations, the creation of the Securities and Exchange Commission, and passage of the National Labor Relations Act (Kochan, 2002:140). The third wave came in the 1960s and 1970s. It saw the creation of the Environmental Protection Agency, the Consumer Product Safety Commission, the Occupational Safety and Health Administration (Esmeier & Pollock (1986:293), and the Equal Employment Opportunity Commission (EEOC) (Aplin & Hegarty, 1980:439).

The first two waves targeted specific industries (securities, banking, trucking, railroads, utilities, communication) with a broad intent to maintain control over market structure and prices. The third brought a "fundamental change in regulatory philosophy {focused on} the conditions under which goods and services {were} produced and the physical conditions of products that {were} manufactured" (health and working conditions, environmental quality, highway safety) (Esmeier & Pollock (1986:293). The scope and reach of these third wave regulatory agencies was "unprecedented in history" (Aplin & Hegarty, 1980:439). A two-tier arrangement consisted of a first layer of agencies watching over the shoulders of industry while in a second layer, Congress watched over the shoulder of the agencies.

> For the first time in American history, government regulators began routinely to shape and influence virtually every important decision made by nearly every large firm. Nearly every corporate department developed a counterpart in the regulatory bureaucracy: decisions as to what to produce, where to produce it, whom to hire and promote, how to allocate research and development funds and – even for a brief period – how much to charge customers and pay employees – became subject to a highly complex process of negotiations and bargaining between corporate officials and regulators, congressmen and judges. (Vogel, 1983:26-27)

Akard (1992) identified "more than 25 major pieces of federal legislation enacted between 1965 and 1975 regulating workplace safety, environmental pollution, and product quality. Federal regulatory personnel increased from 9,707 in 1970 to 52,098 in 1975, and direct federal expenditures on regulatory activity increased fivefold during this period. The new "social" regulations affected all industries and gave them a common political objective. They were especially important in mobilizing organizations representing small businesses and industries into a coherent political force" (Akard, 1992:601). Mizruchi (1990c), following Burris (1987), identified the following industries as those subjected to the most intense regulatory and labor environment: chemicals, petroleum refining, paper and wood products, metal manufacturing, electrical equipment, motor vehicles, mining, and textiles.

This institutional watchdog arrangement, designed to prevent corporate abuse of labor, consumers, and the environment brought strong reaction from the regulated industries (Laffont & Tirole, 1991).

> During the period 1965 to 1975, "business leaders saw themselves as the *victims* of a failing economy {but} the public seemed to blame them for the crisis. Public confidence in business declined dramatically in the early 1970s with revelations of illegal campaign contributions, corporate kickbacks to foreign officials, and the perception that big business was behind the oil crisis and other economic problems. In addition, the widespread perception among business leaders that they were losing political power was exacerbated by the election of 1974 in which liberal Democrats made substantial gains. Shortly after the election, organized labor and liberal interest groups united to promote a progressive legislative agenda that included political reforms, labor law reform, increased regulation of business and enforcement of antitrust laws, expansion of social programs, and a full employment policy that guaranteed jobs for all able-bodied citizens. For the first time since the 1940s, proposals for a cohesive system of national economic planning were considered by "respectable" academics, politicians, and a few business leaders. Increased state intervention and a progressive redistribution of economic resources were central features of most of these proposals." (Akard, 1992:602)

"The laws that created these agencies, the agencies themselves, and their regulations were seen by the business community both as economic millstones and as unwelcome challenges to managerial discretion" (Dean et al, 1998:136). It was through PACs that business fought back.

In the years that followed the establishment of these new government agencies (1973 to 1975), "the United States experienced record inflation and the worst recession since the 1930s" (Akard, 1992:597). From the viewpoint of the firm, the adverse economic impact suffered by industries as the direct result of this new intense regulatory environment was substantial:

> … transportation, communications, public utilities, banking, insurance, credit, securities, crude oil and gas, all in varying degrees have been subject to price, entry, or output regulations … By one estimate, 70 percent of the $6.6 billion pollution-related investment for 1975 was made by the utilities, petroleum refining, chemicals, non-ferrous metals, and paper industries; a similarly high percentage of the $4 billion expense for enhancing worker safety fell on the chemicals, metals, wood, paper, and automobile industries. Other sources report that economy-wide pollution-related investment rose to $7.5 billion in 1977 and $11 billion in 1980 … Although the costs of compliance may be difficult to ascertain, the costs of noncompliance have become abundantly clear for some organizations. To illustrate, the volume of automobile recalls in 178 reached 7.9 million, down from 10.7 million vehicles in 1977. An "equal employment" decree in January 1973 required A.T.&T. to pay $18 million in compensatory wage payments. To remain in compliance with the decree reportedly costs the firm $53 million annually. The firestone tire & rubber company has been involved in a notable case involving recall of its major radial tire, at a cost that could "easily exceed $300 million." Recently EPA ruled that firms proven to have spilled chemicals into waterways could be liable for civil fines up to $5 million, cleanup costs up to $50 million, and possible criminal penalties of one year in jail. Daily accounts of major settlements and penalties involve product safety (including hair dryers, children's toys, microwave ovens and aerosols), worker safety (exposure to noxious and toxic substances), employment practices (discriminatory hiring and promotion systems) and especially environmental contamination (radiation leakages, chemical wastes, acid-rain, surface mining practices, and chemical spills in transit). The challenge facing organizations many potentially overwhelm their capacity to respond. An indication of the problem was Sears, Roebuck's recent class-action suit filed against EEOC. In its action it was asserted that "as the employer of 420,000 people, [it was unable] to comply simultaneously with all the affirmative-action directives it faces." The current legislative apparatus and enforcement organizations pose a monumental problem for business strategists. The political clarity and certainty of earlier years has disappeared as issues and positions have become increasingly complex and interrelated. (Aplin & Hegarty, 1980:295;439 – 440)

Blaming liberal programs of the 1960s they felt had sapped them of their political and economic power, the corporate world attributed the nation's economic decline to

> generous government cushions like unemployment insurance, social security, and minimum wage laws. Government had also increased the costs of production by excessive taxation and overregulation of business activity ... There was nearly universal antagonism toward the more than 25 major pieces of federal legislation enacted between 1965 and 1975 regulating workplace safety, environmental pollution, and product quality. Federal regulatory personnel increased from 9,707 in 1970 to 52,098 in 1975, and direct federal expenditures on regulatory activity increased fivefold during this period." (Akard, 1992:601).

Perceiving that they had suffered at the hands of the Great Society presidents,[23] corporate America took charge of its regulatory destiny and in the 1980's with the help of Ronald Reagan, was largely freed of regulatory shackles under which it had been bound. Akard (1992) provides an excellent account of the rapidly rising corporate consciousness of the 1970s and backlash against the social programs that corporate America felt had ruined the U.S. economy.

> The decade of the 1970s {had been} one of political and ideological realignment in the United States. The postwar "liberal consensus" had unraveled over the Vietnam war, the social upheavals of the 1960s, and the Great Society expansion of the state. But the fatal blow was the stagnation of the economy. From late 1973 to mid-1975, the United States experienced record inflation and the worst recession since the 1930s. "Stagflation" undermined the Keynesian principles underlying postwar economic policy and upset the political balance between capital, labor, and the state that was predicated on continuous economic growth. In response to the perceived failure of postwar liberalism, competing interest groups championed a variety of policy alternatives, including proposals for national economic planning, full employment, and the expansion of state capacities to regulate business and protect workers and consumers from the vagaries of the market. But by the 1980s, U.S. policy favored greater reliance on market allocation of resources, a reduction of taxes and nondefense government expenditures, and a rollback of recently-enacted regulations affecting industry ... {By} most historical accounts, a striking feature of the transformation of U.S. economic policy between 1974 and 1981 was the political

[23] There is not agreement on whether or not the 1970s regulatory environment was economically burdensome to business. Holburn & Vanden Bergh (2006:522) report that "the direct cost to firms of complying with federal regulations in the U.S. amounted to more than $500bn." Esmeier & Pollock (1986:206) appropriately stress that "The important point is that for industries bearing these costs, government intrusions into their day-to-day operations are *perceived* as illegitimate and even dangerous. The pervasiveness and intrusiveness of the {then} new social regulation {of the 1960s and 1970s were} ... regarded in some quarters as serious threats to business prerogatives and perhaps more importantly to the balance of power between business and non-business interests."

> mobilization by prominent business leaders and lobbying groups representing all segments of capital to carry out a unified, class-conscious policy offensive. (Akard, 1992:597)

3.4 Capture Theory

Although the entanglement of business and government had been in play since the nation's founding, it was not until 1971 that the idea of the political marketplace was theoretically described within the academy. George J. Stigler captured its essence, describing it as a place where "unspecified political actors" including "legislators, executives, and their regulator-agents" engage in the sale of

> power: tangibly, power over, say, prices and entry, but ultimately over the wealth of a regulated industry's buyers and sellers. These two groups compete for access in this power, and the high bidder wins. The currency with which the demanders bid is obviously a bit more complex than the stuff reported in the monetary aggregates. It includes votes delivered in support of politicians, campaign, contributions, jobs in the political afterlife, and so forth. (Peltzman, 1993:823)

Thus followed his Nobel Prize winning "Theory of Economic Regulation," which recognized that

> the industry which seeks political power must go to the appropriate seller, the political party ... If a political party has in effect a monopoly control over the governmental machine, one might expect that it could collect most of the benefits of regulation for itself. (Stigler, 1971:12).

The phenomenon, later to become known as "capture" in public choice theory, is one in which the "regulator {is} captured by the regulated" (Peltzman, 1993:822). Simply put, suppliers in the political marketplace – including legislators, executives and regulator-agents in government – sell the coercive power of government in exchange for political support (votes, campaign contributions, future jobs). In the capture model, the public policy process, ostensibly designed to serve the public interest, instead functions to serve the interest of regulated industries. Capture theorists emphasize the role that interest groups play in the public policy process and recognize the potential for interest groups to collude with the agencies responsible for regulation over their activities (Laffont & Tirole, 1991; Martimort, 1999).

> Instead of viewing politicians and regulators solely as guardians of public interests, Stigler imparted to them motivations of self-interest, particularly in terms of maintaining political power. From this bedrock of assumptions. Stigler came to the conclusion that politicians legislate (and regulators promulgate) that which supports the interests of politically powerful groups. Such support, in turn, reaps the desired harvest of votes and financial support for the politician. From this perspective, the regulatory process is played out within the bounds of a market for regulations, which is subject to supply and demand forces. Accordingly, affected parties participate in a political auction, with the successful bidder being the one who best serves the opportunistic interests of politicians. Fundamentally, the politician obtains votes and dollars in exchange for regulations with a similar package of utilities. Stigler pointed out that as the knowledge of this interdependency becomes embedded in the operating assumptions of the parties involved, some regulatory agencies can, ironically, end up as much in the service of the industries they are mandated to regulate as in serving the public interest ... Over time, increased political activity on the part of the business community transforms the nature of the relationship between the regulator and the regulated to eventually become symbiotic and enduring due to the interdependencies that tie these two agents together. (Dean et al, 1998:138).

The notion of capture is important for purposes of the present study because it admits for consideration the relationship between economic stakes and political influence (Kalt & Zupan, 1984:280).

In his Nobel Prize winning public choice theory of economics, Buchanan described the political marketplace as the market for access to government. In his view, the basis of non-market exchange was one in which "demanders" (including citizens, firms, interest groups, voters, and other governments) seek favorable public policy outcomes from suppliers (including elected and non-elected politicians, bureaucrats, legislators, and members of the judiciary), offering information, votes, or money in exchange (Buchanan, 1987). Buchanan included in the model all the societal institutions that play a role in establishing public policy. On receipt of the Nobel Prize for his work, Buchanan pointed out the importance of this extension of "economic theory to the operation of the public sector." His extended remarks are worthy of noting in their entirety.

> Many critics of the "economic theory of politics" base their criticisms on the presumption that such theory necessarily embodies the hypothesis of net wealth maximization, an hypothesis that they observe to be falsified in many situations. Overly zealous users of this theory may have sometimes offered grounds for such misinterpretation on the part of critics. The minimal critical assumption for the explanatory power of the economic theory of politics is only that identifiable economic self-interest (for example, net wealth, income, social position) is a positively valued "good" to the individual who chooses. This assumption does not place economic interest in a dominating position and it surely does not imply imputing evil or malicious motives to political actors; in this respect, the theory remains on all fours with the motivational structure of the standard economic theory of market behavior. The differences in the predicted results stemming from market and political interaction stem from differences in the structures of these two institutional settings rather than from any switch in the motives of persona as they move between institutional roles ... The relevant difference between markets and politics does not lie in the kinds of values/interest that persona pursue, but in the conditions under which they pursue their various interests. Politics is a structure of complex exchange among individuals, a structure within which persons seek to secure collectively their own privately defined objectives that cannot be efficiently secured through simple market exchanges. In the absence of individual interest, there is no interest. In the market, individuals exchange apples for oranges; in politics, individuals exchange agreed-on shares in contributions toward the costs of that which is commonly desired, from the services of the local fire station to that of the judge. (Buchanan, 1987:245-246.)

In this economic model of the political marketplace, the "product" is public policy, more specifically "potential regulation pertaining to some aspect of the production or use of a product or service" (Bonardi, et al, 2005:399). Demanders, including firms, seek relationships with suppliers, including "bureaucrats" (career employees of agencies) and "elected officials" (political appointees). The notional "individual market" is one that is defined by a specific political issue with the broader "political marketplace" comprised of the overall political system.

> The presence of the government, either as an active or passive influence on the nature of competitive markets, thus creates an additional opportunity for firms to improve their performance other than through the design of market strategies. Here, we define a firm's non-market strategy as a concerted set of actions aimed at influencing government decisions on public policies. Such actions consist of those taken in non-market arenas (e.g. lobbying legislators or agencies, contributing funds to electoral campaigns) as well as those taken in market arenas (e.g. plan location decisions, local component sourcing levels, or product pricing). The balance of non-market and market *activities* in a non-market strategy depends on precisely whom in the policy-making process the firm wishes

to influence; elected legislators, for instance, will have an interest in firm actions that directly improve their own welfare (e.g. campaign contributions) as well as in those that affect their voter-constituents (e.g. local employment levels, prices of widely consumed goods or services). Appointed regulators and agency officials, who are charged with implementing legislative directives, on the other hand, are more likely to respond to non-market strategies that are primarily focused on lobbying activities and the provision of information on policy options and policy consequences" (Holburn & Vanden Bergh, 2002:3-4).

Buchanan's argument that the political marketplace is one that buys and sells access to the machinery of public policy has been validated (Gray & Lowery, 1997; Schuler et al, 2002) and re-affirmed in anecdotal reporting (Drew, 1983; Etzioni, 1984, both reported in Clawson & Neustadtl, 1989:752):

> Contributing to incumbents will not change the composition of the Congress and therefore is likely to have limited effects on partisan political issues. However, members of Congress are, by all accounts, more likely to grant access to those who have made donations to their campaigns. Senator Rudy Boschwitz (R-Minn.), for example, has institutionalized the practice. Those who contribute $1,000 or more to his campaign receive special blue stamps to place on their envelopes, lesser contributions entitle people to other color stamps, and noncontributors must take their chances. Letters are opened and replied to according to the contribution level, which Boschwitz considers "a nifty idea." (Clawson & Neustadtl, 1989:752).

3.5 Corporate Nonmarket Strategies

The early academic work of the 1980s contributed greatly to our understanding of the "circumstances that give rise to various forms of corporate political activity, especially the creation of business PACs, the behavior of these PACs, and the lobbying efforts of business firms" (Quinn & Shapiro, 1991:853). These activities are part of the much broader "nonmarket" strategy, a collective of actions and activities set apart from market strategies:

> While market strategies consist of actions aimed at shaping interactions with competitors, customers and suppliers in the market place (e.g. pricing and investment decisions), non-market strategies consist of actions specifically designed to influence the institutional players who determine public policy – state and federal legislatures, executives, regulatory agencies and courts – and include activities such as contributing to electoral campaign funds, lobbying and litigation. In the broadest sense, non-market strategies are

> primarily concerned with using the public policy process to shape the allocation of property rights or the "rules of the game" that govern the interactions between firms, competitors and consumers in their market environment. (Holburn & Vanden Bergh, 2002:2)

Nonmarket strategy activities provide a "means of competing not permitted by pure market pursuit of objectives" (Gale & Buchholz, 1987:35). "The ultimate objective ... is to improve the firm's market position by obtaining direct positive benefits, limiting the damaging effects of governmental or interest-group action, or raising rivals' costs" (Spiller, 2001:3).

Mahon (1989:53-57) describes three types of nonmarket strategies: (1) strategies of containment (keeping issues "off an agenda and out of the limelight, or {placing} an issue on an agenda of its own choosing"); (2) strategies that define the issues ("definition and symbols associated with that definition"); and (3) strategies that shape issues once they have become part of an agenda ("to control the outcome, and implementation of that outcome").

Baron (1999:48) considers nonmarket strategy to be two-pronged, one aspect directed at the election process (to influence the institutions in which policies will be chosen), and the other directed at the government in office (to influence the policies which will be chosen). In the first instance, the approach is toward setting the agenda (using allies in the legislative branch), majority-building (with energy and resources devoted to recruiting votes to build a majority on a specific position), and/or rent chain mobilization (with energy devoted to the mobilization of constituents who will further mobilize their legislators) (Baron, 1999:49). In the second instance, the focus of energy is on institutions or individuals within the executive branch in an effort to influence policies.

3.6 Corporate Political Activity

Corporate involvement in the political process, one element of the broad category of nonmarket strategy described above, is also known as corporate political activity (CPA). Corporate political activity runs a broad gamut (described in detail below), but includes those practices and activities that mitigate, moderate, and mold government actions in the direction of the firm's interests including activities that direct government contracts toward the firm and/or reduce the effects of legal and regulatory actions in the legislative and/or executive branches of the government. It has been defined as: "proactive actions to affect the public policy environment in a way favorable to the firm" (Baysinger, 1984); "a concerted pattern of actions taken in the nonmarket environment to create value by improving overall performance" (Baron, 1997); "any deliberate firm action intended to influence governmental policy or process" (Getz, 1997:32); "a way to monitor, control, and manage the regulative pressures prevailing in business organization's external environment" (Skippari et al, 2005:187); and "the analysis and development of successful strategies to shape the rules of the game to an organization's advantage" (Baron & Diermeier, 2007).

Baysinger's early foundational concept of corporate political activity was that of a "new strategic political objective" he called "domain dominance." Specifically, as set apart from the traditional view (in which firms sought favors or relief from government control), Baysinger posited that domain maintenance manifested itself as "political resistance to what managers perceive to be excessive governmental intrusion into the traditionally private domains of managerial autonomy" (Baysinger, 1984:248). Its purpose has been further described by Mahon (1989:51 - 52):

> To secure a position of advantage regarding a given regulation or piece of legislation, to gain control of an idea or movement and deflect it from the firm, or to deal with a local community group on an issue of importance. Such strategies are exercised in arenas beyond the legislative and regulatory scene. Therefore, *corporate political strategies employ an organization's resources to integrate objectives and to undertake coherent actions directed toward the political, social, and legal environment in order to secure either permanent or temporary advantage and influence over other actors in the process* (emphasis added).

Writing at the same time as Baysinger, Useem created an early typology of corporate political activity, "selected for their political significance, diversity, and research tractability" including: (1) advisory service to the national government; (2) assistance in the governance of nonprofit organizations; (3) financial support for political parties and candidates; and (4) appeals through the mass media for public opinion (Useem, 1984:76). As one component of the advisory service category, Useem included the American political appointment process, noting the "all presidents have favored leading figures from the world of business" in making Cabinet and sub-Cabinet appointments in order to "shape government policy" (Useem, 1984:79).

Gale & Buchholz (1987:36) also established a generic taxonomy of political strategies: (1) strategies to increase overall market size; (2) strategies to gain market advantage aimed at industry competitors; (3) strategies to reduce threats to the company and industry aimed at new entrants and substitute products; and (4) strategies to increase bargaining power aimed at suppliers and customers.

3.7 Corporate Freedom Versus Corporate Accountability

Much ink has been spilled in the literature over the advisability of corporate entanglements with government. Ed Freeman introduced his very popular "stakeholder approach to strategic management" during the early years in which these business-government power relationships were being reshaped, reformed, and reconstituted. His normative claims about the relationship between business and government are worth noting in its entirety:

> The recent past has seen an increase in the awareness of the role of government in the business enterprise. So much so that public officials have been elected on the promise of curtailing this role, and seeking a return to "free enterprise." The business-government relationship in the U.S. has been founded on the principles of the "watch-dog," i.e., *it is the legitimate role of government to regulate business in the public interest,* and to enforce strict anti-trust laws to insure adherence to market principles … While business has always had to contend with government in some form or other, current perceptions of its pervasive influence require a closer examination. It used to be sufficient to have a couple of lawyers or lobbyists or even public relations people whose role was to insure compliance with regulations, or respond to legal challenges, or represent the firm before Congress and state legislatures. However, the explosion in the scope of government in the post World War II economy of the U.S. has made this method of coping ineffective. No longer do most firms rely solely on the abilities of several trade organizations and lobbying groups such as the U.S. Chamber of Commerce and the national Association of Manufacturers to manage their relationship with multiple actors in the government … The issues here are far from settled and political scientists and policy makers continue to debate cause and effect. I believe that from the managerial standpoint these repartees miss the major issue: how to manage in a world where there are multiple influences from various levels of government, or more properly from governments, and where the corporation and its managers can in turn affect the direction of public policy and government action? … {T}oday's CEO must spend a good deal of time and resources worrying about proposed public policy legislation from Congress … *Management simply must undertake an organized effort to deal with governments in a strategic fashion* (emphasis added), and if the model of the firm is that of {the traditional managerial framework}, then it is almost impossible to do so. They will react to events and crises in the short term and will not play their necessary role in the public policy process (Freeman, 1984:13 – 16).

Freeman worried that the execution of such a political strategy might be "impossible" because firms would not be willing to invest the time or energy in the process of influencing public policy" (Freeman, 1984). Nevertheless, his work set a new standard for corporate executives to focus their attention on a crosscutting and comprehensive set of stakeholders inside and outside the marketplace. The shareholder-stakeholder debate came to dominate the management and strategy research agenda.

Freeman rode the crest of a wave of research that rolled across the Academy from the early 1980s through the mid-1990s, one that described and defined this backlash of business against government regulation and oversight (Akard, 1992:601). It was an era in which scholars in other disciplines were producing a vast literature on corporate power, including the power struggle inherent in the business-government relationship. Dozens of scholars – sociologists, economists, political theorists, psychologists and management strategists – were examining specific aspects of the phenomenon that signaled the enormous shift in the political atmosphere of the country and along with it a tectonic movement in the relationship between business and government.

Reports streamed in from across the Academy. Economists linked the changing dynamics to broader aspects of market phenomena and developed the theoretical basis referred to as "corporate non-market activity." James Buchanan published his 1986 Nobel Prize winning foundational "public choice theory of economics, which changed the way economists analyze economic and political decision making" (James Buchanan Center, 2008). Political theorists broadened and deepened the understanding of activities of business vis-à-vis government. (See Andres, 1985; Domhoff, 1974; Esmeier & Pollock, 1985, 1986; Evans, 1988; Getz, 1997; Humphries, 1991; Quinn & Shapiro, 1991; Scholz, 1998; Schuler, 1996; Scott, 1991; Vogel, 1983, 1987, 1998; and Wilcox, 1989). Strategy researchers developed theory and explored the effects of corporate political activity on the behavior of legislators (See Hillman & Hitt, 1999; Hillman, Zardkoohi et al, 1999;

Keim & Zeithaml, 1986; and Schuler, 1996). Sociologists sought evidence on the nature and characteristics of individual relationships that contributed to the shifts. (See Burris, 1987; Clawson & Neustadtl, 1989; Clawson et al, 1986; Domhoff, 1974; Fisman et al, 2006; Koenig & Gogel, 1981; Mizruchi, 1989, 1990a, 1990b; Mizruchi & Koenig, 1986; Neustadtl, 1990; Neustadtl & Clawson, 1988; Neustadtl et al, 1991; Pratto, 1994; Sidanius & Pratto, 1999; Sidanius, Levin et al, 2000; Useem, 1979, 1980, 1982, 1984, 1990; Van Hiel & Mervielde, 2002; Walsh et al, 2003). Psychologists explored and documented the human factors (See Aquino & Reed, 2002; Fiske & Tetlock, 1997; McGraw & Tetlock, 2005; Margolis, 2004; Margolis et al, undated; Molinsky & Margolis, 2005; Margolis & Walsh, 2003; Tetlock, 2000; Tetlock, et al, 2000).

The work of Edwin M. Epstein was foundational in development of this crosscutting discipline, serving as the basis for others' work.[24] Epstein's broad insights into the role of business in bringing alive the fledgling U.S. democracy in the late 18th century describe the era as one that set the stage for corporations to operate largely outside the rule of law, particularly with regard to the responsibility of business to the public interest.[25] Epstein questioned whether the rule of law ever did "come to grips with the critical impact that large corporations would have upon society," specifically noting among his chief concerns the role corporations played in the political process (Epstein, 1972:1711). In his view, there was no consensus on what "constitutes the public interest

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[24] Edward R. Freeman's *Strategic Management* attributions to Epstein include (1) "Epstein (1969), Lindbloom (1977), McQuaid (1982) and many others have debunked the myth of the separation of the business and political arenas;" (2) "Epstein (1980) has analyzed the emergence and impact of Political Action Committees (PACs) who by their very nature can get the ear of legislators;" and (3) "Epstein (1969) conducted a classic study of business and the political arena in the U.S."

[25] In a lengthy review of the work of Professor James Hurst's *The Legitimacy of the Business Corporation in the Law of the United States, 1780 – 1970,* Charlottesville, VA: The University of Virginia Press, 1970.

and what specific roles corporations should play in furthering the public interest once it has been defined."

> Power affecting the many both within and outside of the firm remains in the hands of a self-perpetuating few, irrespective of whether we conclude the powerholders are the corporate board, top management, dominant investors or the "technostructure," {what Professor Hurst described as a} practically unchallenged position of authority for those in actual control.

Epstein concluded that the United States had failed to use corporate law to construct a functional set of social controls over the corporation: "We still have yet to discover the Holy Grail in political, legal or economic theory which resolves the dilemmas posed by the existence of such extensive private power in a constitutional democracy" (Epstein, 1972:1716). He carefully parsed the spheres of corporate power (economic, social & cultures, power over the individual, technological, environmental, political), with enormous emphasis on the subject of political power (Epstein, 1973, 1974a), and credited Schattschneider[26] with the suggestion that "American democracy was an early attempt to split the political power from the economic power" citing the American form of democratic capitalism as "the great American experiment" (Epstein, 1974b).

> The real issue relating to business power is not the separation of political and economic power but "the subordination of economic power to a political conception of the public interest," to assure that while economic interests may participate in public policy formation, they will not dominate the process ... To a large degree, expansions in the scope of corporate political activity are reciprocal of escalations in societal standards of business "social responsibility" ... While it remains an unresolved issue whether corporations have usurped the policy-making functions of government or whether some part or all of the business sector has been de facto co-opted or "public-ized," a symbiosis between government and business corporations is a basic characteristic of the American

[26] "Modern government, Schattschneider (1958) argues, is a power system, the agent of the political community, that competes with other power systems both domestic and foreign. 'We value government,' he writes, 'because it is the only device we have that is able to protect us against other power systems of which we do not approve wholly, power systems that we cannot control, or power systems that we fear.' Externally, the government of the United States competes with other governments; internally, it competes primarily with business as a system of power." (Mileur, 1992:178)

> political economy. An inevitable, if unintended, consequence of government's economic role is continuous and extensive corporate political involvement in all forums where public policy is determined. It is an attempt by business organizations to structure a favorable and predictable setting for themselves within a volatile environment in which governmental decisions, together with pressures from other social interests, continuously impact upon the firm. (Epstein, 1974b, p. 37 - 38)

Sociologists and political scientists delved deeply into the relationship between business and government, with a burgeoning literature on corporate political activity (CPA) that grew through the 1970s and 1980s. Among the most prolific of the peers and heirs Epstein were Useem and Vogel, sociologists who examined the locus of power in America. Useem described it as a network he called "the inner circle," defined as

> a politicized leading edge of the leadership of a number of major corporations {that had} come to play a major role in defining and promoting the shared needs of large corporations in ... the United States and the United Kingdom... The inner circle is at the forefront of business forefront of business outreach to government ... Whether it be support for political candidates, consultation with the highest levels of the national administration, public defense of the 'free enterprise system,' or the governance of foundations and universities, this politically dominant segment of the corporate community assumes a leading role, and corporations whose leadership involves itself in this pan-corporate network assume their own distinct political role as well ... The inner circle has assumed a particularly critical role during the past decade. Evidence ... indicates that the 1970s and early 1980s were a period of unprecedented expansion of corporate political activities, whether through direct subvention of candidates, informal lobbying at the highest levels of government, or formal access to governmental decision-making processes through numerous business-dominated panels created to advise government agencies and ministries ... The inner circle now serves to fashion, albeit in still highly imperfect ways, the main elements of public policies suited to serve the broader requirements of the entire corporate community (Useem, 1984:3-5).

Epstein and Useem wrote convincingly of need for accountability and responsibility of the corporation to society in corporate political activity (Epstein, 1972, 1978-79, 1987, 1989, 1992, 1996, 1998). Although scholars in other arms of the Academy continued to advance theories about the relationship between business and political power for the next two and half decades, only a few pursued Epstein's work.[27]

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[27] In their 1975 *Private Management and Public Policy,* Lee Preston and James Post cite Epstein's work in their "Case for Political Participation" by corporations, pointing out his concerns that corporate participation in the political process was cause for concern when it threatened to "deny on a continuing

Despite intense and voluminous debate over other aspects of Freeman's stakeholder approach, with one exception scholars did not specifically question the normative and instrumental claims he made about the relationship business should have with government or his claim that prudent managers must aggressively manage the business-government stakeholder relationship to the firm's advantage.[28] In that exception, Buchholz & Rosenthal (1995) vigorously questioned Freeman's argument:

> Contrary to current stakeholder theory, it could be argued that government is more than just another stakeholder, and ... business is more than just another interest group. Government, as the most important force in the public policy process, is the major determinant of corporate responses to the social issues that are of concern to the field. Business, because of its special status in society as the provider of jobs and income, has a major influence on government actions. There is something of a symbiotic relationship between business and government, or, to put it more broadly, between the market mechanism and the public policy process ... {Social contract theory} does not appropriately recognize the major role that government plays in this negotiation process {between business and government} in passing laws and regulations prescribing business behavior, and the role that business plays in influencing government. Furthermore, the relationship between the market mechanism and the public policy process is not given much attention in this theoretical approach. (p. 265)

Buchholz and Rosenthal continued their assault on stakeholder theory describing it in 2004 as "something of an alternative to government regulation ... as stakeholder theorists hope that government will matter less as stakeholder principles are implemented throughout America" (Buchholz & Rosenthal, 2004:144). The authors asserted that the stakeholder theory is flawed because it treats governments as if they "didn't matter." "The stakeholder model gives management too much unaccountable power and places them at the center of the universe ... while it is society as a whole that is the sun around

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basis to other interests in the society effective access to and potential influence upon foci of governmental decision making" (See p. 145-146).

[28] Jensen (2002:237) described the stakeholder theory as "fundamentally flawed because it violates the proposition that any organization must have a single-valued objective as a precursor to purposeful or rational behavior" and further, that it "politicizes the corporation." Jensen did not, however, outline specific concerns with Freeman's normative claims about government as a stakeholder.

which organizations such as business revolve" (p. 152). Buchholz and Rosenthal described Freeman's error as a "category mistake."

> Although government is a stakeholder of sorts, it is far more than that because it is the major player in the public policy process. Similarly, while business is an interest group, it is far more than that because it is the major player in the free market process. A political model might refer to the institution of business as just one more competing interest group, but would certainly not refer to the free market as a competing interest group; this would be a confounding of levels of abstraction. Similarly, the institution of government can be seen as just another stakeholder, but it makes no sense to refer to public policy as just another stakeholder. Public policy {government} and the free market economy are two organs of adjudication within the dynamics of community, representing two means of keeping a proper balance between the common other and undivided interests. Such a balance must be maintained for ongoing growth in a market-oriented economy. And while market economy cannot be termed another interest group competing for power, the dominant force in a free market is business. Similarly, while public policy cannot be termed another stakeholder, government is the dominant force in the public policy process. What exists here are two different levels of abstraction, a theoretical level where public policy and the market system can be related, and a more institutional level where it is appropriate to discuss business and government ... While most public policy making takes place through government activity, public policy is not the government but a social decision-making process that is comparable in abstractive levels to the free market. One can say in one logical tone of voice that government is just another stakeholder or that business is just another interest group. One can, at another level, speak of government as the major player in the public policy process, or business as the major player in the market process. But to speak of government as just another stakeholder and government as the major player in the public policy process in the same logical tone of voice is to commit a type of category mistake... It is dangerous to assume that managers know what is best for society ...the implementation of stakeholder principles depends upon government as it is the only entity that has the legitimacy to speak for society as a whole and can thus change the way corporations are governed and managed. This not going to happen voluntarily and the implied premise that stakeholder theory will eventually evolve into a full blown operative system because of its inherent inevitability is illusory. (Buchholz & Rosenthal, 2004:145-148).

Few empirical studies have attempted to find evidence that would support Epstein, Buchholz and Rosenthal's concerns. Meanwhile, news accounts attest to the fact that something is going on that merits a renewal of that discussion. The academic and popular presses recount worries over the ethical behavior of the corporation, particularly with regard to its current impact on the well-being of society. Scholars question the role of corporations in preparing business students for a responsible role in society as well as a responsible role in business:

> In pursuit of private gain, they have wreaked social havoc, destroying savings and jobs in monstrous disproportions .... We have thus helped create a generation of managers many of whom see government regulation as an unwelcome – and well nigh illegitimate – intrusion into the world of business ... Are the theories we propagate defensible in light of recent events? ... Are we fulfilling our highest mission of helping students acquire the skills needed to participate in ongoing debates about the direction of our society? (Adler, 1992:148-149).

Hinings & Greenwood (2002:411) raised fundamental questions about the responsibility of the Academy, pointing out that one of the central concerns in the study of organizations – "how organizations affect the pattern of privilege and disadvantage in society" – had "all but disappeared from discussion ... in the '80s and '90s." The authors pointed specifically to stakeholder models, asserting that while these models "do recognize that organizations serve a variety of constituencies, ... emphasis is usually on how organizations can be more effective and profitable by systematically analyzing those stakeholders and serving their needs" (p. 414). Noting the early work of Mizruchi, the authors make the observation that

> democratic institutions are vulnerable to the ability of organizations, especially large organizations, to influence public decision making. They may do so wittingly or deliberately. They gain preferential access to politicians and have the capacity to mobilize consequences of significance. They affect the functioning of core societal processes and the consequences reverberate widely. (Hinings & Greenwood, 2002:414)

Examples in the popular press abound. In 2004, the U.S. Department of Housing and Urban Development forced two government-chartered mortgage finance companies, Freddie Mac and Fannie Mae, to make loans to more low-income and minority families, despite researchers' warnings that foreclosure rates in the sub prime loan market was escalating.

> For Wall Street, high profits could be made from securities backed by sub prime loans. Fannie and Freddie targeted the least-risky loans. Still their purchases provided more cash for a larger sub prime market ... The damage to homeowners, to neighborhoods, to state and local government ... and now to all American taxpayers, is almost incalculable. (Leonnig, 2008:A01).

At the same time, senior government officials including the Secretary of Housing and Secretary of Health and Human Services, along with members of Congress, were enjoying deeply discounted personal home loans, courtesy of the chief executive of Countrywide Financial, which also engaged in the more traditional form of corporate political activity through corporate political action committees (Weisman & ElBoghdady, 2008:A01). At the Department of Justice, political appointees made eleventh-hour changes in the government's case against tobacco companies, reducing the proposed penalty to be levied against the firms from $10 billion to $130 million and allegedly asking witnesses to change their testimony (Leonnig, 2007:A01). Responding to a request from Congress to report on offshore outsourcing of information technology and high-tech jobs, political appointees at the Department of Commerce edited out analysis written by agency experts that was not pro-business, substituting language that indicated the outsourcing of such jobs was positive for the information technology, semiconductor and pharmaceutical industries (McCormack, 2005).

3.8 Gaps in the Literature

Scholars in the political, social, and psychological sciences have gone to great lengths to examine the means, methods, and moral implications of the business-government relationship. This work has included detailed theoretical and empirical examination of the narrow effects of each of these corporate strategies. The bodies of literature are voluminous. The scope of political science research alone devoted to questions about the business-government relationship caused Esmeier & Pollock

(1996:287) to describe the situation as one in which "the once lamented dearth of scholarship on business and politics {had} suddenly become an embarrassment of riches." Quinn & Shapiro (1991:851) reported in the *American Political Science Review*, "Few social science controversies {are} longer lived than whether business firms and their owners dominate politics in democratic capitalist countries."

Despite emphasis in the social and political sciences on the issue, business research has not followed suit. Getz (1997:64) noted that "If political action is ever to be fully integrated with strategic planning and organizational behavior (intellectually or practically), much more empirical work on effectiveness will need to be done." Hillman et al (2004) point out that "scholarly research in the area of corporate political activity (CPA) … has not kept pace with the prevalence {of} CPA in practice" (p. 838). Holburn & Vanden Bergh (2004:479) point out the need to devote specific attention to "how interest groups allocate influence resources across multiple government branches" of government. A meta-analysis of the body of literature on corporate political activity by Skippari et al (2005:5) affirmed the interdisciplinary nature of literature in the field, concluding: "Research on business and politics has developed into a fragmented field of study." [29] The authors concluded: "CPA has not been flourishing in the most influential organization and management science journals" (p. 9). Bonardi et al, (2006:1209) report

[29] The review was limited to 11 major scientific management journals between 1986 and 2002 (*Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Business and Society, Journal of International Business Studies, Journal of Management, Journal of Management Studies, Management Science, Organization Science, Organization Studies, and Strategic Management Journal*; intentionally excluding *California Management Review, Sloan Management Review*, and *Harvard Business Review*). As a result, it failed to capture the richness of the early work that contributed to research in the late 1970s and early 1980s published in sociology and political science literature.

that "extant research has remained relatively silent regarding the actual performance of such strategies."

CHAPTER 4: CORPORATE POLITICAL ACTION COMMITTEES

> *"At the beginning of the last century, the rise of corporations bred new corruption, tainting even President Theodore Roosevelt. After it was revealed that Roosevelt had received large donations from the insurance industry in 1904, he felt his honor had been besmirched. 'Sooner or later, unless there is a readjustment, there will come a riotous, wicked, murderous day of atonement,' he told a reporter, and eventually he won passage of the first federal law banning corporate campaign gifts."*
>
> Waldman, 2006

> *"The director of the national Association of Business PACs, Steven Stockmeyer, has ... claimed that business PACs receive a higher proportion of negative media coverage (98.4%) than did the Oklahoma City bomber, Tomothy McVeigh. The jaundiced public perception of PACs is further bolstered by popular accounts that relate lurid anecdotes and compile descriptive statistics consistent with the claim that corporate PAC contributions buy legislation. It is no surprise then, that a recent opinion poll by the Center for Responsive Politics revealed that most respondents support an outright ban on PAC contributions."*
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> Milyo et al, 2000:75

4.1 History and Perspective

Political Action Committees in the United States were the brainchild of big labor, a dominant feature of the political landscape in the early 1900s as labor fought for legislation that would protect workers from corporate interests. Corporations, on the other hand, were banned from financial engagement in the political process by the 1907 Tillman Act, which prohibited them from making contributions directly to political campaigns (Zardkoohi, 1985:805; Smart & Milyo et al, 2005), and the 1911 and 1925 Corrupt Practices Acts, which prohibited their contributions directly to candidates and parties in federal elections and required that corporations report their contributions to the Clerk of the House and Secretary of the Senate (Ansolabehere et al, 2004a:6,9). Further restricted with passage of the Taft-Hartley Act of 1947, they were barred from contributing corporate funds directly to federal candidates (Masters & Keim, 1985:1159).

Hamstrung and frustrated by these legal bans for decades, corporate entities were finally freed of their shackles with the passage of the 1971 Federal Election Commission Act (FECA) which allowed both business and labor to participate in the political process, specifically to: "(1) communicate with company stockholders, union members, and their families on any subject, including partisan political activity; (2) conduct nonpartisan registration and get-out-the-vote campaigns and; (3) establish and administer a separate contribution fund for political purposes" (Zardkoohi, 1985:805). Effective for the first time in the elections of 1972, it ushered in the first wave of corporate political action committees (PACs). An amendment to FECA in 1974 opened the door even further, holding "that the restrictions on campaign contributions and expenditures by government contractors did not prohibit corporations or labor unions from establishing and maintaining political action committees" (Quinn & Shapiro, 1991:855; Zardkoohi, 1985:804). The number of corporate PACs surged.

A ruling in 1975 by the Federal Election Commission that authorized the Sun Oil PAC to raise money from its employees and managers (Ansolabehere et al, 2004a:6) gave rise to a virtual explosion in the number of corporate PACs.[30] Under the new arrangement (further amended in 1976), firms were permitted to create and manage "separate segregated funds" or Political Action Committees (PACs) which could be used to engage in corporate political activity. Corporations could raise money through voluntary contributions from stockholders, administrative and executive staff as well as

[30] Under the FEC ruling, Sun Oil could: (1) spend company money to establish, administer and solicit contributions to a trustee payroll deduction plan and its political action committee; (2) solicit contributions to its PAC from stockholders and employees alike; and (3) establish multiple PACs, with individual limits on contributions and expenditures (Zardkoohi, 1985:806).

non-manager employees under certain circumstances. They would be allowed to fund the expense of operating the PAC, with all contributions made by individuals under the umbrella sponsorship of the corporation (Smart & Milyo, 2005:6). Ensuring the funds were not co-mingled with corporate accounts, the contributions could be used to donate to the political campaigns of federal candidates (Masters & Keim, 1985:1159). The changes "transformed U.S. politics" (Quinn & Shapiro, 1991:855).

> The current federal regulations governing PAC contributions were established in 1976, in the wake of the landmark Supreme Court decision, *Buckley v. Valeo.*[31] Current law allows corporations, unions and interest groups to form political action committees (PACs) and pay for operating expenses, but all campaign contributions from PACs must be funded by donations from individuals, parties or other PACs; contributions made by parties must come from the same three sources. Consequently, all "hard money" campaign contributions must derive from individuals. These campaign contributions are subject to strict limits: individuals may give $1000 to a candidate (per election), $20,000 to a national party committee and $5000 to a PAC, up to $25,000 annual limit on aggregate campaign contributions; PACs may give up to $5000 to a candidate per election … In contrast to limited hard money, political parties or interest groups may also raise 'soft money' for activities that are not directly related to Federal campaigns, such contributions are not limited. Soft money donations may come from any non-foreign individual or group, but these funds may not be used to expressly advocate for or against a candidate … issue advocacy {money} is completely unregulated, so it is not known how much money is used for issue advocacy. (Milyo et al, 2000:77)

Capital came out swinging hard against labor and the number of corporate PACs rose exponentially. Sources vary in the actual count of corporate and labor PACS, but all agree that the rapid rise in corporate PAC participation represented a backlash against labor's political participation during the decades that preceded the changes in law. During the period 1974 to 1982, the overall number of Political Action Committees – sponsored by either capital or labor – grew from about 600 to over 3,400. The growth

[31] "On January 30, 1976, the Supreme Court held unconstitutional involuntary limits on spending and independent expenditures but upheld limits on direct contributions, citing the government's interests in combating 'corruption or the appearance of corruption.' The decision also struck down the provisions of the FECA creating the Federal Election Commission as a violation of separation of powers … By eliminating spending limits, the decision increased demand for campaign contributions. By vacating the Federal Election Commission, the decision shut down the agency for enforcing the new laws" (Ansolabehere et al, 2004a:12).

was almost exclusively in the establishment of corporate political action committees. The number of corporate PACs in 1974 are reported as 89 (Zardkoohi, 1985:806; Ansolabehere et al, 2004a:10), rising to 248 in 1974 (Vogel, 1983:33), to 300 in 1976 (Esmeier & Pollock, 1985:200), to 550 in 1977 (Ansolabehere et al, 2004a), to 1,100 in 1978 (Vogel, 1983:33), to 1,467 in 1982 (Burris, 1987:732), with growth slowing in the 1980s (Masters & Keim, 1985:1160) to 1,698 in 1986 (Esmeier & Pollock, 1986:288) to 4,000 in 1988, and remaining reasonably steady at that level through 2000 (Milyo et al, 2000:77 – 78). By contrast, the year 1974 saw 201 pro-labor PACS, growing only to 217 in four years to 1978 (Akard, 1992:602).

The growth in aggregate and corporate dollar investment in political action committees is similarly impressive. "Between the elections of 1974 and 1982 {PAC} contributions to congressional races {grew} from $12 million to more than $80 million" (Esmeier & Pollock, 1986:288). By 1978, total investment in PACs had risen to over $92 million (in 1998 dollars) (Milyo et al, 2000:77-78). The investment had doubled by 1984 and corporations were spending $43.3 million annually on political action committees with the bulk of the investment ($27.5 million) going toward contests for Congressional seats (Burris, 1987:732). "Real PAC contributions have since hovered between $200 million and $220 million {with} corporate PACs account{ing} for about 40% of all PACs and 35% of all PAC contributions (Milyo et al, 2000:77-78).

Despite the appearance of corporate largesse, relatively speaking few firms participated in the political process through political action committees in the first decade in which their giving became legal. "Despite the tremendous growth of PACs during the

1970s, by 1980 only slightly more than half of the firms in the Fortune 500 had formed PACs" (Humphries, 1991:355). Masters & Keim (1985:1160) reported that in 1981, only forty percent of Fortune ranked firms sponsored political action committees that were engaged in 1982 congressional elections. The 1979 – 1980 election cycle witnessed only 12 firms that raised over $200,000. Fifty firms collected over $90,000 and 35 firms collected less than $11,000 (Boies, 1989:822). The playing field began to separate those firms that were heavily engaged in the political process from those that were either unwilling or unable to raise large dollars for political purposes. By and large, the majority of corporate PACs are small when compared with those representing the interests of labor. "Only 13% of corporate PAC contributions come from PACs that give out a total of one million dollars or more; in contrast, 70% of labor PAC contributions come from million-dollar PACs." (Milyo et al, 2000:77 – 78). Esmeier and Pollock (1985) reported that "for most corporations, the PAC is a modest operation. In both 1980 and 1982, almost 90% of all corporate committees had budgets of less than $50,000; and the average corporate PAC contribution per candidate was much less than $1,000 in both years" (Esmeier & Pollock, 1985:201). Corporate PAC contributions, despite their negative reputation, play a rather minor financial role in the life of the firm. Certainly not all corporations engage in all forms of corporate political activity. Boies (1989:821) found that

> Only 262 of the firms on *Fortune Magazine's* 1980 list of the 500 largest U.S. industrials had political action committees (PACs) with total receipts of more than one dollar during the 1979-1980 election cycle. Only 989 of the more than 30,000 non-*Fortune* 500 public corporations had a PAC in 1980.

Milyo et al (2000:75-76) report that PAC contributions represent only about 10% of all campaign contributions made to Congressional candidates and that "corporations spend an order of magnitude more on lobbying activities than they do on soft money contributions or than their affiliated PACs spend in campaign contributions."

The disparity between those that give and those that do not is not trivial. In 1982, the 20 largest PACs raised and distributed one third of the estimated $80 million spent by all political action committees (Esmeier & Pollock, 1985:194). By 2005, just 100 of the estimated 1,500 corporate PACs active at the federal level raised and distributed over half of all corporate campaign contributions (Smart & Milyo, 2005:6). Cooper et al (2006:7) found that "on average only 9.49% of firms listed on the combined CRSP/Compustat database participate in the contribution process and these firms tend to be very large firms (e.g., the average capitalization of contributing firms in 2004 was at the 92 percentile of NYSE market cap.". "The difference in the potential influence of a firm with a PAC that has 10,000 dollars to contribute as opposed to one with 400,000 dollars is substantial" (Boies, 1989:822).

The 1970s turnabout in PAC activity between capital and labor produced results as corporations used funds raised by PACs to hire lobbying firms to represent their interests on Capitol Hill. By 1978, the combined efforts of corporate political activity with Congress had defeated two important labor agendas: the attempt to create an independent Consumer Protection Agency (CPA) in the executive branch[32] and efforts to strengthen the National Labor Relation Act so that it afforded greater protections to

[32] An independent agency designed "to monitor other regulatory agencies, represent consumer interests before the government and the courts, and act as a general clearinghouse for complaints against business practices" (Akard, 1992:603)

workers[33] (Akard, 1992:602). Both victories significantly lowered corporate costs. PACs are also effective in mitigating corporate tax policy. Quinn & Shapiro (1991:866; also Inclan, Quinn & Shapiro, 2001) found that "as measured through it's ... PAC representation, business's electoral organization translated into lower taxes."

While evidence suggests that specific beneficial regulatory and/or policy outcomes can be associated with PAC activity, it is widely believed that the underlying corporate motive for establishment and activity of political action committees is to gain access to key legislators (Fellowes & Wolf, 2004):

> Anecdotal evidence suggests that corporate PACs are used largely to help lobbyists gain access to politicians. A corporate government relations manager ... for example, said that a PAC merely made the job of the corporation's lobbyists easier. Similarly, a pharmaceutical firm's lobbyist ... said that he would be at a disadvantage without PAC money. And at least one congressman ... was frank about the link between campaign money and access: "My door is always open, but for you folks [who gave money], it will be open just a little wider." (Humphries, 1991:363)

McChesney (2002) cautions that while the common view is that "paying for access to politicians is sometimes termed a 'pay for play' arrangement: money exchanged for a chance to transact in the political marketplace," in fact,

> the political game being played ... is more complex than that suggested in this typical good-guy/bad-guy characterization. Many payments are made to avoid the imposition of special costs, not to secure special favors. Much of what is popularly perceived as rent seeking by private interests is actually rent extraction by politicians." (p. 346).

Corporate participation in the political process as measured through dollar volume runs across a broad spectrum, but is biased distinctly in the direction of the legislative branch, specifically on contests for Congressional seats (Burris, 2001:369). Campaign contributions made by individuals (including those in top corporate management) are viewed as having greater "impact on the outcome of elections (especially presidential

[33] Specifically "to expedite procedures for settling unfair labor practices and to strengthen sanctions against employers who violated existing labor laws" (Akard, 1992:605).

elections) (Burris, 2001:379) while fewer than one percent of corporate contributions are given to Presidential candidates (Milyo et al, 2000:78). While individual contributions by top corporate management most often represent support for the election of the recipient candidate, campaign contributions made on behalf of individuals through corporate PACs represent attempts to gain influence with members of Congress. They are governed by "rational planning and coordination" processes and are used to pay for "systematic exploitation for lobbying purposes" in support of Congressional election activities (Burris, 2001:379).

> Although the classification schemes in the literature vary, all include in some form categories for pragmatic PACs, which seek access to influential incumbents, and ideological PACs, which seek a more ideologically pure congress through a change in its composition. Despite the overall divergence of the two strategies, one should not lose sight of the fact that both pragmatic and ideological PACs may aim at the same ultimate goal: favorable decisions from Congress … A pragmatic strategy involves accommodation by which the PAC seeks to gain or maintain access to incumbents, especially those on key committees, members who have cast favorable votes on the PAC's key issues, those with whom the PAC must work because they represent districts in which the PAC has a plant or operations, and those in safe seats. (Evans, 1988:1049-1050)

"Many social scientists believe that corporate PACs play 'both ponies,' that is, they contribute to both candidates in an election to ensure that the winner will have received money from them" (Mizruchi, 1990a:1067). Other researchers found evidence to the contrary. In the late 1980s "contributions by individual firms to two or more opposing candidates in a race {were found to be} generally rare … about 1.5% of all contributions" (Mizruchi, 1990a:1067.) Mizruchi's results were "consistent with the findings of Whitt (1979), and Clawson et al (1986) that business tends to avoid {making contributions to opposing candidates in the same race}" (Mizruchi, 1990:1081). That trend may have shifted, however, by the early 21st century. Goldman et al (2006:12) found that "the majority of {their} sample companies donate to both parties, which implies that hedging considerations are one important determinant of {corporate} donations."

Masters & Baysinger (1985) asserted that "PAC activity differs from {other forms of political activity} in that it is a direct attempt to buy access to lawmakers, or influence them through influencing elections" (pp. 654-655). This was supported by Evans (1988:1052-1054) who found evidence that "a spot on the Interior Committee prompted an additional $2716 in contributions from major oil companies (Commerce was worth $2124)" and that "oil PACs sought to reduce the ranks of Democrats … target{ing} certain liberals for defeat." It was also supported by Humphries (1991:364) who found that eighty percent of corporate … PAC contributions to House campaigns in 1984 went to incumbents, indicating that these types of PACs tended to pursue a 'seeking access' strategy." He found a very close relationship between corporate "PAC receipts and the number of lobbyists in {Washington} D.C.," indicating that "access-seeking strategies are the rule rather than the exception … {and they} have the ability to raise the amount of PAC money that they need to support their lobbyists. That is, despite the fact that contributions are supposed to be voluntary, corporations appear to be able to decide on how much they need {to support their lobbyists} and to get it" (Humphries, 1991:367 – 368). Humphries' results suggested

> that there is a strong link between what might be termed the 'amount of lobbying' and the amount of money contributed to corporate PACs. It seems that during the 1981 – 1982 election cycle, each in-house Washington representative needed, on average, around eight or nine thousand dollars to operate effectively in the capital. Lobbying firms needed a similar amount in contributions from each of their corporate clients. Because lobbying firms usually assign more than one individual to an account, this is evidence that each of these individuals required less in PAC contributions than a typical in-house lobbyist – a result that is consistent with the notion that lobbying firms are hired in part because their lobbyists have relatively more access to politicians and bureaucrats. (Humphries, 1991:366).

On the other hand, Milyo et al (2000:76) noted:

> The very idea of building a majority coalition by buying off individual members of Congress (a group not renowned for their fidelity or trustworthiness) with small campaign contributions and without an explicit contracting mechanism, as all the while competing interests work at counter purposes, sounds something akin to herding cats. In contrast, unlimited donations to issue advocacy campaigns or political parties (soft money), would seem a more straightforward means to buy political favors from party leaders, who in turn can then wield the levers of party influence to deliver on promised favors. Nevertheless, PAC contributions have been and remain the primary focus of the empirical literature on campaign contributions.

More recent study of corporate behavior suggests that the use of political action committees reflects an "investment strategy" designed to elicit "access" to the policy machinery of government (Grenzke, 1989; Rudolph, 1999). Emphasis is most often on the legislative branch and the goal is to influence legislation that members of Congress are considering or developing. Rudolph (1999) found that corporate PACs were significantly more likely to support candidates running for the House of Representatives who held seats on the Energy, Commerce, and Ways & Means Committees than those who held seats on Committees dealing with education or labor, that their corporate spending grew over time, and that they support Republican candidates over Democrats (1999:200). Most importantly, however, "both Republican and Democratic incumbents receive greater net contributions from corporate PACs when their party is in the majority and less when it is not" (Rudolph, 1999:204). Rudolph concluded that "corporate PACs attempt to secure influence, in part, by supporting those who possess institutional advantages such as majority party status." Regens et al (1993) found that

> corporate PACs {had} become increasingly bipartisan in their contribution activities, while labour, ideological and trade association PACs {had} retained distinct partisan biases. On the other hand, by comparison, the set of corporate PACS ... {exhibited} a different pattern. As a group, the {demonstrated} a decided partisan bias toward allocating campaign contributions to Republican incumbents which mirrors the continuing partisan orientation of labour or ideological PACs. This reinforces our

> conclusion that private-sector economic actors adopt reasonably sophisticated political strategies which place great weight on taking into account readily identifiable differences in member attributes as a basis for resource allocation. Although PACs through their financial largesse might occasionally "guess wrong" and help fund the campaign of unsympathetic senators, it is eminently more logical to conclude that specific corporate interests, like their counterparts in organized labour, have reasonably precise perceptions of where financial resources can be allocated most efficiently among a cluster of candidates. In fact, the regulatory regime imposed on those industries by environmental legislation is a powerful incentive for them to identify properly who would be the best recipients of their financial largesse given industry preferences and member receptivity to those preferences. (p. 341).

4.2 Review of the Literature

Dean et al (1998:135) provide a working definition of the Political Action Committee as "a group of individuals voluntarily joined together to contribute money to candidates seeking elective office." They go on to describe the expectations of reciprocity involved in the political marketplace:

> Large PAC donations to political campaigns often are accompanied by an implicit message that political candidates, once elected, will make decisions that are aligned with the interests of their contributors. PAC contributions also may act as a reward to incumbent politicians who previously acted in the interest of the PAC members. Such indirect leverage encompasses the very essence of PACs. (p. 136).

Masters & Keim (1985:1158-1159) categorize research on corporate PAC activities into three literature streams: "(1) the empirical examination of … allocation strategies; (2) the impact of PAC money on electoral outcomes and legislative voting; and (3) descriptions of the PAC phenomenon and the laws governing interest group campaign financing." Indeed, in these three broad areas, a robust literature over the past two decades has focused on the relationship between corporate PAC contributions and a wide variety of variables including: firm size, as measured by annual sales volume, number of employees, return to investors, earnings per share, growth rate, R & D to sales, labor/sales ratio (Boies, 1989; Masters & Keim, 1985); interlocking behavior of board members (Koenig & Gogel, 1981; Mizruchi, 1989; Clawson & Neustadtl, 1989; Useem, 1982, 1983, 1984); partisanship (Burris, 1987; Neustadtl et al, 1991); Congressional voting patterns (Neustadtl, 1990); and Congressional Committee seniority and power (Roberts, 1990a; Useem, 1983; Grier et al, 1994).

Industry characteristics have been examined in great detail (Masters & Keim, 1985; Andres, 1985; Esmeier & Pollock, 1986; Mizruchi & Koenig, 1986; Neustadtl & Clawson, 1988), including industry concentration (Useem, 1983; Andres, 1985; Mizruchi, 1990b); effects on the restricting competition within industries (Dean et al, 1998); and industry regulatory environment, as measured by the total number of unique administrative, civil, and criminal legal actions brought against the firm by government and regulatory bodies (Andres, 1985; Pittman, 1977; Clinard & Yeager, 1981; Grier et al, 1994; Hart, 2001).

Other variables examined include dependence on government contracts (Masters & Keim, 1985; Burris, 2001); unionization (Masters & Keim, 1985); geographic locale (Burris, 1987; Neustadtl & Clawson, 1988); ideology (Neustadtl & Clawson, 1988; Burris, 1987; Clawson & Neustadtl, 1989; Clawson et al, 1986; Mizruchi, 1990b); conditions that give rise to corporate political unity (Clawson et al, 1986; Akard, 1992; Neustadtl & Clawson, 1988; Mizruchi, 1990b); and conditions that give rise to corporate political opposition (Clawson et al, 1986; Mitchel et al, 1997; Kroszner & Stratmann, 1998). "Statistically, the most consistently interesting explanatory factors of political activity have been firm size, degree of government regulation and the amount of firm or industry sales to the government" (Mitchell et al, 1997:1098).

Despite the robust volume and scope of this research, surprisingly few attempts have been made to assess PAC effectiveness specifically as it affects return on the firm's PAC investment. Jayachandran (2006:1) provided some of the first evidence that corporate contributions to national political campaigns are reflected in the market when he demonstrated that firms "lost 0.8% of market capitalization the week {that Senator Jim} Jeffords' {unexpected} switch {of political parties} for every $250,000 it gave to the Republicans in the previous election cycle." Cheng (2005:1) demonstrated that "the stock market efficiently incorporates information on electoral prospects and campaign contributions." Goldman et al (2006) provide additional evidence that stock prices are responsive to presidential campaign activity as do Knight (2006) and Huber & Kurchler (2008).

Most research on PAC activity employs event study method, normally observing the effect of "significant" or "unexpected" events on the value of stock prices for politically connected firms (Ansolabehere et al, 2004). Results have been largely inconclusive, with some studies finding no relationship and other studies finding positive relationships, but often with only modest power. Fellowes & Wolf (2004) summarize the literature findings:

> Political scientists have amassed an enormous literature on campaign contributions ... The bulk of this literature has reached the surprising conclusion that contributions do not impact vote choices. In a simple regression analysis of roll-call votes in several policy areas, Chappell (1982) found that business and labor contributions have a negligible effect on roll-call votes. Evidence of no effect of contributions on legislative activity was replicated in numerous later studies (i.e., Ansolabehere, DeFigueiredo, and Snyder, Jr. 2002: Vesenka 1989, Wawro 2001). An even larger body of literature defends the more nuanced position that contributions generally have no effect on roll-call votes, though in special circumstances a positive effect is observed. The special circumstances under which contributions seem to matter include low vote visibility (Sorauf 1992:96; Morton and Cameron 1992), narrow policy impact (Stratmann 1992), and heavily lobbied votes (Evans 1986). Although these special circumstances allow for some impact of campaign

> contributions, the underlining theme in both groups of literature is that contributions have a negligible impact on roll-call votes." (pp. 315 – 316).

Fellowes & Wolf attribute the lack of findings to "artifacts of measurement and specification problems" and search instead for relationships between contributions, high (direct government expenditures) and low (tax and regulatory policy) profile Congressional bills. They find a positive relationship between corporate campaign contributions and low profile bills.

Ansolabehere et al (2004:4) reported that "the large majority of studies find no significant effects of hard money contributions on public policy, and, in those that do find some association, the magnitude of the effects is typically very small." Roberts (1990a) provided evidence of a return on firm PAC investments incident to the death of Henry "Scoop" Jackson. Stratmann (1991) reported that "a $3000 donation to a member of Congress from a sugar producer would guarantee that member's support for … sugar price supports" (Ansolabehere, 2004a:3). Goldman et al (2006) found that abnormal stock returns were obtained by corporations when new board members came who were politically well-connected, that incident to the Republican Presidential victory in 2000, Democratically connected firms suffered losses, and that the effects were supported when regressed against corporate campaign contributions. Cooper et al (2006) found a positive and significant relationship between corporate political contributions and abnormal stock returns with "firms supporting a greater number of candidates experience{ing} a greater increase in future returns" (p. 15) , examining over 800,000 corporate contributions to Congressional campaigns during a twenty-five year period. Return on equity is found to be related to the number of candidates supported and "other measures of contributions (p.

5). Huber & Kirchler (2008) found that corporate campaign contributions to Presidential candidates have significant positive effects on stock values after U.S. elections during the period 1992 through 2004. Ansolabehere, de Figueiredo, and Snyder (2003) make the strong case that PAC donations are not investments by the firm, but rather should be considered personal consumption." Taking the longer view, Snyder (1992) suggested that corporate investment in the political process be considered as long-term investments, noting that in many cases "there is a remarkable degree of persistence in PAC contributions over time":

> Give me a contribution today, and I will return the favor during my next term in office, provided that I win office and an opportunity to do you a favor arises. Moreover, if you support me in future campaigns as well, then you may become my friend, and if this occurs and I continue in office or achieve a higher office, then I will return even greater favors." (Snyder, 1992:18)

CHAPTER 5: CORPORATE LOBBYING

"A PAC simply makes my lobbying job easier; it's a tool, and only as good as my skill in using it. I'd rather have a couple of lobbyists who know how to work Capitol Hill ... than a PAC with no lobbyists to do the follow up work. I know of companies with a PAC that are worthless in terms of getting things done in legislatures and those without one that know which buttons to push and really get things done."

Andres, 1985:220

5.1 History and Perspective

According to Anastasiadis (2006), President Ulysses Grant coined the term "lobbying." As the story goes, while he sought solace away from the White House in the lobby of a hotel nearby,

> those with an agenda to advance took their issues directly to the president at the hotel, approaching him in the lobby; and leading him to refer to them as "those damn lobbyists." Lobbying, then, was originally conceived of as the act of special interests approaching someone with political power. Even then, however, exactly what lobbyists actually did was nebulous. Over time firms' political strategies have become more sophisticated and lobbying has thus acquired a{n even} wider range of possible meanings ... As an action, lobbying is persuasive, instrumental communication, conveying information and targeted at influential policy actors, with the purpose of securing preferred outcome(s) and/or influence over the regulatory environment. (Anastasiadis, 2006:7, 12).

The U. S. Lobbying Disclosure Act of 1995 defines lobbying as

> any nonexempt oral or written communication on behalf of a client to executive and legislative branch officials. A nonexempt communication is defined as lobbying contact if it is about the formulation, modification, or adoption of federal laws, executive orders, government contracts, etc." (Yu & Yu, 2008:5).

Chen et al (2008:6) expanded the definition to

> include direct, explicit effort in communicating with lawmakers to influence their opinions, as well as grass roots activities aiming to solicit general support for, or to indirectly create a favorable public environment for a desired legislative goal {including} members of Congress, congressional staffers, the President, White House staff and high-level employees of nearly 200 agencies, regarding the formulation, modification, or adoption of legislation (The Center for Public Integrity).

Lobbying activities differ markedly from political action committees in nature, scope, volume, and methodology. They may be related to but are not are not necessarily paid through campaign contributions. While campaign contributions simply are made or are not made, lobbying uses funds for focused and strategic activities designed to attain a specified end state. Campos & Giovannoni (2006:1) point out that "lobbyists have expertise that politicians don't have and can influence politicians by strategically sharing this expertise with them." If that method is not necessary or not effective, they can "influence politicians by providing endorsements or by threatening to provide voters with damaging information about them or their policies."

Funds that can be raised by corporate political action committees is limited by the number of individual contributions that can be obtained from people associated with the firm and the individual amount they each choose to contribute. Corporate lobbying, on the other hand, represents big money from corporate accounts. According to Yoffie (1987:44),

> "the *Congressional Record* indicates that in 1961, 130 firms were represented by registered lobbyists in Washington, D.C., and 50 of these had their own Washington Staff. In 1971, 175 firms had lobbyists and 63 had permanent staffs. But by 1979, the numbers had jumped fourfold: 650 companies had their own registered lobbyists, and 247 of them had their own Washington staffs. Another source, which counts both registered and unregistered lobbyists, found 2,445 firms represented in Washington in 1982, 545 of them with their own staff."

Corporate investment in lobbying represents an enormous and growing investment (about 8% per year for the past decade according to the watchdog group, Center for Responsive Politics – CRP). "The money firms spend on lobbying efforts dwarfs the amount that they donate to candidates through hard money or to parties in the form of soft money. (Smart & Milyo, 2005:13). Expenditures on lobbying in the 1997 – 1998 election cycle were $2.6 *billion* (emphasis in original), or an order of magnitude (more than 9 times)[34] greater than total PAC expenditures … lobbying expenses dwarf the sum of all contributions made through PACs. (Milyo et al, 2000:83-84).

Chen et al (2008:4) report that "lobbying is, in fact, the largest form of corporate political involvement in America. In dollar terms, corporate lobbying is roughly 20 times greater than either PAC, or soft-money contributions per election cycle." CRP reported that total investment in lobbying activities on the part of corporations, industries, labor unions, governments and other interest groups set an annual record of $2.79 billion in 2007, nearly eight percent over the amount invested in 2006. "And for every day Congress was in session, industries and interests spent an average of $17 million to lobby lawmakers and the federal government at large" (CRP, 2008). The largest investment in lobbying was on the part of health interests ($444.7 million), followed by finance, insurance and real estate interests ($418.7 million). The pharmaceuticals industry spent $227 million, reflective of its enormous investment of $1.3 billion over the past decade (CRP, 2008). Anastasiadis (2006) reports that "Pfizer spent $54.8m on lobbying between 1998 and 2004, Boeing spent $71m and the Altria Group spent $125.2m over the same period." In the popular press, there seems little doubt that lobbying is a wise investment. Using reports from The Washington Post and Fortune, Chen et al (2008) report that

> 60 companies (including Pfizer, Hewlett Packard and Altria) spent approximately $1.6 million dollars lobbying for a special low tax rate worth $100 billion dollars, which would apply to the firms' earnings from foreign operations;" that "Carmen Group, Inc., a lobbying services firm {claimed} to deliver a 100 to 1 (dollar) benefit-to-cost ratio for its clients;" and that the "estimated … rates of return on political investment … {were} 165,536% for Lockheed Martin, which spent $55 million in lobbying since 1999 and won roughly $90 billion in defense contracts; and 142,000% for Boeing, which spent $57 million and got $81 billion in contracts. (p. 5)

[34] Yu & Yu, 2008:5).

The number of lobbyists registered in Washington quadrupled between 1981 and 1985 (Confessore, 2003). Investment in lobbying ballooned to $1.45 billion in 1999 (Yu & Yu, 2008:5) and to $2.1 billion in 2004 (Birnbaum, 2006:A01). By 2005, the corporate and industry investment in lobbying has risen to $2.14 in that single year (Yu & Yu, 2008:1).

> Compare the political and charitable activities of firms across five industries reputed to wield vast political influence (tobacco, pharmaceuticals, telephone utilities, defense aerospace and computers) for the period 1997 – 1998. For each industry, list the firms that are affiliated with the largest PACs in that industry; for example, Philip Morris, RJR Nabisco and UST, Inc. account for well over half of all tobacco PAC contributions. But these same firms spend nearly twice as much on soft money contributions and at least 20 times more on lobbying expenses ...The tobacco industry as a whole spent 10 times more on lobbying than soft money and affiliated PAC contributions combined ($105 million versus $6.7 million) ... This basic pattern in spending is repeated for each industry. All pharmaceutical firms as a group spent $148 million on lobbying, compared to less than $5 million in either soft money or contributions from affiliated PACs ... Only for defense aerospace did the affiliated PAC contributions exceed party soft money, while in every industry lobbying expenses dwarfed PAC or soft money contributions. (Milyo et al, 2000:84)

While the Federal Election Commission monitors and records corporate campaign contributions, corporate expenditures on lobbying above set thresholds are reported to the Office of Senate Records. "The Federal Lobbying Disclosure Act of 1996 requires that firms that spend more than $20,000 in any quarter on lobbying activity ... disclose their total lobbying expenses" (Smart & Milyo, 2005:12). Semi-annual reports on lobbying expenditures must be filed with the Senate Office of Public Records when the amount exceeds $25,000 in any one year (Yu & Yu, 2008:6).

5.2 Review of the Literature

Although lobbying is well recognized as one form of corporate political activity, with a large and expanding literature (see Hillman, 2003; Bonardi, Hillman & Keim, 2005; Bonardi & Keim, 2005; Anastasiadis, 2006), "empirical evidence is scarce, mostly limited to developed countries and focuses on firm characteristics (e.g., size and sector)" (Campos & Giovannoni, 2005:2). The popular press reports that business reaps tremendous returns on the lobbying investment (Birnbaum, 2006:A01):

> Take Carmen Group's experience with the General contractors Association of New York. The association paid Carmen $500,000 to persuade the federal government to cover its members' insurance premiums for cleanup work at Ground Zero after the terrorist attacks of Sept. 11, 2001. After three years of lobbying, the government agreed to pay $1 billion.
>
> Akin Gump scored a similar coup for Hanson Building Materials America Inc. Over 18 months starting in 2004, the producer of crushed stone, sand and gravel paid the law firm $450,000 to keep federal highway money flowing. Passage of the highway bill in 2005, which Akin Gump pushed, means the company will receive hundreds of millions of dollars in sales and tens of millions in profit over the next six years, an industry executive familiar with Hanson's situation said.
>
> Lobbying helped keep Northwest Airlines Corp. out of bankruptcy court in 2004. The Pension Funding Equity Act that year allowed Northwest to delay in paying an estimated tens of millions of dollars into its pension fund – enough to allow the airline to put off filing for bankruptcy protection, according to Andrea Fischer Newman, a Northwest executive. Northwest's total spending on federal lobbying in 2003 and 2004 was $4.8 million, and only part of that went to influence the pension proposal.

Research on lobbying has historically not been systematic, is "difficult to operationalise {sic} empirically," and has suffered from lack of consensus on "what exactly lobbying is" (Anastasiadis, 2006:6). Quinn & Shapiro (1991:866) found that lobbying is "a far less effective mechanism of business influence, at least on corporate tax policy than are PACs." DeFigueiredo & Tiller (2001) looked narrowly at the effects of lobbying regulators, (as opposed to lobbying Congress), specifically at written or oral presentations to officials of the Federal Communications Commission by large and small firms. Searching for evidence that lobbying served as a surrogate for "politically experienced directors" on corporate boards, Agrawal & Knoeber (2001) found that although there is a positive correlation between firm size and the number of outside directors who come with political experience, the use of the lobbying strategy as a form of political involvement was not a substitute. Yu & Yu (2008) found that

> Firms that lobby on average have a significantly lower hazard rate of being detected for fraud, evade fraud detection 117 days longer, and are 38% less likely to be detected by regulators. In addition, fraudulent firms on average spend 77% more on lobbying than non-fraudulent firms, and spend 29% more on lobbying during their fraud periods than during their non-fraud periods ... For a fraudulent firm with average annual lobbying expenses of $2 million and fraud period of 2 years, a 90 days delay in fraud detection creates a net present value of $36.5 million to the firm through delay in negative market reaction. We also find that during the fraud period, insider sales of the shares of firms with lobbying activities are about four times as much as those of firms without lobbying. Managers seem to benefit privately from the delay in fraud detection." (Yu & Yu, 2008:1-3)

In groundbreaking work[35] on the effectiveness of lobbying, Chen et al (2008) tested the relationship between corporate lobbying expenditures and financial performance, as measured in earnings and cash flows from operations, market price and return, and intensity of the firm's lobbying campaign. The study found evidence that (a) lobbying investment was positively correlated with financial performance, and (b) the financial performance of similarly sized firms investing more heavily in lobbying exceeded that of firms with smaller lobbying investments.

This work distinguishes in an important way the differences between firm investments in PACs and "soft-money" donations, funds collected from employees of the firm, from firm investments in lobbying, expenses that are borne directly by the firm and treated as investment expenses much like research and development with returns expected in later years (Chen et al, 2008:11).

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[35] To the best of the authors' knowledge, this paper was the "first to examine the connection between corporate lobbying, quantified by the dollar amount of lobbying expenses, and financial performance" (Chen et al, 2008:7).

CHAPTER 6: CORPORATE PERSONAL SERVICE ARRANGEMENTS

> *"In the late 1800's, everybody knew that campaigns were financed by patronage appointees, but it took the assassination of President James A. Garfield in 1881 by a spurned job-seeker to spur civil service reform."*
>
> Waldman, 2006

6.1 History and Perspective

Scholars have recognized the strategic advantage gained when a firm obtains "better intelligence about the institutional environment" or "better access to decision and opinion makers" (Keim, 2003:589). They recognize the importance of agency executives' involvement in pressuring specific institutions or actors within the public policy apparatus to develop, enact, or enforce policies that positively affect the firm's bottom line, or reciprocally to block, veto, or eliminate the public policy actions that negatively affect the firm or industry's growth or financial performance.

> In the 1960s, a number of neo-Marxists critical of the instrumental approach developed more complex theories relating political power to the imperative of capital accumulation and class conflict in capitalist societies. Led by the "structuralist" theories of Poulantzas (1974, 1980) and Offe (1984), they extend the concept of a "relatively autonomous" capitalist state in which formally independent state managers govern in the interests of capital as a whole, making decisions favorable for the continued accumulation of capital. From this perspective, individual capitalists or their executives, who are focused on maximizing the profits of their own firms, cannot transcend their short-term interests long enough to enact such policies. In Block's (1979) words, "the ruling class does not rule." Rather "relatively autonomous" state managers make decisions favorable to capital. Their autonomy is "relative" because their *own* political survival depends on the accumulation process – a healthy economy guarantees adequate state revenues and legitimacy. Because major investment decisions in a capitalist system are usually private, public officials cannot risk a "capital strike" by proposing policies that threaten the owners of capital (Block 1979; for the classic "neopluralist" formulation of this argument see Lindbloom 1977). Nevertheless, the capitalist class does not directly control the state, and in periods of crisis (depression, war) state managers may follow their own agenda or respond to the demands of the working class or other organized interests to preserve social order and their own political authority (Block 1979, p. 139) ... Once mobilized, the superior economic and organizational resources of corporate interests confer important advantages at the various levels of political power present in liberal-democratic states: candidate selection and electoral influence, policy formation, influence of state officials and policy implementation through lobbying, and ideological hegemony through the influence of public opinion." (Akard, 1992:598-599)

Scholarly study of personal service strategy is informed by research and theory from disciplines across the social sciences: sociological research on the behavior of collectives and special interest groups; network theory and empirical research on dyads and elite networks; social and psychological research on the propensity of man to engage in self-interested and social dominance behavior, and research on resource dependence, corporate morality, organization theory, strategic management, and business strategy.

Personal service strategy can be distinguished from class-based arguments that a "business elite" is engaged in the management of governance writ large, from government to governing boards to advisory panels, foundations and universities (Useem, 1979). Lobbying and political action committees produce results that affect public policy outcomes in aggregate. In other words, "the resultant public policy is a public or collective good {for which} one firm cannot enjoy exclusive benefits, although benefits may be shared differentially across firms" (Schuler, 1996:723). As such, these corporate political strategies rely upon theories of collective action as their theoretical foundation.

> A premise of collective action theory is that a firm's incentive for political action is determined by its expected private net benefit. A firm will calculate a priori the costs and benefits it expects from undertaking or refraining from political activity and pursue the option that maximizes its net benefits. Additionally, collective action theory focuses on the problem of collective goods as the objective of a firm's political actions. Some firms can free ride on the efforts of politically active firms and enjoy the benefits of a public policy even if they have not devoted resources toward its establishment. Free riding entails a firm's strategic decision that other firms will have stronger incentives than it has itself to underwrite the cost of providing a collective good and that the private cost to the non-politically active firm will exceed any benefits it is likely to receive ... the largest firms will expect a prior to gain the most from the public good. (Schuler, 1996:724)

Baysinger's (1984:249) typology remains foundational to scholarly research on corporate political activity, but it omitted the idea of personal service as a tactic or strategy in the larger corporate political effort (although it does recognize the more generic category "attempt{ing} to influence … ongoing regulatory process between elections"). Even so, Baysinger limited the view of political resistance to those activities that seek to avoid excessive costs to the firm. While citing as an example the situation in which the Food & Drug Administration may be "captured" by social special interest groups,[36] he is silent on the idea of using government to alter social policy to privatize governmental activities as a means to improving the bottom line. He does not describe the alternative scenario in which the FDA could be "captured" by the drug company, resulting in the approval of a new drug, which has not been thoroughly tested.[37]

Zardkoohi (1985:807) introduced the idea of "filling vacant {federal} agency positions with the type of people the administration favors" as a means of influencing agencies' regulatory power. Recognizing the importance of the president's power to place his own people into important federal decision-making and policy positions, Wood and Waterman declared that "the key mechanism of executive control is the appointment and removal power" (1991:801). Inclusion of the personal service strategy as a component of corporate political strategy was not made until Getz included it in her taxonomy in 1993. It was defined by Getz as a strategy in which the firm gains advantage by "having a firm member serve in a political capacity," either consciously or unconsciously (reported in Keim, 2001:593-594). The personal service approach is one which "involves having a representative of a firm in a political position, hiring personnel with direct political experience – as managers, directors, consultants, and so forth – or

[36] Resulting in delay or obstruction of the approval of a new drug in the interest of public safety, and frustrating the ability of the drug company to obtain a return on its investment in development of the new drug.
[37] For example, Merck's well-known release and subsequent of withdrawal of Merck's pain medication Vioxx©.

hiring political decision makers' relatives" (Hillman & Hitt, 1999:834). In a comprehensive review of the literature on corporate political activity, Hillman et al (2004) expanded the view of personal service arrangements to include participation on task forces and advisory committees, developing a typology framework and offering antecedents and outcomes of corporate political activity, including firm performance. In this approach, the reins of government are taken in hand by the agents of business to reduce uncertainty and minimize risk in the corporate business environment; it represents capture theory in close reins.

6.2 Review of the Literature

Scholarly research in the CPA niche of personal service within the executive branch is scant. Scholars have generally focused their efforts on the legislative branch (Aplin & Hegarty, 1980). Those who have turned their attention to the executive branch have generally limited the scope of their examination to the effects of personal service arrangements in the regulatory environment. Wood and Waterman (1991:801) demonstrated that "political appointments … {are} the most important instrument of political control." They found evidence that agencies of the federal government are "manipulated" toward political ends via political appointees, measurable through core agency outputs that reflected the philosophy or ideology of the president (regulatory enforcements, litigations, sanctions and administrative decisions) incident to abrupt changes in political appointees at the head of the agency. They found strong positive relationships in each of the seven agencies reviewed: the Equal Employment

Opportunity Commission (EEOC), the Federal Trade Commission (FTC), the Nuclear Regulatory Commission (NRC), the Food and Drug Administration (FDA), the National Highway Traffic Safety Administration (NHTSA), the Office of Surface Mining (OSM), and the Environmental Protection Agency (EPA).

> "In five of the seven programs … examined, agency outputs shifted immediately after a change in agency leadership. In four of these cases … change followed an appointment at the beginning of a presidential administration. The direction and magnitude of … responses reflect{ed} the increased power of a chief executive in the period after a presidential election. However, the case of the EEOC also show{ed} change in the middle of an administration" (Wood & Waterman, 1991:822).

More often than not research on CPA is conducted at the federal Cabinet level (Hillman, 1989), the State level (Holburn & Spiller, 2003; Holburn & Vanden Bergh, 2003; DeFigueiredo & Edwards, 2007), or internationally (Faccio, 2002, 2004, 2006; Choi & Thum, 2007). Cabinet-level reviews generally make assumptions that the effect can reasonably be assumed to extend beyond Cabinet appointments. Using event study methodology, McGuire et al (1988) explored the effect of Cabinet appointments (at the Secretary and Assistant Secretary levels) on the stock value of the Cabinet level appointee's parent company as compared with firms in which other types of other change (expected or unexpected) occurred at the level of president or CEO. The results suggested that investors viewed the export of senior executives to Cabinet level positions favorably, with firms experiencing a "significant, positive abnormal return for the week following the change" (McGuire et al, 1988:208). Hillman et al (1999) developed important foundational arguments that firms engage in a "cooptation" or personal service strategy ("having a firm representative serve in a political capacity") at the Cabinet level and in Congress. They demonstrated a positive relationship between the financial performance of publicly traded firms and the appointment of corporate executives to cabinet-level appointments or election to seats in Congress. They attributed the rise in stock price associated with the announcement of the appointment or election to the perception that increased access to the political process would significantly reduce uncertainty and transaction costs and improve the firm's "survival" position within the political process.

Political scientists Wood & Waterman (2000) demonstrate the importance of political appointments in gaining ideological control of the bureaucracy. Their work is augmented by the numerous contributions of Paul Light (2000, 2001, 2002, 2003, 2004, and 2008) and Lewis (2007), whose recent work provides important documentation on President's use of political appointments, including specifics on "why some agencies have many appointees and others few." Gely & Zardkoohi (2001) examined the value of the appointment of partners in publicly traded law firms to Cabinet positions (limiting the study to firms that offered specialty "Washington lobbying" services as part of the legal portfolio) and corporate clients retaining law firms to conduct lobbying on their behalf during the Carter, Reagan, Bush 41, and Clinton administrations. They found a

> "strong, statistically significant linkage between the appointment of a lawyer to a cabinet position and the market performance of the corporate clients of the relevant law firm ... {T}he market rewarded the client firms in {the study} sample handsomely for having been associated with a cabinet member" (Gely & Zardkoohi, 2001:298).

Hillman (2005) sought evidence to demonstrate that placement of former politicians on the Board of Directors improved financial performance, but with mixed results. She found indications that at least in heavily regulated industries these appointments might provide inside information or access to currently serving politicians and/or government decision-makers.

6.3 Ethics Issues

Post-government employment restrictions raise the specter of ethics issues over the practice of passing through the revolving door between industry and government, invoking cries of influence peddling. A brief but thorough history of statutory employment regulations from the early 1960s through 2001 is provided in Gely & Zardkoohi (2001), setting the stage for their examination of the effects of changes in post-government employment restrictions before and after 1993. Prior to 1993 the restrictions limited the "cooling off" period (in which the appointee could not be employed as a lobbyist for any corporation or company over which regulatory or contractual authorities existed during the government) to one year. President Clinton tightened the rules when he issued an executive order increasing the cooling off period to five (5) years, then relaxed them again to one year with an executive order at the end of his second term (AEI, 2001:9). The results provided evidence that the perceived value of the appointment perished over time and that "by the end of the five-year ban, the value of a former cabinet member's political assets is at best worthless" (Gely & Zardkoohi, 2001:299). Clearly, the political market had reacted to the diminished value of the appointment.

Notwithstanding the importance or role of post-government employment regulations, current post-government employment restrictions are largely viewed as ineffective, limiting the only the direct involvement of former government officials from lobbying the agency in which they served for a period of one year and from negotiating for post-government employment while serving as a government official. Waivers, when required, are simply authorized by the same agency's General Counsel, a position also most often filled through the political appointment process. A *New York Times* (Pear, 2008) report on ethics loopholes highlighted the end runs around the Honest Leadership and Open Government Act of 2007. In one example, lobbyists found a way to circumventing the rule that precludes them from influencing members of Congress by lavishing them with expensive dinners at exclusive restaurants; they simply make a political contribution equal to or in excess of the value of the gift, neutralizing the effects of the law.

Political strategies have recognized the value of placing loyalists in key positions since the founding of the U.S. government. Business scholars, however, have not opened a discussion of the potential impact of incorporating the political strategy into the corporate non-market strategy, nor the strategic implications such a strategy might bring to bear on the reduction of uncertainty for the firm. Absent from the business literature is any acknowledgment or discussion of the potential effectiveness of the strategic placement of firm or industry executives within government – using the political process to accomplish the placement – with the specific purpose of protecting and/or enabling the firm or industry's goals. Such a move could short-circuit the dynamics and complexities built into the political apparatus put into place to preserve and protect the public interest. This cooptation of the public policy process was the subject of Epstein's original concerns, echoed later by Buchholz and Rosenthal. The strategic placement of a corporate executive or representative into a position as the agency head, second, third, fourth, or even fifth tier regulator or decision-maker would result in a situation in which that executive is one in the same with the regulated firm, e.g., the firm has embedded its own agent through the political process into the regulatory network.

The absence of study of this phenomenon in the literature is particularly important since so much money now flows through the presidential campaign process and because "so much of executive policy making now occurs through the {the executive branch in the} administrative apparatus of the presidency" (Rudalevige & Lewis, 2005:3; Golden, 1998:245), a phenomenon noted by Buchholz as early as 1990. Legal scholars have recognized the interdependence between regulators and the regulated for decades.

> "... administrative rules and regulations and criminal and civil statutes that are directed at organizational behavior do not revolve around sacred values – in fact, in many cases represent no values of individuals – but instead result from compromises reached between agencies of legislatures and the firms that they regulate. This situation arises because of the interdependence of controllers and controlled. Interdependence between two organizations means that outcomes for each are, in part, determined by the activities of the other. The outcomes they reach are determined by the nature and distribution of resources between the two and the way in which the resources are used. Each has the potential to interfere with the other's activities. Both have a vested interest in shaping a regulatory environment that enhances their own survival. Hence, they act in ways that maximize use of their resources to meet survival goals and minimize the other's ability to interfere with goal attainment. Since the information and wealth possessed by organizations can create obstacles to enforce activities, agencies frequently fulfill their responsibilities through negotiation, internal proceedings, informal hearings, and mutually agreeable solutions. And business firms, similarly concerned with successful operation, soften the power of agencies by efforts to influence law-making and as a consequence, the nature of enforcement, and find equivalent gains to be had from negotiation. Compliance emerges as a product of the power-mediating efforts of both parties, as compliance demands fewer resources from both agencies and business firms than do adversarial activities to impose and thwart punitive sanctions." (Vaughn, 1982:1384)

Over and above this tendency toward interdependence are other factors resulting from the maturing of the American system of democratic capitalism. As the federal bureaucracy has continued to mature, important characteristics of the public policy-making process are pivotal in understanding the important role played by senior officials within the executive branch. Senior officials in the executive branch have been delegated increasing responsibility for creating and implementing policy (Lewis, 2005:3). Most agencies now issue rules and "some nonregulatory agencies rely quite heavily on the rule-making process" (Golden, 1998:251). It is well known that the legislative branch passes statutes governing regulation and enforcement; what is less well known is that the executive branch regulatory agencies are responsible for "interpreting, implementing and enforcing {these} statutes through the design of administrative regulations in a wide range of industries" (Holburn & Vanden Bergh, 2008:523). Further, statutory guidance over the rule-making process does not require government agencies to incorporate public comment received on rules they propose (Golden, 1998:259). The U.S International Trade Commission, for example independently determines whether industries qualify for trade protection with authority delegated to it by Congress "to avoid the need {for Congress} to respond to industry pressures" (Lenway & Rehbein, 1991:894). The Commodity Futures Trading Commission, responsible for regulating oil trading, recently exempted financial firms from rules that limited speculation on oil prices, "usually reserved for airlines and trucking companies that need to lock in future fuel costs," at a time when oil prices were skyrocketing. It also "waived regulations on U.S. investors who trade commodities on some overseas markets, allowing them to accumulate large quantities of the future oil supply by making purchases on lightly regulated foreign exchanges" (Birnbaum, 2006:D01). Finally, with regard to the drafting of tax policy, it is the executive branch from which tax bills originate (Quinn & Shapiro, 1991:858).

Congress delegates to the President certain powers including the "power to set {or remove} tariffs and impose {or remove} trade restrictions, regulate {or de-regulate} industries, set {or revoke} agricultural marketing and production quotas, issue {or revoke} environmental protection rules" (Mayer, 2001:44). The power of the executive branch is further enhanced by the President's authority to draft and implement Presidential Executive Orders. A July 2007 Executive Order, for example, "bans any regulation from moving forward without the approval of an agency's regulatory policy officer, who would be a political appointee" (UCSUSA, 2007). Mayer (2001) demonstrated that

> Presidents use executive orders to implement many of their most important policy initiatives, basing them on any combination of constitutional and statutory power that is thought to be available. These orders thus often dwell in Justice Jackson's zone of twilight, where authority is neither clearly present nor absent. Although interstitial, the programs involved may prove surprisingly durable. A 1997 administrative law casebook cautioned that executive orders, even when they lack the force and effect of law, "are compelling documents that agencies ignore at their peril." (Mayer, 2001:15)
>
> The politics of the presidency is about getting control of the institutions that create and implement policy ... In the struggle for institutional control the president has two main advantages, both of which stem from the president's unique legal powers. The first of these presidential advantages is the formal vestment of executive authority in the office, something far more important than most studies of the presidency have allowed. "The simple fact that presidents are the nation's chief executives endowed by the Constitution and stature with certain formal powers, is of great consequence. For those powers enable them to make lots of important structural choices *on their own* (emphasis in original) without going through the legislative process ... They can organize and direct the presidency as they see fit, create public agencies, reorganize them, move them around, coordinate them, impose rules on their behavior, put their own people in top positions, and otherwise place their structural stamp on the executive branch ... In this way executive power is akin to what economists call residual decision rights, which in the private sector "are rights an actor many possess under a contract or governing arrangement that allow him to take unilateral action at his own discretion when the formal agreement is ambiguous or silent about precisely what behaviors are required. (Mayer, 2001:24)

When Presidents act outside the scope of these delegated powers through the use of executive orders to create policies with which Congress disagrees, Congressional efforts to reverse direction have been wholly ineffective:

> ...executive orders and signing statements, {have} led to a situation where the President is able to subvert our whole system of checks and balances by making laws which the Congress must reverse over the President's veto ... The history of congressional efforts

> to overturn specific executive orders bears out this observation. Only twice since 1970 … has Congress explicitly invalidated an executive order of any substance. (Mayer, 2001:27-28)

Similarly, the Judicial Branch has proven unwilling or unable to check the President's use of Executive Orders to create law. "Federal courts have long considered executive orders to be the equivalent of statutes when they are issued pursuant to the president's legitimate constitutional or congressionally delegated powers" (Mayer, 2001:58). "For over a century the Supreme Court has held that executive orders, when based upon legitimate constitutional or statutory grants of power to the president, are equivalent to laws" (Mayer, 2001:35).

CHAPTER 7: HYPOTHESIS DEVELOPMENT

"We are only at the beginning of the financial world coming to its senses after the bursting of the biggest credit bubble the world has seen. Everyone seems to acknowledge now that there will be lots of mortgage foreclosures and that house prices will fall nationally for the first time since the Great Depression. Some lenders and hedge funds have failed, while some banks have taken painful write-offs and fired executives. There's even a growing recognition that a recession is over the horizon. But let me assure you, you ain't seen nothing, yet."

Pearlstein, 2007

7.1 Introduction

It is generally assumed that the vagaries of the public policy process reduce the likelihood that a single firm can influence regulatory, trade, rule-making, enforcement, or contractual outcomes. Bonardi et al (2005) describes the process as a near fail-safe environment, designed to preserve and protect the public interest:

> The complex process that often characterizes public policy making means that failure could come at any one of multiple steps. In the Unites States, ... this means that successful policies need to make it on to the agendas of both houses of Congress; through the congressional committees; then usually a conference committee process, congressional approval, and finally presidential approval. Proposals to alter existing regulations or policies will encounter opposition from affected groups every step of the way. Failure at just one step in the process preserves the status quo; change, however, requires that each and every step be negotiated successfully. Therefore, it is often very difficult to change existing policies or regulations. (Bonardi et al, 2005:404)

Holburn & Vanden Bergh (2008:524) take a similar view:

> Regulators ... make policy decisions in the shadow of potential political or judicial retribution. From the regulated firm's perspective, the strategic question is how much weight to put on influencing regulators directly – through lobbying – and how much weight to put on targeting indirect channels – influencing legislative or executive institutions – in order to put pressure on the regulatory agency ... The regulatory agency is thus the active institution determining public policy in its domain. It does so under the oversight of the House, Senate and executive branch; the House and/or Senate have the option of introducing new legislation to modify or strike down the regulator's decision. In order to overturn the regulatory through an alternative policy via statute, it must pass in both chambers of the legislature and be signed by the executive.

In this view, the checks and balances of government determine entry points for corporate strategic involvement in the political process in order to maximize effectiveness, influence policy development or enforcement.

Holburn & Vanden Bergh (2004:479) develop robust, testable hypotheses that recognize the necessity for corporate strategy to focus on more than one political institution and in so doing, they provide a framework for empirical examination of "how interest groups allocate influence resources across multiple government branches." Bonardi et al (2005) employed game theory to identify pressure points and opportunities for action targeted at representatives within the legislative, judicial, or executive branches of government, including as targets the bureaucrats that control the levers of government.

> Although elected officials often decide the broad characteristics of public policy, specific policy details and day-to-day implementation generally are left to the discretion of one or several bureaucratic authorities or agencies. With environmental policies, for example, agencies often decide the level of acceptable pollution standards, even though the broad objectives of the policy have been decided by elected officials … Bureaucrats often have the power to provide public policies to demanders since they benefit from information asymmetry and have more discretion because their decisions are often very technical and difficult for outside observers to understand. This allows them to favor some interests versus others. (Bonardi et al, 2005:405)

They conclude that at some point in the process, the firm will no longer be able to affect public policy outcomes.

Given the theories and arguments of Stigler, Buchanan, Epstein, and their colleagues across the academy – and given what we witness in the political marketplace – we know that special interests do seek to capture the political process in order to use it to achieve their own ends. Vanden Bergh & Holburn (2007) found evidence that firms target specific government entities that are "pivotal" in the regulatory process, focusing specifically on the legislative branch (House and Senate) as it exercises control over the executive branch to modify or repeal regulatory rulings.

It is prudent to ask whether the institutional checks and balances imbedded in the public policy process are sufficiently robust as to prevent corporations from leveraging the federal government in order to produce abnormal gains. In order to understand the effectiveness of individual and combined corporate political strategies of lobbying, campaign contributions and personal services, we propose five hypotheses. The first hypothesis unpacks what political scientist Paul Light refers to as a "thickening of government" through the lens of corporate political appointments. Hypothesis Two focuses on effectiveness of the personal service strategy. Hypothesis Three examines the effects of adding additional layers of corporate political strategies. Hypothesis Four seeks evidence of interaction between the three dominant types of corporate political activities. Finally, Hypothesis Five examines the effectiveness of increasing aggressiveness of the corporate political campaign. We employ widely accepted multiple regression and correlation analysis methods.

7.2 Hypotheses

Light (2004) has demonstrated that the top tiers of the government have been thickened over past Presidential administrations. We believe that the thickening also represents increased representation by former executives of Fortune 500 firms. We hypothesize that during the eight years of the George W. Bush administration, the senior tiers of the federal government were comprised of increasing numbers of political appointees who had previously served inside Fortune 500 firms.

> **H1: The "thickening" of the executive layer of the federal government from 2001 through 2008, represented by the addition of political management to the federal hierarchy, is increasingly**

comprised of representatives of corporations who pass through the revolving door between business and government.

We know that under certain conditions, firms making campaign contributions to and/or lobbying directed at specific political parties and/or candidates enjoy short-term increases or losses associated with the victory or defeat of the candidate or party (Jayachandran, 2004; Cheng, 2005; Goldman, 2006; Knight, 2006). We know the Bush administration adopted a plan to insert political appointees deep into the hierarchy of the executive branch (Moffit, 2001a; Moffit, 2001b). We do not know whether a more profound effect is possible by inserting more corporate representatives deeper into the federal hierarchy, beyond the Cabinet level, to the fourth and fifth tiers of the federal government. Accordingly, we hypothesize that firms engaging in the personal service will have higher levels of performance than those that do not, as measured in financial performance and/or the dollar value of government contracts awarded.

H2: Firms that engage in personal service corporate political strategy will have higher levels of financial performance than those that do not, as measured in their financial returns and/or the dollar value of the government contracts they are awarded.

Third, we know that many firms use political action committees to funnel funds to candidates, parties, and causes (Shaffer et al, 2000; Schuler et al, 2002). We also know that many firms employ lobbyists to advance their causes with all branches of the federal government. A few employ the personal service strategy. Accordingly, we hypothesize that firms engaging in more than one form of corporate political activity will be associated with stronger financial performance than firms engaging in only one form of corporate political activity. Specifically, we hypothesize that the greater number of corporate political strategy approaches employed, the greater the benefit the firm will experience.

> **H3: Firms that engage in more than one form of corporate political activity have higher levels of financial performance (government contracts and/or abnormal returns) than firms that engage in one form alone.**

Fourth, we seek to discover any interactive or moderating effects between strategies. For example: (a) Because firms invest in lobbying activities, corporate campaign contributions positively affect financial performance or federal contracts awarded; (b) Because firms make campaign contributions, lobbying positively affects financial performance or federal contracts awarded; (c) Because firms use the personal service strategy, lobbying and campaign contributions together positively affect corporate financial performance or federal contracts awarded.

> **H4: Interactive or moderating effects between corporate political strategies are associated with stronger financial performance in the firm.**

We have evidence that firms engaged in corporate political activities view the costs as an investment in future returns (Snyder, 1992; Ansolabehere et al, 2003). To date, there have been no attempts to examine the effectiveness of complex, long-term investments in multiple activities. Given what we learn about the representation of corporations within the executive branch (Hypotheses 1 and 2), the additional of multiple layers of strategy (Hypotheses 3), and the interactive effects of the strategies (Hypothesis 4), we will be able to examine the effects of various levels of aggressiveness of combined strategies. Accordingly, we hypothesize that firms with increasingly aggressive corporate political strategies (i.e., higher levels of Lobbying Investment, higher levels of Corporate Campaign Contributions, and Higher Numbers or increasingly powerful Corporate Political Appointees) will be associated with stronger financial return and/or higher values of government contracts than those with less aggressive campaigns.

> **H5: Firms that engage in more aggressive corporate political strategies in all three forms of corporate political activity (defined as higher dollar value of lobbying and corporate campaign contributions, and higher numbers or more senior corporate political appointees) will be have higher levels of financial return and/or dollar value of government contracts.**

CHAPTER 8: RESEARCH DESIGN AND METHODOLOGY

"In every organization there are two purposes: one, the ostensible purpose for which the organization exists; the other, to increase the power of its officials."
-- Bertrand Russell (Yoffie, 1987:48)

8.1 Methodology

Chapters 4, 5, and 6 reviewed the literature and described the current body of research in the areas of corporate campaign contributions, lobbying, and personal services. The body of literature on corporate campaign contributions is mature. Research on lobbying effectiveness is less complete, and that on personal services is negligible. While past research has focused largely on individual corporate political strategies, the focus here is on the personal service strategy and the combined and interactive effects of the strategies when used in harmony. To the best of our knowledge, empirical study of the effectiveness of combined strategies over an extended period is virtually non-existent.

A theoretical base for the study of the combined effects of corporate political strategies has been established. Zardkoohi (1985) identified those economic factors that "account for or affect corporate campaign contributions" and demonstrated the specific relationships between industry characteristics and firm participation in the political process. Later, Getz (1993) argued that firms could benefit from the insertion of corporate representatives into key government positions. Pointing to the "dearth of systematic and consistent evidence to support the conventional wisdom that money plays a dominant and nefarious role in American politics, Milyo et al (2000) challenged the conventional thinking of the time, demonstrating that there is far more involved in corporate political activity than just corporate campaign contributions. Shaffer et al (2000), "moving beyond normative discussions about why firms should care about the role of government," provided early evidence of a positive relationship between the number of corporate political activities and firm financial performance in the airline industry. Schuler et al (2002) conceptualized why firms could benefit from "combining political strategies by not only making campaign contributions, but also by employing a combination of internal and external lobbying activities.

Holburn & Vanden Bergh (2002) demonstrated that firms target "institutional players other than the legislature" as part of the corporate political strategy and in later work (Holden & Vanden Bergh, 2004) demonstrated that firms do target agency activities in order to gain financial advantage. Hillman et al (2004) provided a comprehensive overview of CPA research, including antecedents, types and typologies, implementation and outcomes. Holburn & Bonardi et al (2005) clearly articulate the important distinctions in the players in the government process and develop a theoretical framework that focuses on the elements of the political process that invite corporate activity.

Studies of personal services in the federal hierarchy have been largely limited to the use of event study methodology with small samples, evaluating abnormal stock market returns in a defined window surrounding the announcement of the appointment of a Cabinet level official or Congressional election. Event study methodology, widely employed in economics and finance research, is used to

> assess the effect of an unanticipated event on stock prices. That is, it measures the average change in share price that occurs when a major 'event' is announced. This event presumably provides new information on the future profitability of companies that experience it. (McWilliams et al, 1999:340)

Event study methodology has been subject to criticism because small samples and confounding events make it difficult to associate the events in question from other factors. McWilliams et al (1999) demonstrated that five published event studies of the same phenomenon produced radically different results, large because of improper methods, sample selection and size, selection of event and length of the event window, "leakage" and confounding effects, statistical testing and the explanation of abnormal returns. They point out that when event study research is used for projects well suited to the method and conducted using the right design and methods; it can produce meaningful results. Following Pettigrew (1992), we rely in this study on the documented intent to implement a personal service strategy (Moffit, 2001a; Moffit, 2001b) as well as the documented relationship between corporations and the Bush Administration (CRP, 2008), rather than on behavioral, demographic, interview, or questionnaire data. Following McWilliams (1999), we depart from the standard event study approach, building a theoretical base for causal relationships in Chapters Four, Five, and Six, and measuring firm performance using multiple indicators of financial performance and dollar value of federal government contracts awarded.

If corporate political activities produce return on investment, then we should see the effects reflected in financial performance and/or federal government contracts awarded. If there are moderating or interactive effects between the independent variables (corporate political activities), we will be able to ascertain the relative impact of change in each independent variable upon the dependent variables (financial performance indicators including government contracts awarded). We will also be able to demonstrate incremental improvement in the ability of the model to explain the variance in the dependent variables. If the personal service strategy is sound, then deeply penetrating well beyond the Cabinet level to third, fourth, and fifth tier political appointments to forge links between business and government will be observed to augment, interact with, or moderate other strategies to improve financial performance, particularly in the long-run. In other words, the long-term financial performance of the Bush administration's corporate "sponsors" should demonstrate effectiveness of their corporate personal service strategies.

8.2 Population and Sample

Fortune 500 Firms. The sample, described as all firms holding a seat on the Fortune 500 any time during the period 2000 – 2008 as reported in Hoover's Index, is represented by 794 individual firms (Appendix A). Descriptive statistics are provided in Chapter 8.

8.3 Definition of Variables

The research model includes three independent variables (with subsets) and two dependent variables (with subsets). The **independent variables** represent corporate investment in political activities. They include:

- Corporate Campaign Contributions
    - Political Action Committees (PACs)
    - Current and past Fortune 500 CEOs' personal campaign contributions

  - Current and past Fortune 500 CEOs' "bundling" of other campaign contributions
- Corporate investment in lobbying
- Personal services (placement of current/former employees in the senior tiers of the executive branch of the federal government through the political appointment process).

The **dependent variables** represent corporate performance. They include annual:

- Financial Performance
  - Revenue
  - Gross Profit
  - Net Income
  - Market Share (within Standard Industry Code sector), and
- Dollar Value of Federal Government Contracts awarded.

Independent Variables. Definitions for the independent and dependent variables follow. Sources of data for each variable are also provided.

"Bundling" of Campaign Contributions by past/present CEO's

The concept of "bundling" of campaign contributions was a cornerstone of the George W. Bush fundraising strategy. The core of the Bush-financing network consisted of 940 individuals, each charged with the drafting of one hundred $1,000 donors in a system of "bundling." Reminiscent of Bush's former position as a partner-owner of the Texas Rangers baseball franchise, those who raised $100,000 for the campaign bid using this method were designated "Major-League Pioneers." Those who attempted, but were not successful, were dubbed "Minor-League Pioneer." These "Pioneers" were joined by a new class in 2004 – those who bundled $200,000 were designated "Rangers."[38] Later, high-end players in the Republican Party who raised at least $300,000 for the party by bundling individual donations of $25,000 or less were later dubbed "Super Rangers" (Edsall, 2004). A similar opportunity, unfettered by federal campaign contribution laws, presented itself to contributors for to the inaugural fund, with just under $19 million collected over and above that contributed to the campaign.

Past/Present CEO Personal Campaign Contributions

Chief Executive Officers (CEOs) involve themselves in the political process through any one of several venues, including personal campaign contributions. These contributions are reported by the Federal Election Commission and made available on the watchdog website "campaignmoney.com," which provides a searchable database of all contributions made by industry CEOs. This data is employed in the creation of a unique database for this study that includes the personal contributions of all Fortune 500 CEOs during the period 1999 – 2008.

Corporate Campaign Contributions via Political Action Committees (PACs)

Corporate political action committees (PACs) are generally recognized in the literature as organizations affiliated with firms that raise money through voluntary contributions from stockholders, administrative and executive staff, to engage in political

[38] www.tpj.org. ("Texans for Public Justice")

activities, with all contributions made by individuals under the umbrella sponsorship of the corporation (Smart & Milyo, 2005:6). A PAC is defined by the Center for Responsive Politics[39] as "a political committee organized for the purpose of raising and spending money to elect and defeat candidates."

Presidential candidates are required to report all donations received to the Federal Election Commission (FEC). In turn, the FEC provides a searchable database on its government website. Additionally, several watchdog organizations monitor contributions and receipts, posting data on the World Wide Web. The Center for Responsive Politics compiles data on the World Wide Web under the rubric "Open Secrets." Its award-winning website is widely regarded as "the most comprehensive resource for campaign contributions, lobbying data and analysis available anywhere." An additional on-line non-partisan resource, providing information from the Federal Election Commission, is available at www.campaignmoney.com. For purposes of this study, data on campaign contributions made from corporate political action committees has been downloaded using web tools available on the Open Secrets website.

Corporate Investment in Lobbying

Lobbying is defined in the U. S. Lobbying Disclosure Act of 1995 as:

> any nonexempt oral or written communication on behalf of a client to executive and legislative branch officials. A nonexempt communication is defined as lobbying contact if it is about the formulation, modification, or adoption of federal laws, executive orders, government contracts, etc." (Yu & Yu, 2008:5).

[39] The Center for Responsive Politics is a non-profit, nonpartisan, independent research group that tracks money in U.S. politics and its effect on elections and public policy. It describes its mission as 'to create a more educated voter, an involved citizenry and a more responsive government.

By law, lobbyists are required to report its contributions to political candidates. Corporate lobbying investments are computed from registrations with the clerk of the House or secretary of the Senate, which are compiled and reported in the *Congressional Quarterly Weekly* and the *Annual Almanac*. Several watchdog organizations monitor contributions and receipts, posting data on the World Wide Web. To ensure consistency, for purposes of this study, data on corporate lobbying investment has been downloaded using web tools available on the Open Secrets website.

Corporate Personal Services

Corporate personal service is defined as having an organizational representative in a government position (Hillman et al, 1999). Historically, U.S. Presidents draw upon five broad professional categories of experts to serve as political appointees: corporate, legal, academic, government (including state, local, and federal careerists), and the Congress (both elected officials and staff members). Each appointment is recorded in the official record of the Senate and retained by the Library of Congress in its www.thomas.gov website.

For purposes of this study, we develop a unique hand-collected database consisting of 3,823 nominations sent to the Senate by President George W. Bush during the period 20 January 2001 (the day of his inauguration) through 13 March 2008. Of that total, 2,817 nominations resulted in confirmation, with subsequent appointment of the nominee to a political position within the top six tiers of the executive branch. These included appointments to Cabinet departments, independent agencies, Ambassadorships, U.S. Marshals, U.S. Attorneys, Members of Boards and Councils, as well as

Representatives to the United Nations and other special bodies requiring representation by the President of the United States. Two hundred seventy-seven individuals (277) were subsequently nominated to additional positions over the course of the seven-year period, sometimes to a more senior position at a higher level within the same agency, but also laterally across agencies or to a more senior position in a different agency.

Coding Executive Branch Positions. Coding the political appointments for the Bush administration began with a review of the official handbook of the Federal Government, the *United States Government Manual*, published annually by the National Archives & Records Government Printing Office as a special edition of the *Federal Register*. The manual is a comprehensive and authoritative guide to the structure, function, organization, and history for every entity within the federal government including the executive, legislative and judicial branches. Additionally, it specifies any unique structure selected by the President, including those positions or agencies elevated to Cabinet rank by a specific Administration. For example:

> The {2001 Bush} Cabinet{was} composed of the Vice President and the heads of the 15 executive departments – the Secretaries of Agriculture, commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Labor, State, Transportation, Treasury, and Veterans Affairs, and the Attorney General. Cabinet-level rank {was} accorded to the Chief of Staff to the President; the Administrator, Environmental Protection Agency; the director, Office of Management and Budget; the Director, Office of National Drug Control Policy; and the U.S. Trade Representative. (Office of the Federal Register, National Archives and Records Administration, 2005:85).

Additionally, every four years since 1952, the U.S. Government Printing Office has printed, for the use of the Committee on Government Reform, the "Plum Book," advertising those noncompetitive political appointments available for placement of politically like-minded people into policy and regulatory jobs.

Using these two manuals as guides, each Bush political appointment was coded according to its hierarchical position ("tier") within the agency, with the Cabinet Secretary (or equivalent) positions designated as Tier One, Deputy Cabinet Secretary (or equivalent) positions designated as Tier Two, and so on. Staff positions with unique statutory authority reporting directly to the Cabinet Secretary (or equivalent) including Chief Financial Officers, Generals Counsel (or Solicitors), and Inspectors General, were accordingly coded to reflect their relationship to the tier one position. Appendix B provides a complete listing of all Bush Administration independent and Cabinet-level agencies, boards, commissions, bilateral and multilateral organizations.

Coding Corporate Political Appointees. The White House routinely issues press releases and personnel announcements that contain detailed biographical information on political appointees at the time of their confirmation by the Senate and appointment to the executive position. Additionally, Marquis' *Who's Who in American Politics* provides a comprehensive biographical directory of "Americans who make significant contributions to political dialogue, chronicling the lives of … politically influential men and women" (2001:vii). Numerous watchdog organizations also record and report biographical background and history of political nominees including the Public Citizen (Public Citizen's Congress Watch), the Center for Public Integrity, Theocracy Watch, Government Executive, Capital Eye, Common Dreams, Open Secrets, Texans for Public Justice, and the Project for the Old American Century. In order to ensure consistency and accuracy, we use here White House personnel announcements, official U.S. Government agency biographies, reports in *Who's Who in American Politics*, and press accounts to develop a biographical database for appointees in a sample constructed specifically for this study. Nominees with prior histories of corporate employment were coded using the Fortune 500 firms in the sample described above. Using this methodology, each Bush of the 2,817 political appointments was coded for:

(a) Name of the appointee

(b) Demographic information (age, gender, ethnicity, education, military and/or Foreign Service history)

(b) Federal agency or organization of the appointment

(c) Date of appointee's confirmation

(d) Tier of the appointment within the agency or organization

(e) Corporate affiliation(s)

(f) Past service as a member of Congress (House of Representatives or Senate)

(g) Past service as a Congressional Staffer

(h) Past employment as a registered lobbyist.

The result is a unique data set of Bush Political Appointees. Descriptive statistics are provided in Chapter 8.

8.5 Firm Performance

Research on corporate political activity has suffered from a lack of consistency or agreement on the measures of firm performance. The issue of "reverse causality" haunts research in this area; very few researchers address this concern. In the classic "chicken or egg" argument, the dilemma lies in trying to identify whether firm characteristics drive corporate political approaches (i.e., large firms have sufficient resources to invest in corporate political strategies) or corporate political strategies lead to higher financial returns. We will return to this issue in Chapter 10. The original work by Zardkoohi (1985) measured the effects of firm characteristics (market share, market concentration, government regulation, government contracts, profitability) on corporate campaign contributions. With that early exception, researchers have reversed Zardkoohi's dependent and independent variables taking one of two approaches:

- In the first case, studies measure the effects of firm or industry characteristics (industry concentration, firm size, dependence on government contracts, dollar value of government contracts, political ideology of top managers, corporate political activism) on number or type of corporate political strategies.
- Alternatively, researchers have measured the relationship between corporate campaign contributions or lobbying on stock market performance (Ansolabehere et al, 2003; Jayachandran, 2004; Huber & Kirchler, 2008) or "the ability of firms to effect favorable public policy decisions" (Bonardi et al, 2006:1209).

In a study assessing the effectiveness of corporate political activity in the airline industry, Shaffer et al (2000) measured financial performance through Gross Profit Margin, Operating Efficiency, and Generation of Market Demand. Chen et al (2008) measured the effects of lobbying, corporate campaign contributions, and soft money on sales, market value, net income, market-to-book ratio, assets, and share price.

To the best of our knowledge, no study has attempted to measure the effectiveness of lobbying, campaign contributions and personal service simultaneously. A few studies have attempted to measure the effects of the personal service strategy on firm performance. Those that do undertake this work often use abnormal stock returns as the measure of financial performance. Goldman et al (2007) and Hillman et al (1999) measured the effects of the election of firm board members to Congress or appointment to Cabinet-level positions on abnormal stock returns (respectively). Goldman et al (2006, 2007) measured the effects of board member connections on stock returns and government contracts. Santa-Clara & Valkanov (2003) and Leblang & Mukjerjee (2005) examined the relationship between stock market performance and the political party of the President using dummy variables to set conditions in their models.

Other research has provided reason for caution in this "abnormal stock return" approach. Powell et al (2006) demonstrated that testing stock market returns using dummy variables produced spurious results. Chen et al (2008:23-25) provided evidence that stock returns[40] are a poor indicator of financial performance since the

> stock market does not initially fully incorporate the value of corporate lobbying activities. If the stock price fully captures the value of a firm's lobbying activities, we would not find an association between lobbying intensity and future stock returns. The results also

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[40] "An abnormal return equals the actual return on a particular day minus the expected return that day. For event windows longer than one day, the cumulative abnormal return equals the sum of the abnormal returns on each event day. Calculating an abnormal return clearly requires a model for estimating expected returns, and the finance literature offers several candidate models. We estimate abnormal returns using two different approaches. The first approach simply subtracts the "market return" from the actual return earned by a given stock on a particular day." (Smart & Milyo, 2005:14-15)

> lessen the plausibility of causality running from performance to lobbying given that reverse causality would imply that managers accurately forecast profitability (excess market returns) three years into the future … {The evidence} indicates possible under-pricing of actively lobbying firms. In other words, the market may fail to give enough credit to past losers that are investing heavily … in lobbying … Overall, the results provide evidence of market mis-pricing of lobbying activities.

Given the lack of consistency or agreement on financial performance indicators and given the cautions concerning the use of stock market returns, we measure *firm performance* through a set of financial indicators available through COMPUSTAT (Net Income, Revenue, Gross Profit, Market Share) and the annual dollar value of federal government contracts awarded.

Federal Contracts Awarded

In October 2006 the non-profit watchdog groups "OMB Watch" and "Center for Responsive Politics launched an interactive website "for the first time {providing} itemized information on the more than $12 trillion that the federal government {had} disbursed between 2000 and 2005."[41] This study used information available from the site in its searchable database of federal contracts awarded annually (www.fedspending.org).

Control Variables. The **control variables** include:

- Size, as measured by a seat in the Fortune 500 in any year during the period 2000 – 2008
- Standard Industry Code **(SIC):** The Standard Industry Code (SIC) system consists of ten (10) industrial sectors which are mutually exclusive and exhaustive

[41] Press Release "OMB Watch and the Center for Responsive Politics Unveil Federal Spending Oversight Tools," OMB Watch, October 10, 2006.

(Cohen et al, 2003:302). Each is subdivided into specific niche industries within the broader SIC (Table 8.1) and each firm in the sample is appropriately coded into one and only one industrial sector.

Table 8.1 Standard Industrial Coding System Used in the Study

SIC Coding Used in the Analysis	Sector	Sub-Sector	Sub-Sector Code
100	Agribusiness		
		Agricultural Services/Products	101
		Crop Production & Basic Processing	102
		Dairy	103
		Food Processing & Sales	104
		Forestry & Forest Products	105
		Livestock	106
		Poultry & Eggs	107
		Tobacco	108
200	Communications / Electronics		
		Computers / Internet	201
		Electronics Mfg & Services	202
		Miscellaneous Communications / Electronics	203
		Printing & Publishing	204
		Telecom Services & Equipment	205
		Telephone Utilities	206
		TV / Movies / Music	207
300	Construction		
		Building Materials & Equipment	301
		Construction Services	302
		General Contractors	303
		Home Builders	304
		Special Trade Contractors	305
400	Defense		
		Defense Aerospace	401
		Defense Electronics	402
		Miscellaneous Defense	403
500	Energy & Natural Resources		
		Electric Utilities	501
		Environmental Services/Equipment	502
		Fisheries & Wildlife	503
		Mining	504
		Miscellaneous Energy	505
		Oil & Gas	506
		Waste Management	507
600	Finance, Insurance & Real Estate		
		Accountants	601
		Commercial Banks	602
		Credit Unions	603
		Finance / Credit Companies	604
		Insurance	605
		Miscellaneous Finance	606
		Real Estate	607
		Savings & Loans	608
		Securities & Investment	609
700	Health		
		Health Professionals	701
		Health Services / HMOs	702

		Hospitals / Nursing Homes	703
		Miscellaneous health	704
		Pharmaceuticals / Health Products	705
800	Lawyers & Lobbyists		
		Lawyers / Law Firms	801
		Lobbyists	802
900	Miscellaneous Business		
		Beer, Wine & Liquor	901
		Business Associations	902
		Business Services	903
		Casinos / Gambling	904
		Chemical & Related Manufacturing	905
		Food & Beverage	906
		Lodging / Tourism	907
		Miscellaneous Business	908
		Miscellaneous Manufacturing & Distributing	909
		Miscellaneous Services	910
		Recreation / Live Entertainment	911
		Retail Sales	912
		Steel Production	913
		Textiles	914
1000	Transportation		
		Air Transport	1001
		Automotive	1002
		Miscellaneous Transport	1003
		Railroads	1004
		Sea Transport	1005
		Trucking	1006

8.4 Models

Using widely accepted applied multiple regression, correlation analysis, and categorical moderating statistical techniques (Cohen et al, 2003; Aguinas 2004), we examine the main effects (linear, quadratic, cubic) and interactive (moderating) effects of each of the independent variables on each of the dependent variables (Table 8.2).

Table 8.2 Independent & Dependent Variables	
Independent Variables	**Dependent Variables**
"Bundling" of Campaign Contributions (Rangers/Pioneers)	Government Contracts (GOVCON)
Corporate PAC Campaign Contributions (PAC)	Gross Profit (GRSPRF)
Firm CEO Campaign Contributions (CEO)	Net Income (NETINC)
Corporate Investment in Lobbying (LOBBY)	Gross Revenue (REV)
Number of Political Appointees (PNtotal)	Market Share within SIC (MKTSHsic)
Seniority (Power) of Political Appointees (PNpwr)	

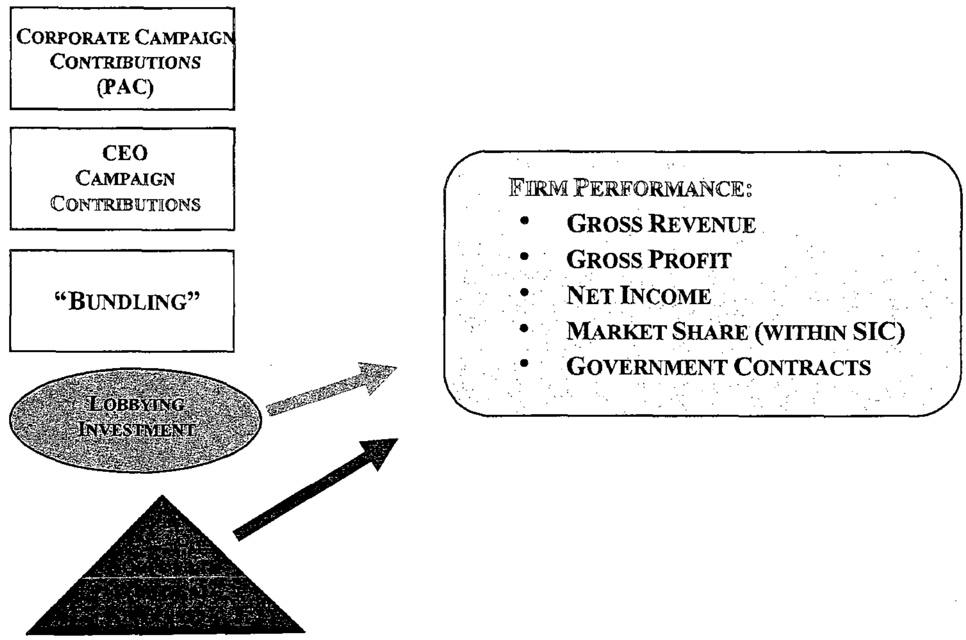
Because we are interested in the effectiveness of each independent variable in each industrial sector of the Fortune 500 population, we code the SIC control variable using the "effects dummy coding" methodology (Cohen et al, 2003: 321). Specifically, we use "un-weighted effects coding" methodology since:

- We have not used a random or representative sampling technique to develop the sample.
- The sample includes all firms holding a place in the Fortune 500 during the period in question.
- We do not wish to generalize the results to the entire population of all U.S. firms, limiting the application to the population of Fortune 500 firms.

Main Effects (Figure 8.1)

We are interested in the main (individual) and interactive (moderating) effects of three non-market corporate political strategy approaches (lobbying, campaign contributions and personal services) on firm performance as measured in financial returns and/or federal contracts awarded.

Figure 8.1 Main Effects



Before addressing the study hypotheses, we first determine the effectiveness of each individual approach to answer these preliminary questions:

(1) To what extent does the personal service strategy explain the variance in financial performance or federal contracts awarded? Is the relationship linear, quadratic, or cubic?

(2) To what extent does the firm's investment in lobbying (alone) explain the variance in financial returns? Is the relationship linear, quadratic, or cubic?

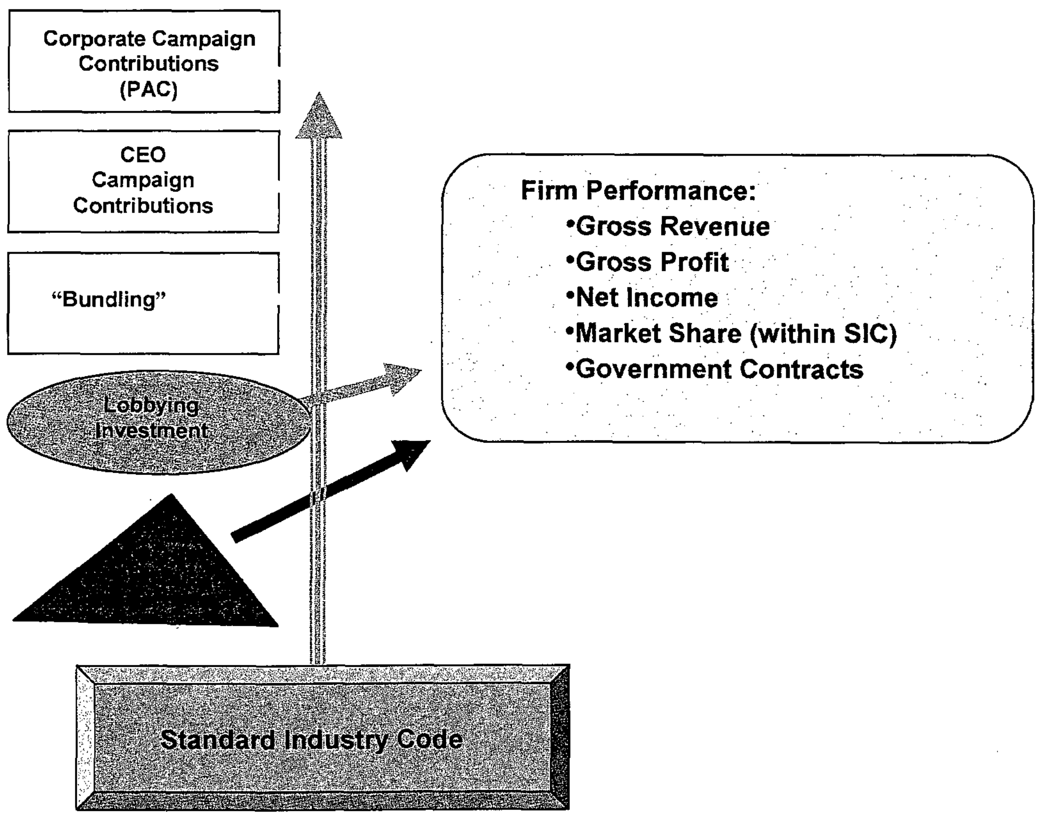
(3) To what extent does the firm's investment in corporate campaign contributions (alone) explain the variance in financial returns? Is the relationship linear, quadratic, or cubic?

We examine each individual year during the period 2001 through 2007 (lagging the dependent variables by one year to capture the effects of the investment) as well as the aggregate period (OMNIBUS – all firms, all years).

Moderating Effects of the Control Variable SIC (Figure 8.2)

Over and above the main effects, we are interested in the interactive (moderating) effects between and among the independent variables. Because we are interested in the effects of the Independent Variables within each industrial sector, we first test for moderating effects of the Control Variable SIC.

Figure 8.2 Moderating Effects



We are interested in the distinctions between industrial sectors of the Fortune 500 firm sample. Accordingly, the theoretical model predicts a moderating effect of SIC on the relationship between the independent and dependent variables as depicted in Figure 8.2.

Moderating (Interactive) Effects of the Independent Variables (Figure 8.3)

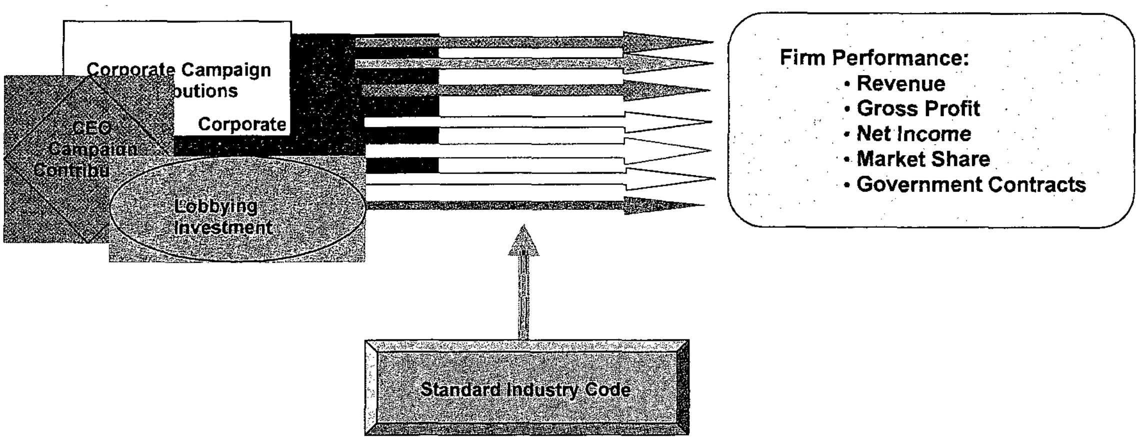
We are interested in the moderating (interactive) affects of the three strategies. For example, we are interested in knowing if it is the case that:

(a) Because firms invest in lobbying activities, corporate campaign contributions positively affect financial performance or federal contracts awarded;

(b) Because firms make campaign contributions, lobbying positively affects financial performance or federal contracts awarded;

(c) Because firms use the personal service strategy, lobbying and campaign contributions together positively affect corporate financial performance or federal contracts awarded.

Figure 8.3 Interactive Effects



Mathematical Models. Finally, we develop mathematical models and graphs to describe the relationships for all effects: main (linear, curvilinear) and moderating (interactive).

CHAPTER 9: DESCRIPTIVE STATISTICS

Chapter 8 presented the study models, described the independent and dependent variables and development of two unique samples created for the study:

- A sample of firms holding a position in the Fortune 500 in any year during the period 2001 – 2008
- A sample of individuals appointed to political positions within the Executive Branch of the federal government over the course of President George W. Bush's two terms in office (2001 – 2008).

Descriptive statistics for these two samples follow.

9.1 Fortune 500 Firms

The Omnibus sample (all firms, all years) consists of 794 individual firms representing all ten (10) Standard Industry Codes (SICs). Sample statistics are presented in Table 9.1.

Table 9.1 Omnibus Sample Standard Industry Code Statistics

Industrial Sector	Number of Firms	Percent of Sample	Herfindahl-Hirschman Index
Agribusiness	65	8.2%	419.40
Communication & Electronics	119	15%	271.43
Construction	33	4.2%	598.42
Defense	13	1.6%	1533.77
Energy & Natural Resources	133	16.8%	562.19
Finance, Insurance & Real Estate	126	15.9%	285.01
Health	53	6.7%	459.03
Miscellaneous Business (including Lawyers & Lobbyists)*	193	24.3%	326.63
Transportation	59	7.4%	1026.33
TOTALS	794	100%	

*Note: Because a single firm represents Lobbying & Lawyers, that firm is included for statistical purposes in the Miscellaneous Business SIC.

Because we are concerned with the effectiveness of corporate political activities *within* specific industry sectors, we test for industry concentration (degree of competition) using the Herfindahl-Hirschman Index (HHI). The U.S. Department of Justice rates markets in which the HHI ranges between 1000 and 1800 as moderately concentrated.[42] The results are also presented in Table 9.1. HHI statistics range from the least concentrated industrial sectors – Communications & Electronics (HHI = 271.43) and Finance, Insurance & Real Estate (HHI = 285.01) – to the most concentrated industrial sectors – Defense (HHI = 1533.77) and Transportation (HHI – 1026.33). Using the Department of Justice benchmark, the Transportation and Defense sectors are moderately concentrated. Although the HHI for the defense sector is high with just 13 firms, it falls short of the Department of Justice threshold for monopoly conditions (HHI < 1800).

9.2 Independent Variables. Descriptive statistics for the independent variables for the omnibus sample are provided in Table 9.2.

TABLE 9.2 OMNIBUS SAMPLE INDEPENDENT VARIABLE DESCRIPTIVE STATISTICS				
2001 – 2008 CUMULATIVE				
	MINIMUM	MAXIMUM	MEAN	SUM
NUMBER OF CORPORATE POLITICAL APPOINTMENTS	0	79	2.22	1,764
POWER OF CORPORATE POLITICAL APPOINTEES	0	269	7.67	6,088
BUNDLED CAMPAIGN CONTRIBUTIONS	0	$700,000	$8,247	$6,400,000
CEO PERSONAL CAMPAIGN CONTRIBUTIONS	0	$199,598	$17,250	$13,559,067
CORPORATE CAMPAIGN CONTRIBUTIONS	0	$11,016,207	$539,740	$429,000,000
LOBBYING INVESTMENT	0	$127,000,000	$7,038,900	$5,590,000,000

[42] "The Herfindahl-Hirschman Index," http://www.usdoj.gov/atr/public/testimony/hhi/htm.

Political Appointments. When George W. Bush took office in 2001, one of the most immediate tasks at hand was to put his team into place via the political appointment process. This ultimately consisted of 2,817 appointments over the duration of the study period (January 2001 – March 2008). Credible biographical information (varying in amount of detail from only date and place of birth to detailed biographical sketch), was obtained for 2,728 (96.8%) of the 2,817 political appointments in the sample. Of those for whom biographical information was available, the following descriptive statistics apply.

The sample collected includes 2,145 (76.14%) males and 672 (23.86%) females (Figure 9.1). The appointees ranged in age (on date of appointment) from 28 to 88 (Figure 9.2).

Figure 9.1 Bush Appointees By Gender

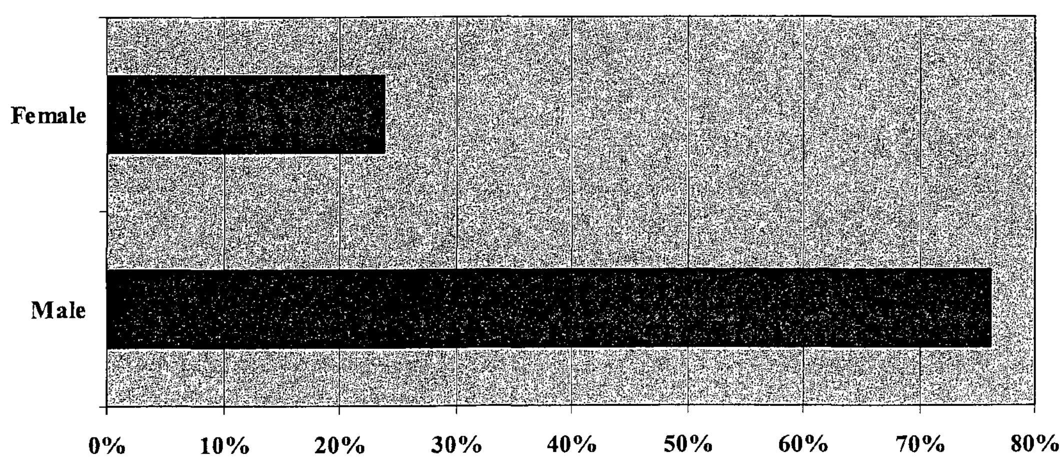
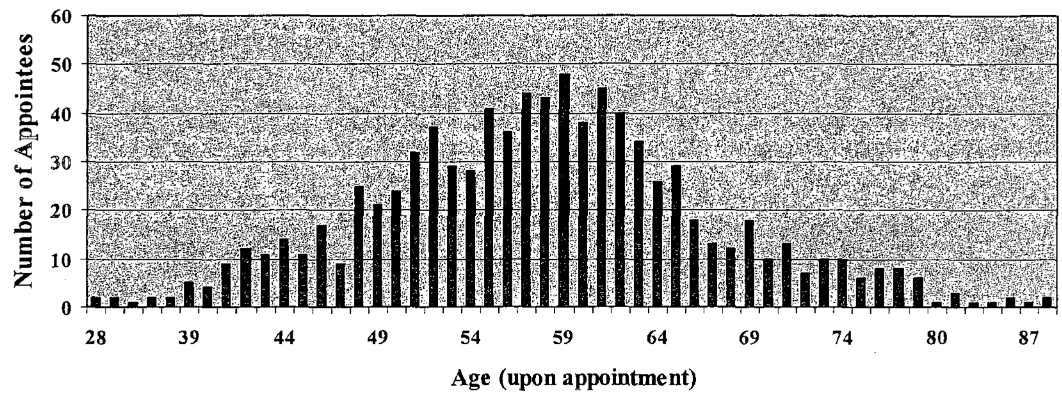


Figure 9.2 Bush Appointees by Age
N=871; Mean=57.9



Ninety-four percent (2,667 individuals) held a Bachelor's or Advanced Degree (figure 9.3). Ethnicity information was available for 1,820 (64.6%) of the appointees. Of those, 51.8% were Caucasian, 5.5% Black/African American, 3.6% Hispanic, 1.1% Oriental, 1.1% Middle Eastern, 0.9% Cuban, 0.75% Native American Indian, Pacific or Caribbean Islander (Figure 9.4).

Figure 9.3 Bush Appointees Education

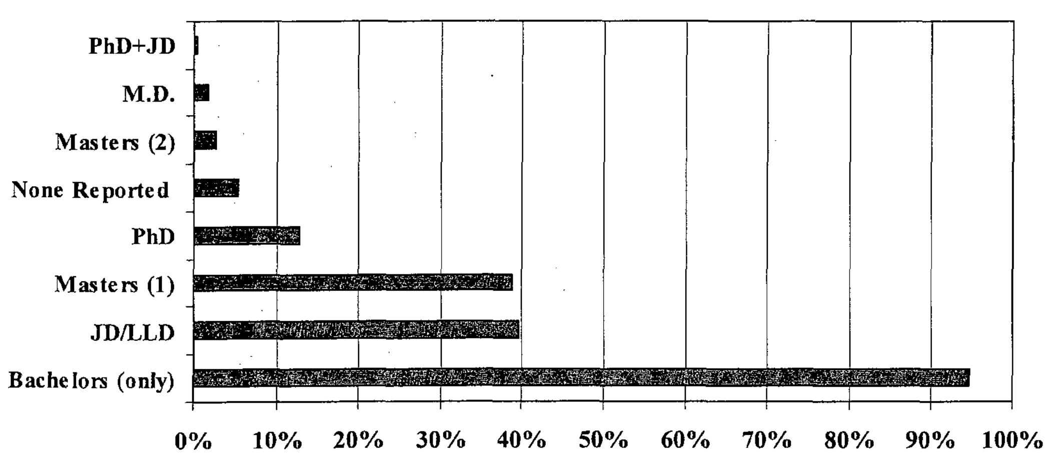
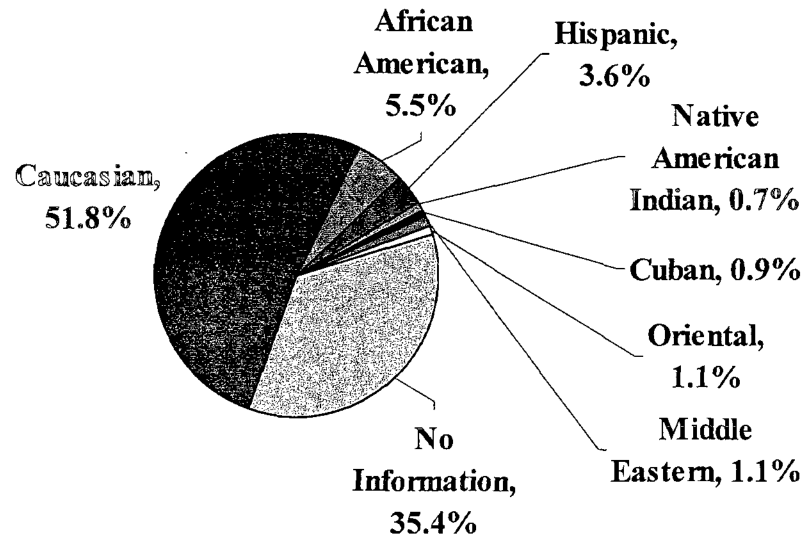


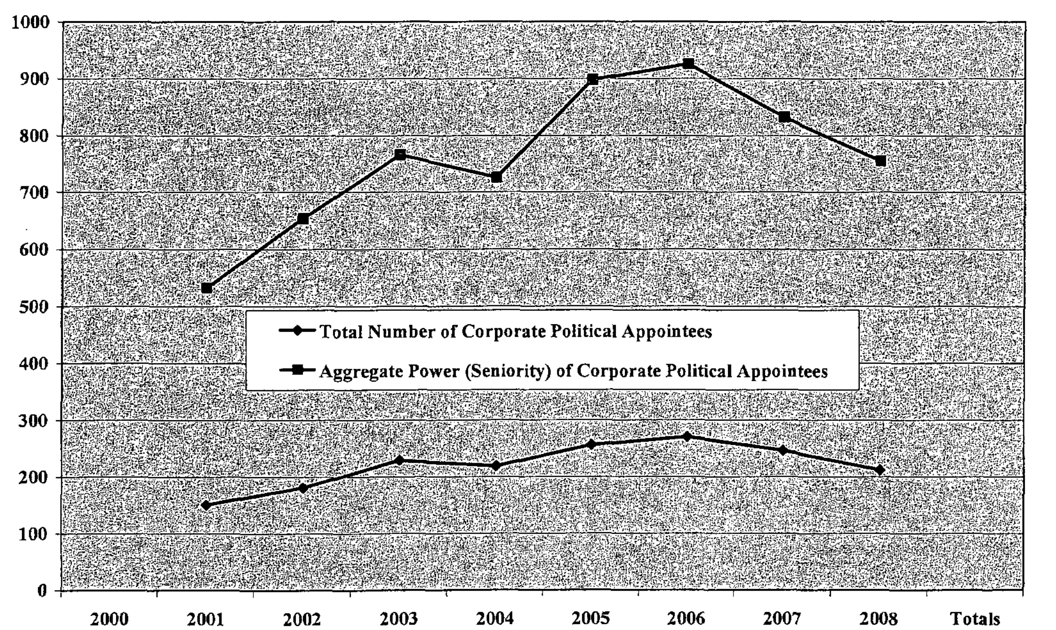
Figure 9.4 Bush Appointees by Ethnicity



Nearly forty percent (1,119) were attorneys; of those, 135 were graduates of Harvard Law School. Sixty-one (2.1%) had served as elected members of Congress (40 as Members of the House of Representatives; 21 as Senators). Two hundred sixty-seven (9.5%) had served as Staffers for Members of Congress (112 House Staffers; 155 Senate Staffers). Three hundred seventy-five (13.3%) had served in the military; 335 (11.8%) served as career Foreign Service Officers in the State Department. Four hundred nine (14.5%) were appointed as Ambassadors (285 were career Foreign Service State Department non-patronage appointments; 124 were non-Foreign Service patronage appointments). One hundred twenty-eight (128) were appointed as U.S. Attorneys; three hundred twenty-eight (328) were appointed as Federal Judges; one hundred one (101) were appointed as U.S. Marshals. Two hundred seventy-seven (8.1%) of the appointees were nominated and appointed to more than one position over the course of the seven year period. Three hundred thirty-seven (12%) of the appointees were individuals who had served as registered Lobbyists in one of the top 250 Lobbying Firms[43] (Appendix C).

Number of Corporate Political Appointments (Figure 9.5). President Bush made four hundred (400) "corporate" appointments to the top six tiers of the federal government (including the Vice President) during the period 2001 - 2008. The number of corporate political appointments in the top tiers of government affiliated with any single firm over the study period ranged from zero to seventy-nine (79) with a mean of 2.2. Three hundred twenty-five (325) different individuals with corporate backgrounds received appointments; they had prior affiliation with two hundred thirty-nine (239) different firms in the Fortune 500 study sample.

Figure 9.5 Corporate Political Appointees
2001 - 2008



[43] Center for Public Integrity, Top 250 Lobbyists 2007.

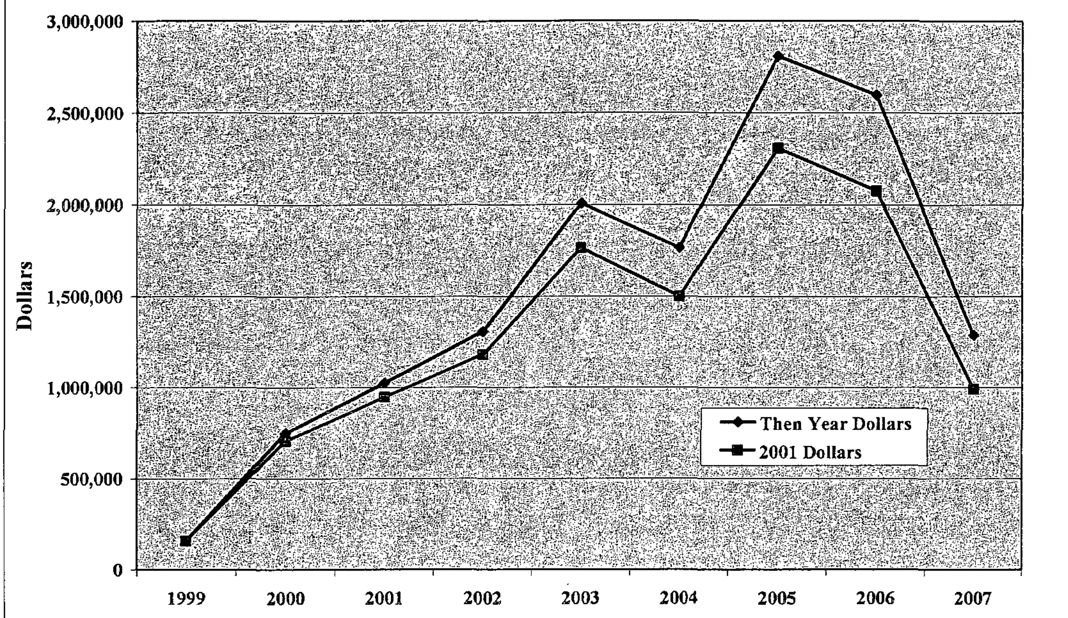
Power of the Corporate Political Appointees (Figure 9.5). Corporate political appointees in the Bush administration exercised increasing power and authority over the regulatory, enforcement, and decision-making apparatus of the federal government. The amount of control (power) they held grew at a rate that exceeded the growth rate in their numbers over the eight-year period encompassing President Bush's two terms. They held increasingly senior positions. Political appointees were assigned a "power/seniority score" based on the tier of their assignment. The most senior appointee was the Vice President, who was assigned a score of six (6) on a six point scale. Cabinet level appointees were assigned a score of five (5) with the most junior appointees, at the fifth (5^{th}) tier assigned a score of one (1). Their collective power surged from a peak of 766 in the first term to 925 in the second year of the second term, then declined along with the numbers of appointees as individuals departed government service in the waning months of the Bush administration. The collective power of the corporate appointees from any single firm ranged from zero to 269, with a mean of 7.67.

"Bundling" (Rangers & Pioneers). Over the period of the study, current/past Fortune 500 CEO's "bundled" $6.4 million for Presidential candidate George W. Bush, receiving monikers as either "Rangers" or "Pioneers." The amount each CEO bundled ranged from zero to $700,000, with a mean of $8,247. In the year 2000, twenty-two donors engaged in the "bundling" program, bringing in a total of $2.6 million in campaign contributions. Nineteen bundled the requisite $100,000 for "Pioneer" status;

two bundled the requisite $200,000 to achieve "Ranger" status. A single donor bundled a total of $300,000 achieving "Super Ranger" status. The mean "bundle" was $118,181. In the run-up to President Bush's second term (2004), a total of twenty donors participated in the program, bundling a total of $3.8 million. Six bundled the requisite $100,000 as Pioneers. Twelve (12) bundled the requisite $200,000 as Rangers, and two bundled a total of $400,000. The mean "bundle" was $190,000.

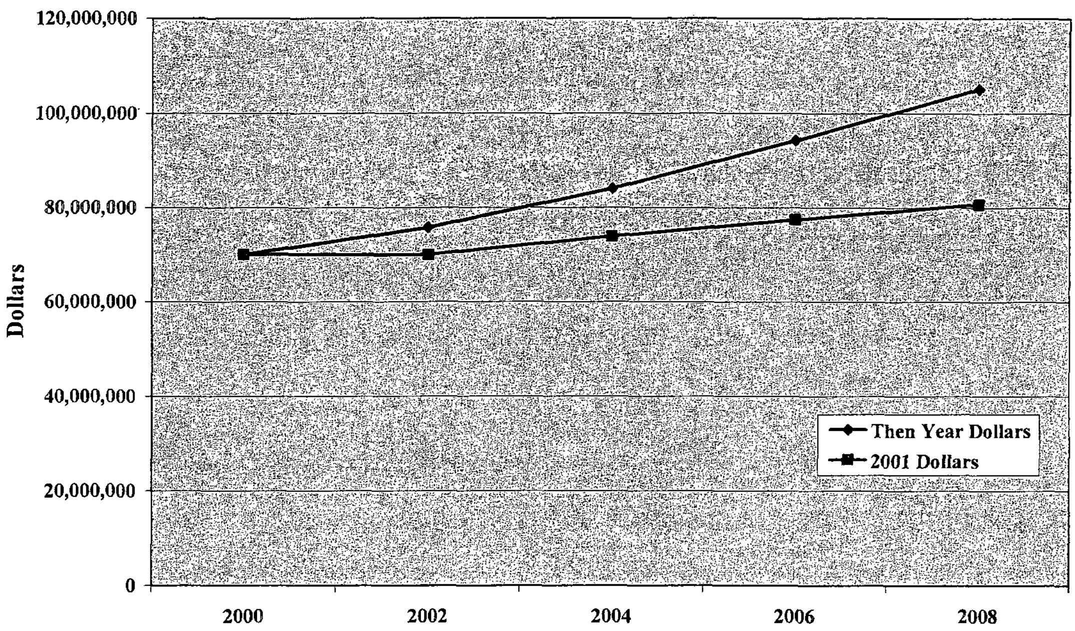
CEO Personal Campaign Contributions (Figure 9.6). Over the course of the seven-year period of the study (2001 – 2007), past and present CEOs of Fortune 500 firms in the sample made $13.6 million in personal campaign contributions to federal candidates. Individual contributions over the period ranged from zero to $199,598 with a mean of $17,308. Of note is the order of magnitude shift in their overall personal participation in the federal election process through personal campaign contributions, from a total of $64,000 in 1999 to a ten-year high of $2.8 million in 2006. While only 61 individuals made personal contributions in 1999, the number rose to 381 in 2006. Similarly, the mean annual contribution rose from just $81 in 1999 to $3,536 in 2006. After peaking in 2006 at $2.8 million, CEOs personal contributions plummeted to just under $1.3 million in 2008 in the waning months of the Bush administration and 2006 shift away from Republican control of the Congress.

Figure 9.6 CEO Personal Campaign Contributions
(1999 - 2008)

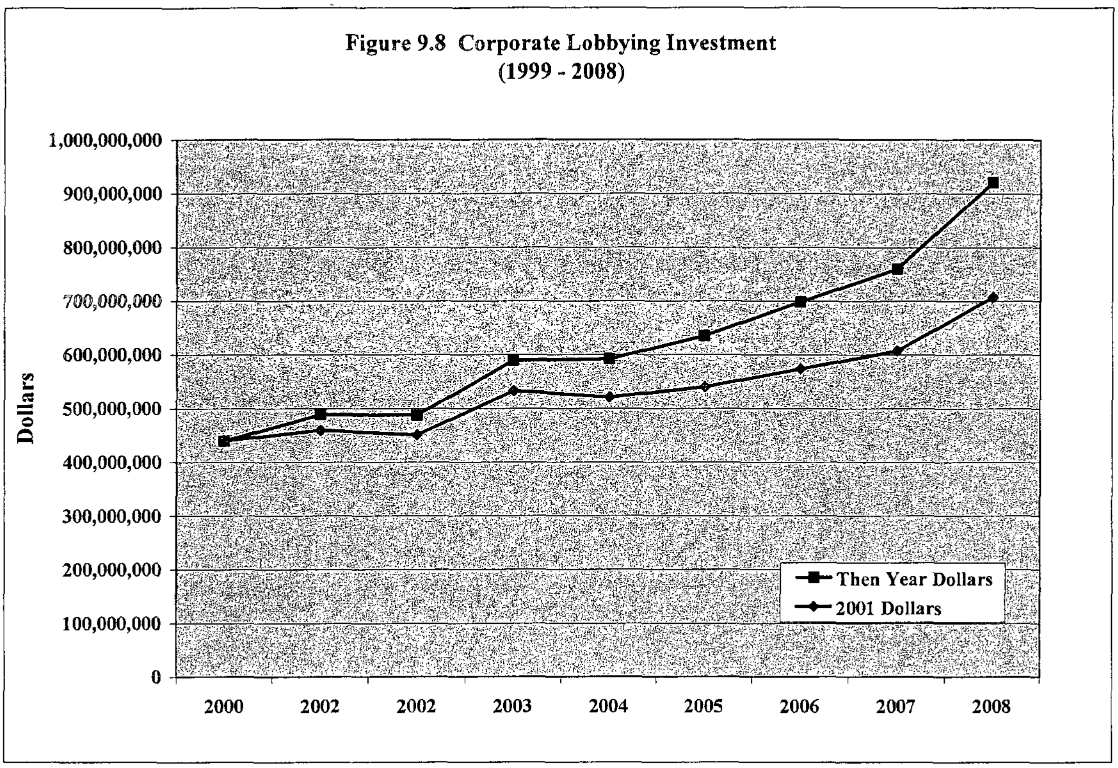


Corporate Political Action Committees (Figure 9.7). The corporate Political Action Committees (PACs) of the Fortune 500 firms in the sample collectively made over $485 million in campaign contributions during the period 1998 - 2008. Their individual contributions ranged from zero to over $11 million, with a mean of $539,740. Over the period, an average of 423 firms donated to federal candidates via their PACs. While the *number* of firms with Political Action Committees held steady (between 51.1% and 56.0% of firms in the sample), the *dollar value* of their contributions rose sharply from $57 million (1998) to $105 million (2008).

Figure 9.7 Corporate Campaign Contributions
(2000 - 2008)



Corporate Lobbying Investment (Figure 9.8). Collectively over the period 1999 – 2008, the firms in the study sample invested $5.6 billion in lobbying, with $921 million of that in 2008 alone. While the *number* of firms investing in lobbying rose just eight percent (8%) from 408 firms in 1999 to 441 firms in 2008, the *dollar value* of their investment soared from $428 million in 1999 to $921 million in 2008. The mean annual investment in lobbying rose from $542,910 in 1999 to over $1.6 million in 2008, an increase of 294%. The general pattern repeats across all industrial sectors with the sharpest increases occurring in the Defense and Energy sectors.



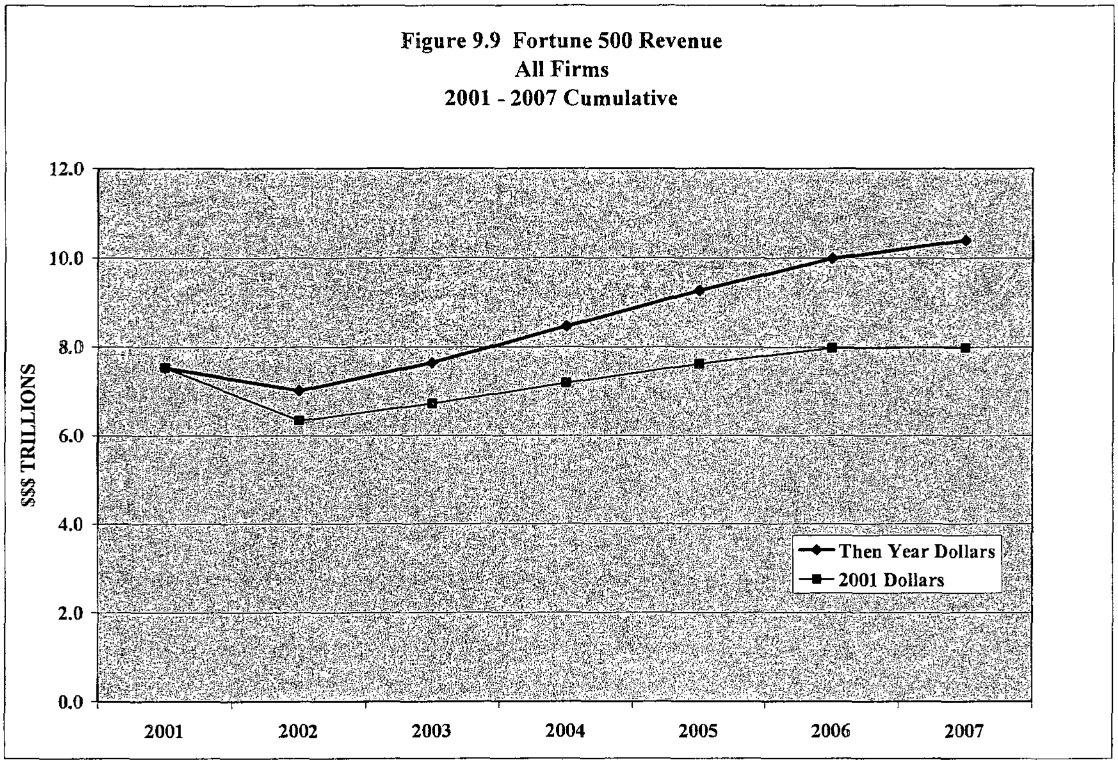
9.3 Dependent Variables. Descriptive statistics for the dependent variables for the omnibus sample are provided in Table 9.3.

TABLE 9.3 OMNIBUS SAMPLE DEPENDENT VARIABLES DESCRIPTIVE STATISTICS

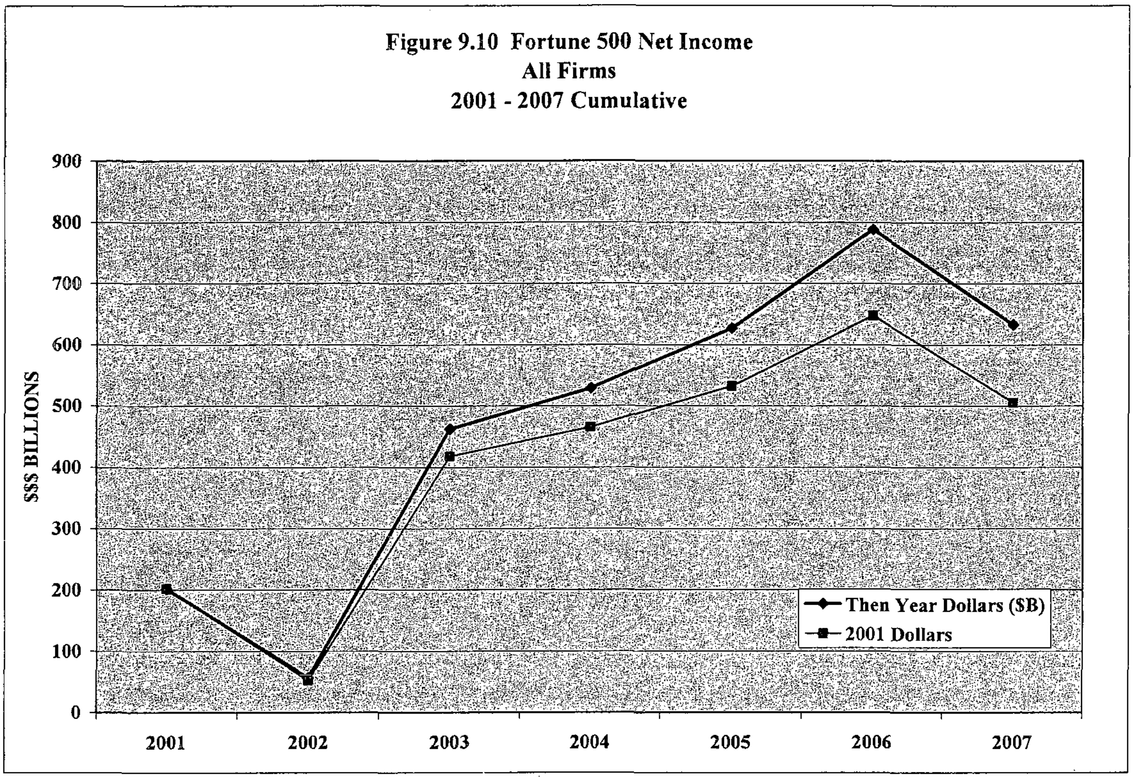
2001 – 2007 CUMULATIVE

	MINIMUM	MAXIMUM	MEAN	SUM
REVENUE	0	$2,041,785,000,000	$75,985,764,600	$60,332,697,060,000
NET INCOME/LOSS	-$83,767,000,000	$189,860,000,000	$4,151,699,000	$3,296,448,980,000
GROSS PROFIT/LOSS	-$530,900,000	$498,783,000,000	$24,366,536,500	$19,347,029,990,000
GOVERNMENT CONTRACTS	-$1,389,060	$202,000,000,000	$1,542,300,000	$1,220,000,000,000
MARKET SHARE	0	25.9%	1.13%	100%

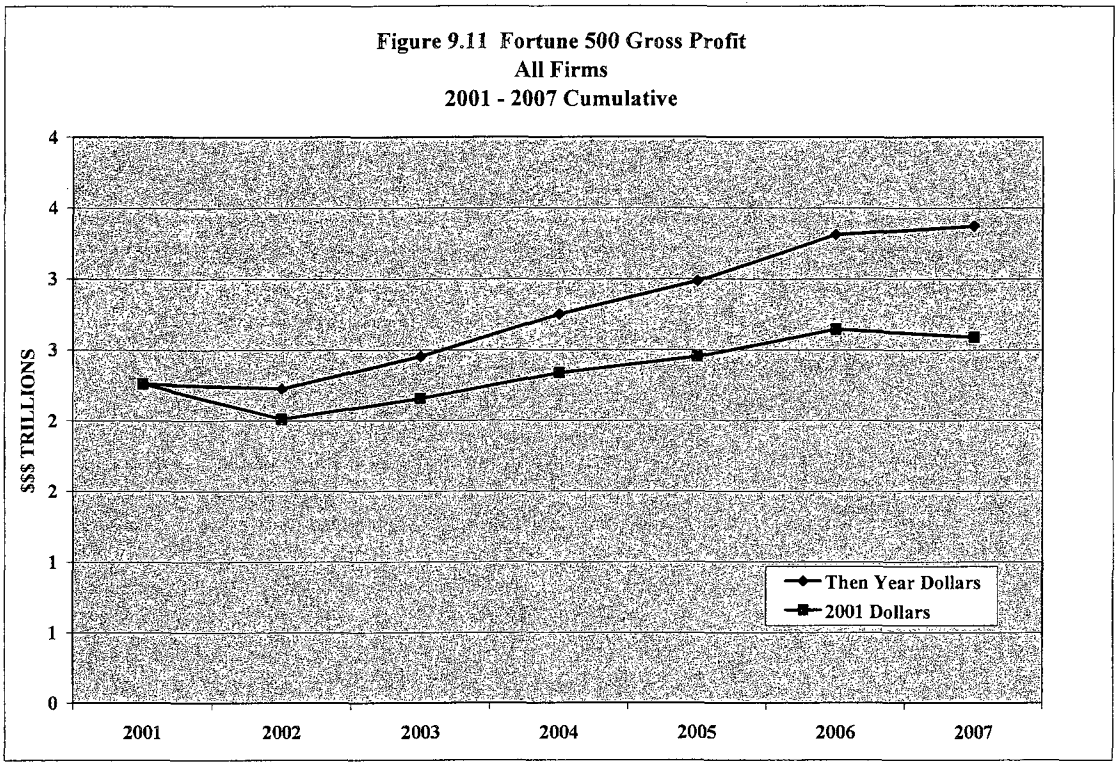
Revenue (Figure 9.9). The cumulative Revenue of all firms over the study period was over $60.3 trillion. The minimum for any firm was zero; the maximum for any firm was over $2 trillion. The mean was nearly $76 billion.



Net Income (Figure 9.10). Net Income (defined as Revenue minus Cost) for all firms over the study period was nearly $3.3 trillion. The minimum was a Net Loss of nearly $84 billion; the maximum was nearly $190 billion. The mean was $4.15 billion.



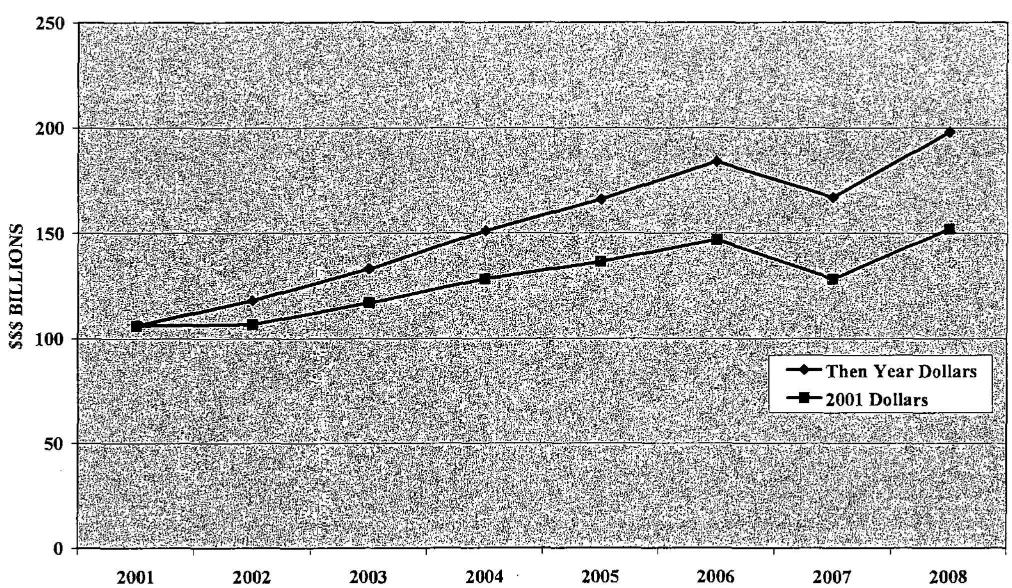
Gross Profit (Figure 9.11). Gross Profit (defined as Sales minus Costs associated with the Sales) of all firms over the study period was over $19.3 trillion. The minimum was a loss of $530.9 million; the maximum was $498.8 billion. The mean was $24.4 billion.



Market Share. The minimum Market Share (within Standard Industry Code), defined as percentage of revenue for any firm in the sector over the study period was zero; the maximum Market Share (SIC) was 25.95%; the mean Market Share (SIC) was 2.37%.

Government Contracts (Figure 9.12). The Bush administration entered office committed to contracting out as many functions of government as possible (see Chapter 2). The Vice President's meetings with corporate representatives from the financial and energy sectors were of particular interest in the popular press (Milbank & Blum, 2005). Sample data confirm the success of the administration's goal. The *number* of Fortune 500 firms in the sample that were awarded federal contracts rose from 459 (2001) to a peak of 526 (2006). The *total dollar value* of all federal contracts awarded to the firms was over $1.22 trillion, with the annual aggregate value of the contracts increasing from $106 billion in 2001 to $198 billion in 2008. The mean aggregate dollar value of contracts awarded in any year rose from $145.67 million (2001) to nearly $274 million (2008). Some firms did not participate as government contractors and were not awarded any contracts; others were awarded very large contracts with the maximum dollar value of government contracts awarded to any firm in a given year $33 billion.

Figure 9.12 Fortune 500 Government Contracts Awarded
All Firms
2001 - 2008 Cumulative



CHAPTER 10: ANALYSIS & RESULTS

10.1 Bi-variate Analysis

Independent Variables. Bivariate analysis was performed to determine the amount of collinearity between the independent variables. The results indicate that the independent variables are positively correlated as described in Table 10.1.

TABLE 10.1 BIVARIATE CORRELATION INDEPENDENT VARIABLES ADJUSTED R^2 VALUES

	BUNDLING	PAC	CEO	LOBBY	PNtotal	PNpower
Bundling	1					
Corporate Campaign Contributions (PAC)	.206*	1				
Past/Present CEO Campaign Contributions (CEO)	.132*	.285*	1			
Lobbying Investment (LOBBY)	.115*	.620*	.331*	1		
Number of Corporate Political Appointees (PNtotal)	.305*	.463*	0.258*	.532*	1	
Power of Corporate Political Appointees (PNpower)	.309*	.435*	.249*	.520*	.978*	1

*NOTE: Significant at the 0.01 level.

Cohen et al (2003: 419) caution that "when one or more of the independent variables is highly correlated with the other independent variables, the estimate of the regression coefficient for the correlated predictor will be very unreliable because little unique information is available from which to estimate its value – the regression coefficient will have a very large standard error." Fields (2009:224) further suggests that correlations above .80 - .90 between independent variables is cause for concern. Such is the case with the Independent Variables "PN total" and "PN power" – the two variables designed to test the differences between the effects of the *number* of corporate political appointees and the *seniority or power* of the political appointees. However, Cohen et al (2003) note that "when a researcher is interested solely in the prediction of Y or in the value or R^2 (as is the case in this study), multi-collinearity has little effect and no remedial action is needed." In this study, we are concerned with the predictive power of these variables for financial performance. Accordingly, although the correlation between the number of political appointees and their seniority is very strong ($R^2 = 97.8\%$), there is some distinction to be made, which we re-visit later in the analysis.

Dependent Variables (Table 10.2). Bi-variate analysis of the dependent variables indicates strong positive correlation between the dependent variables. None of the results approach 100% overlap ($R^2 = 1.0$). Although the financial performance indicators Revenue, Net Income, Gross Profit, and Market Share are derived from firm income and/or income as it relates to expense, we see evidence of distinct differences in the effects of the independent variables on them, with positive correlations ranging from .416 (Market Share/Net Income) to .844 (Gross Profit/Revenue). Government Contracts are positively correlated with Market Share (.514) and Revenue (.133) at statistically significant levels, but not with Net Income or Gross Profit.

TABLE 10.2 BIVARIATE CORRELATION DEPENDENT VARIABLES ADJUSTED R^2 VALUES

	Revenue	Net Income	Gross Profit	Market Share (SIC)	Government Contracts
Revenue	1				
Net Income	0.647*	1			
Gross Profit	0.844*	0.740*	1		
Market Share (SIC)	0.761*	0.416*	0.604*	1	
Government Contracts	0.133*	0.067	0.063	0.514*	1

*NOTE: Significant at the 0.01 level.

10.2 Predictive Power of the Independent Variables. Bivariate analysis was conducted to determine the strength and direction of the relationships between the dependent and independent variables. We find strong, statistically significant, positive R^2 values as presented below in Table 10.3. Validating the findings of earlier research, we find positive, statistically significant relationships between the amount of corporate investment in Lobbying and Corporate Campaign Contributions. More importantly, we find similarly strong, statistically significant, positive relationships between the dependent variables and the new independent variables introduced in this study: Bundling, Past/Current CEO Campaign Contributions, and the use of the Personal Service Strategy. These results guide the remainder of the analysis.

TABLE 10.3 BIVARIATE CORRELATION INDEPENDENT &DEPENDENT VARIABLES ADJUSTED R^2 VALUES

	Bundling	PAC	CEO	Lobby	PNtotal	PNpower
Revenue	.122*	.436*	.211*	.498*	.399*	.398*
Net Income	.198*	.400*	.239*	.465*	.414*	.406*
Gross Profit	.235*	491*	.322*	.570*	.504*	.490*
Market Share (within SIC)	.080*	.451*	.175*	.562*	.415*	.408*
Government Contracts	- .019	.335*	.060	.452*	.399*	.391*

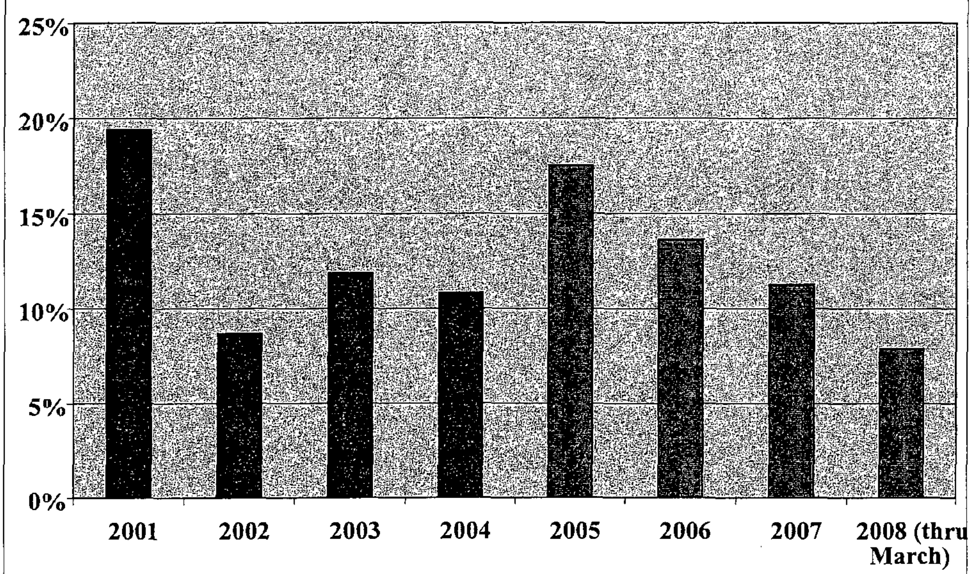
*NOTE: Significant at the 0.01 level.

10.3 Hypothesis Testing. In Chapter 7, we developed the study hypotheses. The results of the hypotheses testing follows.

> **H1: The "thickening" of the executive layer of the federal government from 2001 through 2008, represented by the addition of political management to the federal hierarchy, is increasingly comprised of representatives of corporations who pass through the revolving door between business and government.**

We find strong evidence in support of the hypothesis Figure 10.1). In the first month of the Bush administration, 62.5% of the President's nominees came from Fortune 500 firms. The proportion fell dramatically in the second year (8.7%), then rose in the third year (11.9%) and fell to 10.8% in the final year of President Bush's first term. In the first year of the second term, 17.5% of the nominees came from Fortune 500 firms. The number declined steadily in the remaining years of Bush's second term to 10.5%.

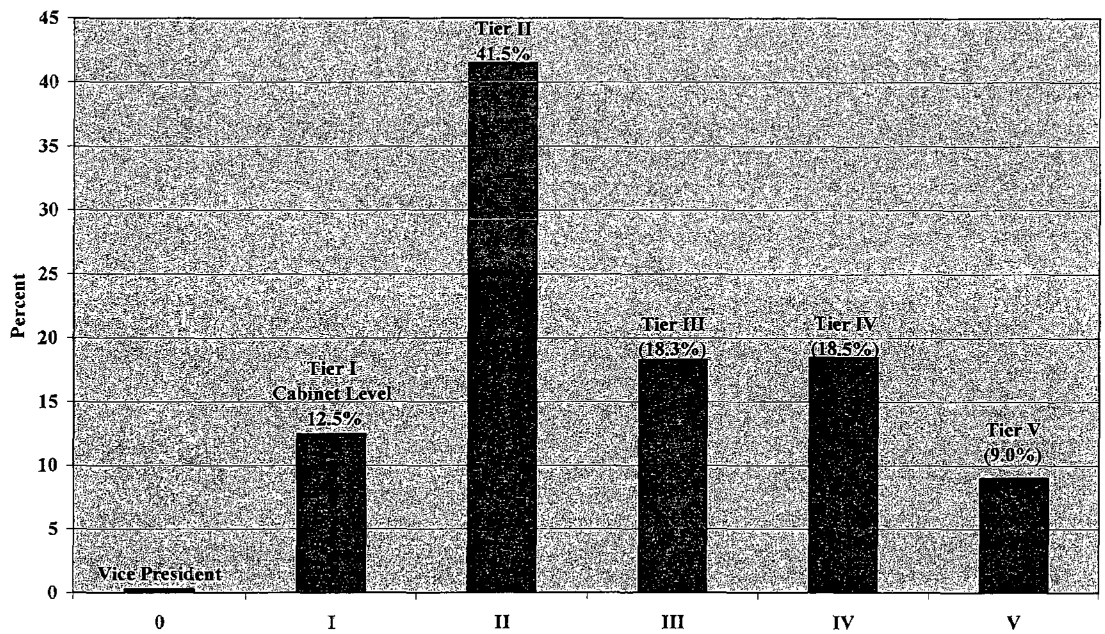
Figure 10.1 Bush Fortune 500 Political Nominees



In total, 12.5% of President Bush's corporate appointments were to Tier 1 (cabinet level or equivalent) positions – those positions with the greatest power over regulatory, enforcement, and decision-making apparatus of the federal government. Corporate representation was heaviest (41.4%) in the second tier (positions once removed from the agency head) with very strong representation (45.8%) in the third, fourth, and fifth tiers. The results are presented in Table 10.4 and Figure 10.2.

TABLE 10.4 TIER REPRESENTATION OF CORPORATE POLITICAL APPOINTMENTS		
Tier	Numbers	Percent
0	1	0.3
1	50	12.5
2	166	41.5
3	73	18.3
4	74	18.5
5	36	9.0

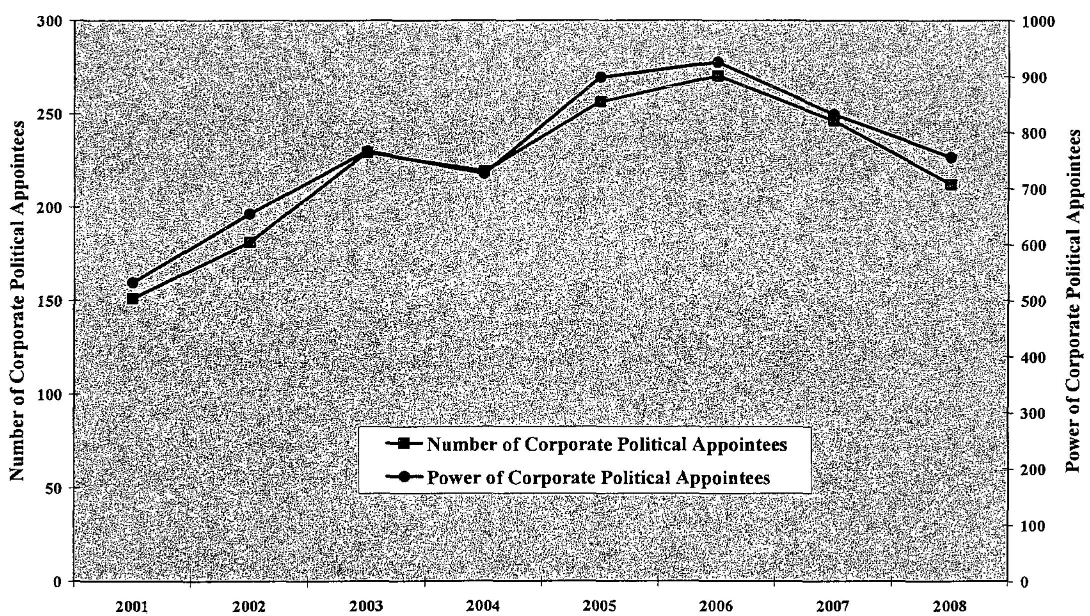
Figure 10.2 Corporate Political Appointments
(By Tier)



Using this pattern of corporate appointee placement, as the administration matured through the first term, the number of corporate appointees occupying decision-making positions increased from zero on the first day of the administration to 229 at its peak in the third year. In the second term, the number of corporate political appointees exceeded that of the first term, peaking at 229 in the first term and surging to 270 at the mid-point of the second term. Representation of Fortune 500 firms increased steadily, from one hundred (100) firms represented in the first year of the administration (2001) to

156 firms in 2006, As is normal in every Presidential administration, an exodus of appointees occurred in the final year of each term of the administration, surging after the President's re-election in 2004 (Figure 10.2).

Figure 10.3 Number & Power of Corporate Political Appointees



H2: Firms that engage in personal service corporate political strategy will have higher levels of financial performance than those that do not, as measured in their financial returns and/or the dollar value of the government contracts they are awarded.

The data support Schuler et al (2002:659) findings that firms engaging in one form of corporate political activity are more likely to engage in at least one other activity, with evidence of combined strategies strongly supported. One hundred twenty-six firms (18.9%) did not engage in any form of corporate political activity, but the vast majority

(84.1%) of Fortune 500 firms in the sample engaged in at least one form of corporate political activity:

- 75% invested in Lobbying
- 64% made Corporate Campaign Contributions through their PAC
- 23.9% had former corporate executives serving as Political Appointees

Just over one quarter (26.6%) of the firms engaged in only one form of corporate activity:

- 17.0% (135 firms) invested only in Lobbying
- 6.4% (51 firms) only made Corporate Campaign Contributions through a PAC
- 1.3% (10 firms) only had representation by means of a Political Appointee.

Well over half of the firms (57.6%) of the firms engaged in two forms of corporate political activity:

- 36.8% invested in Lobbying and made Corporate Campaign Contributions
- 18.9% invested in Lobbying and had representation by means of a Political Appointee
- 1.9% made Corporate Campaign Contributions and had Political Appointee representation.

Nearly nineteen percent (18.9%) of the firms engaged in all three forms of corporate political activity (Lobbying, Corporate Campaign Contributions, and Corporate Political Appointees).

Very few firms also enjoyed whatever benefits might flow from past/present CEOs' personal campaign contributions and/or the CEO's bundling of others' campaign contributions. Twenty-one firms engaged in every form of corporate political involvement evaluated in the study (lobbying, corporate campaign contributions, corporate political appointees, CEO's personal campaign contributions, and "bundling" (Table 10.5).

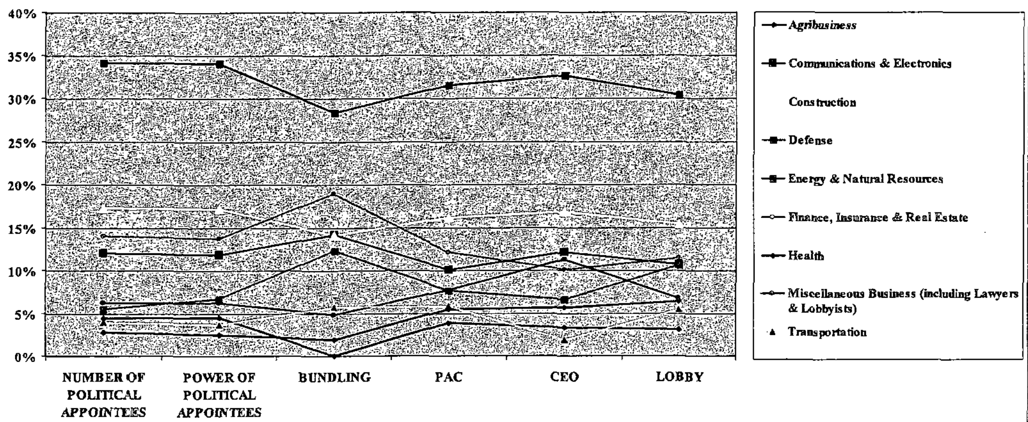
Table 10.5
FIRMS ENGAGING IN ALL FORMS OF CORPORATE POLITICAL ACTIVITY 2000 – 2008*

Affiliated Computer Services	EMC	Pfizer
Amerada Hess	Enron	SBC Communications
Brinker International	Ford Motor	Timken
Cisco Systems	Goldman Sachs Group	TXU
Citigroup	Goodrich	Union Pacific
	MBNA	Verizon Communications
	Morgan Stanley	Wachovia Corporation
	Northwest Airlines	

*Lobbying, Corporate Campaign Contributions, Political Appointees, CEO Personal Campaign Contributions, "Bundling" of Others' Campaign Contributions.

Strong trends are demonstrated across industrial sectors, with the most aggressive corporate political campaigns mounted by firms in the Defense sector, followed by firms in the Finance, Insurance & Real Estate; Construction; and Communications & Electronics sectors (Figure 10.4).

Figure 10.4 Standard Industry Code Proportionality Indices of the Independent Variables



We hypothesized that firms engaging in the personal service strategy would have higher levels of performance than those that do not, as measured financial returns and/or the dollar value of government contracts. By all measures, the firms engaging in personal services, with former executives serving as political appointees in the top tiers of the federal government, are positively correlated with stronger financial performance than firms that do not. The predictive models derived from the data are presented in Figures 10.5 (Revenue,) 10.6 (Gross Profit), 10.7 (Net Income), 10.8 (Market Share within SIC), and 10.9 (Government Contracts).

Figure 10.5 The Value of Corporate Political Appointees
Cumulative Revenue 2001 - 2007

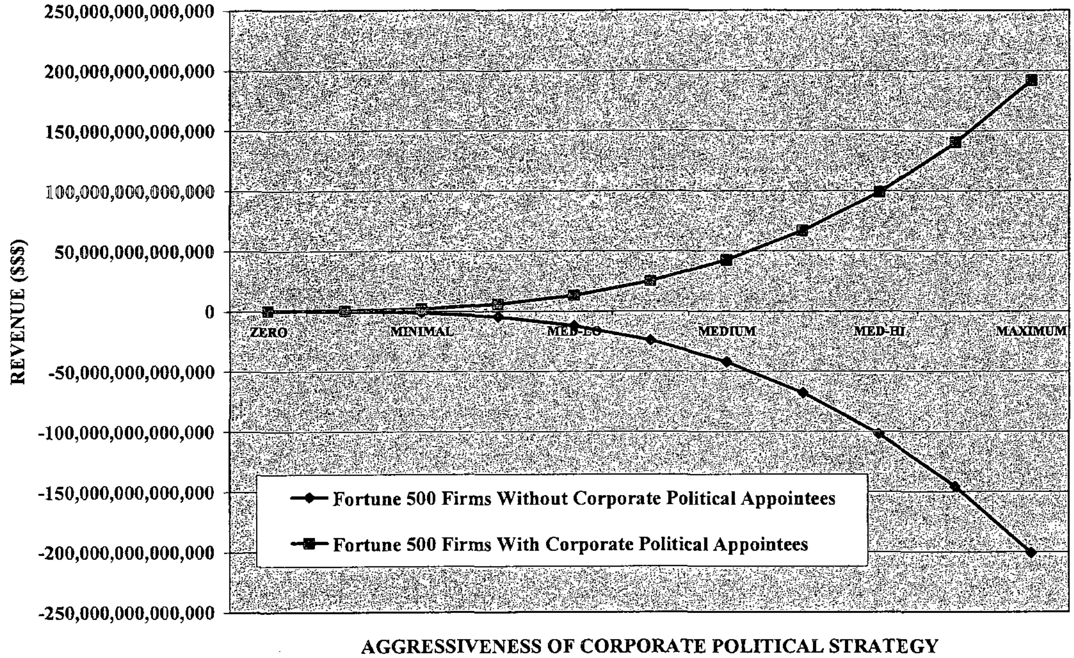


Figure 10.6 The Value of Corporate Political Appointees
Cumulative Gross Profit 2001 - 2007

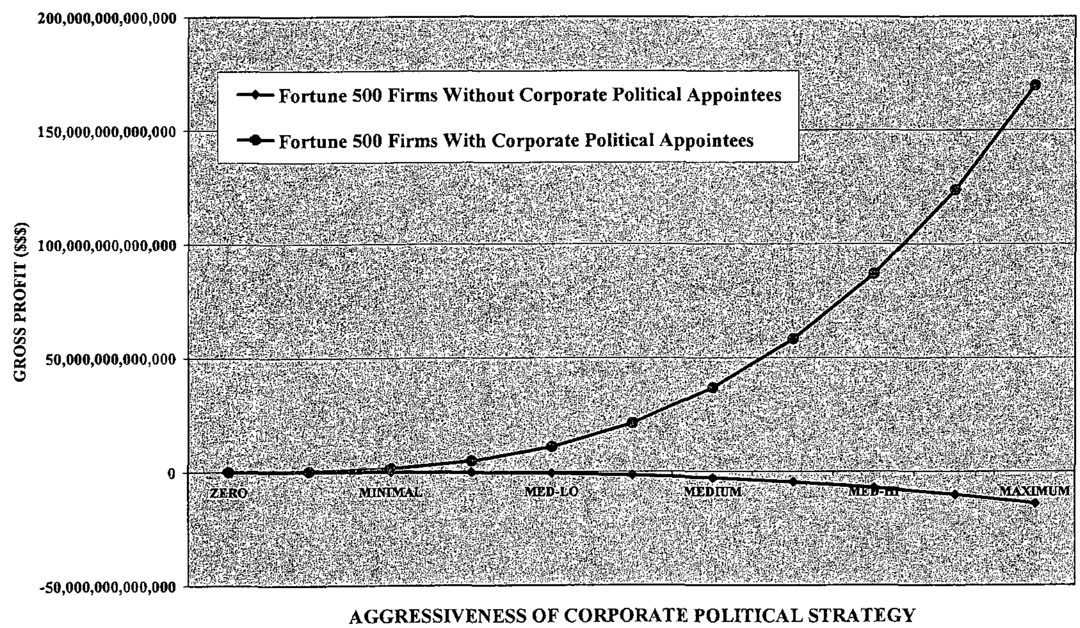


Figure 10.7 The Value of Corporate Political Appointees
Cumulative Net Income 2001 - 2007

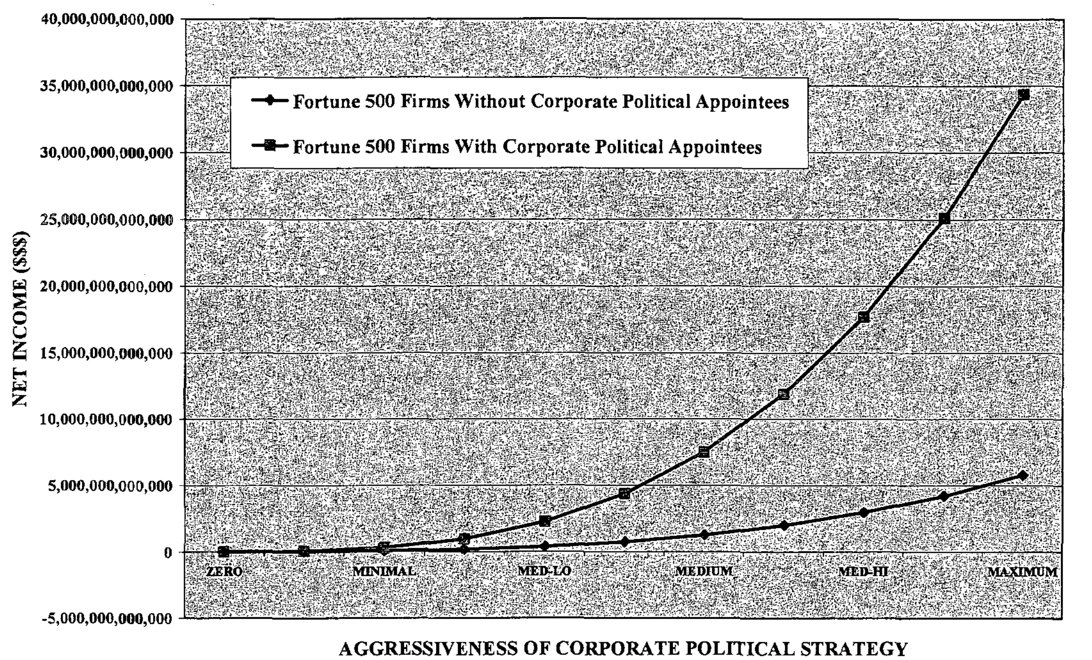
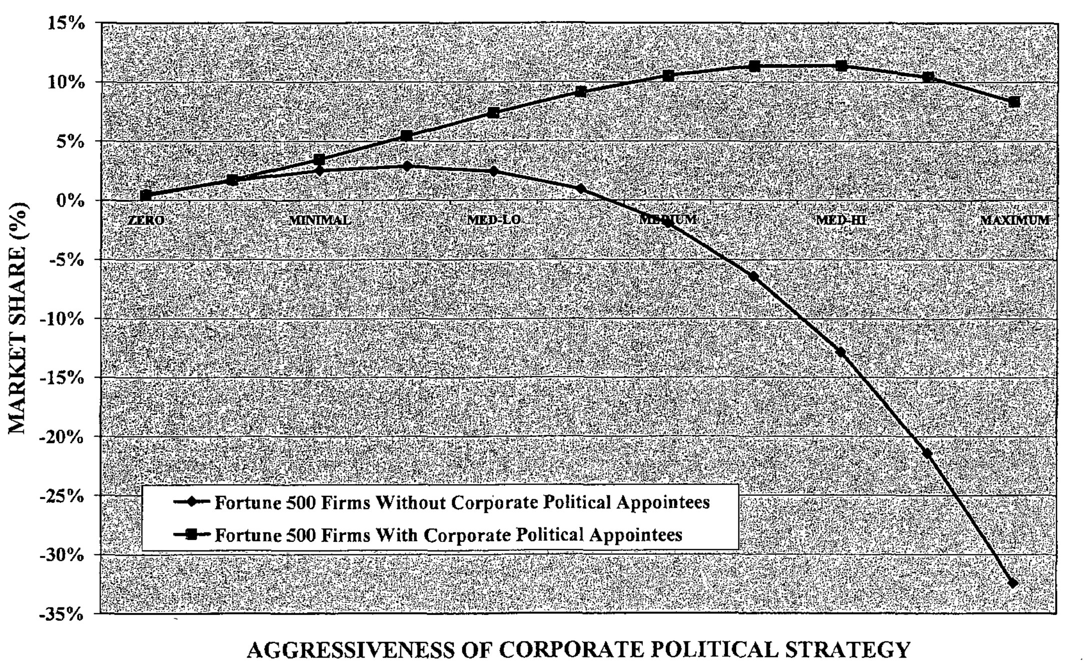
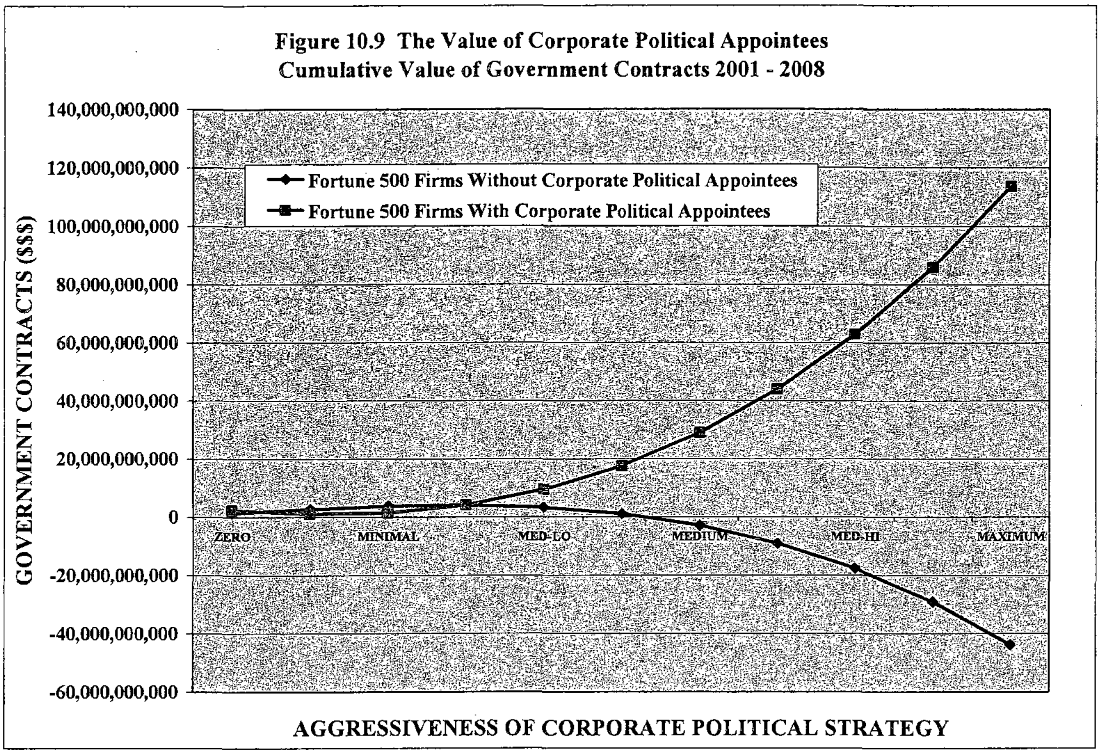


Figure 10.8 The Value of Corporate Political Appointees
Average Market Share (within SIC) 2001 - 2007





H3: Firms that engage in more than one form of corporate political activity have higher levels of financial performance (government contracts and/or abnormal returns) than firms that engage in one form alone.

In the omnibus sample (all firms, all years), the use of a single corporate political strategy is not positively correlated with higher financial performance by any measure. The combined use of two strategies, however, is correlated with significantly higher financial performance, and the model predicts that the combined use of all three strategies will produce very strong financial gains in every indicator, including Market Share (within industry sector) and the dollar value of Government Contracts (Figures 10.10a and 10.10b).

Figure 10.10a The Effect of Number of Corporate Political Strategies Employed
Cumulative Financial Performance 2001 - 2007

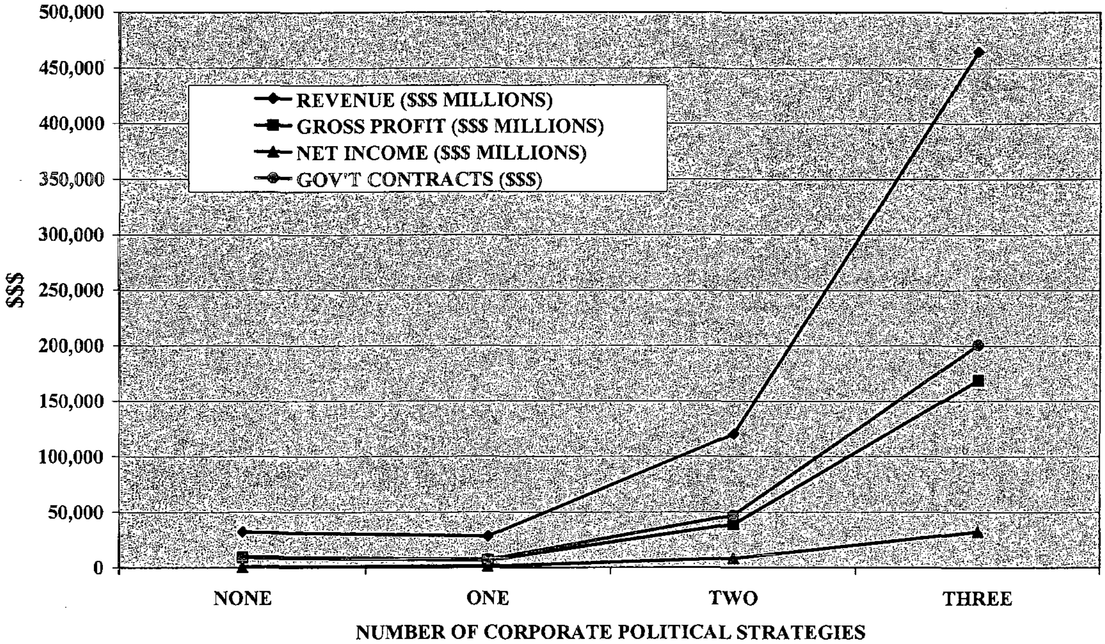
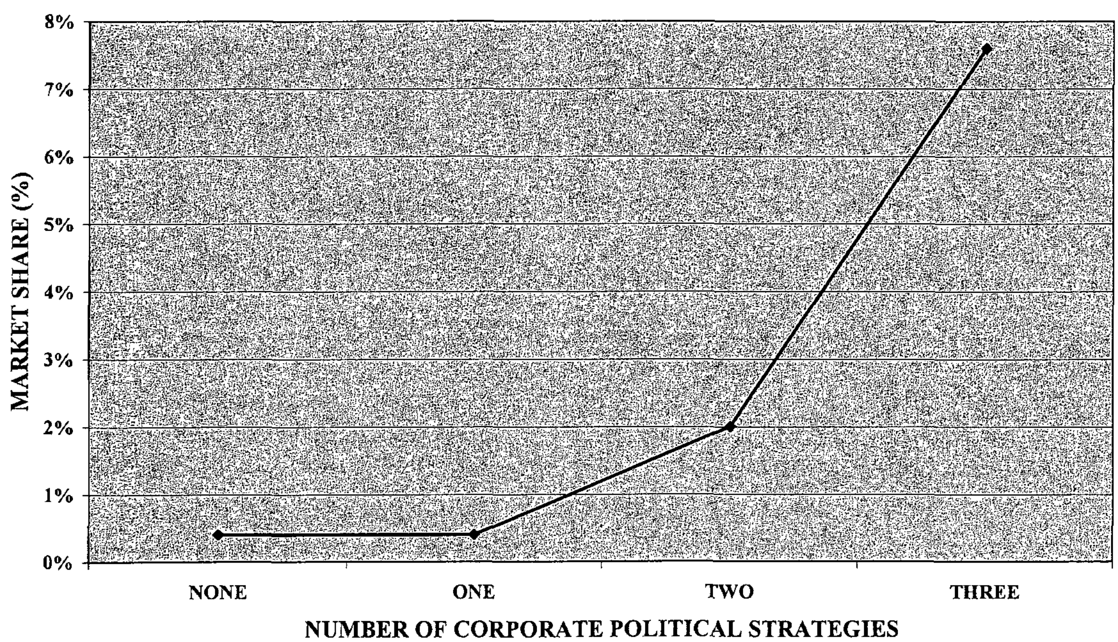


Figure 10.10b The Effect of Number of Corporate Political Strategies Employed
Average Annual Market Share 2001 - 2007



H3a: Firms that engage only in lobbying as a single approach to corporate political activity will enjoy fewer benefits (government contracts, relaxed regulation, and/or abnormal returns) than firms that engage in two or more forms.

The results support the hypothesis. Firms that engage exclusively in lobbying are associated with small increases in financial performance, but only at minimal levels of investment. The model predicts that the point of diminishing returns is reached very quickly as the expense of lobbying would quickly outweigh the financial gains. Beyond Minimal to Medium-Low levels of Lobbying investment, for the firms in the sample, increasing investment in lobbying activities would simply consume available Revenue leading to significant losses (Figure 10.11). The same pattern emerges for Gross Profit (Figure 10.12), Net Income (Figure 10.13), Market Share (Figure 10.14), and Government Contracts (Figure 10.15).

Figure 10.11 The Value of Lobbying
Cumulative Revenue 2001 - 2007

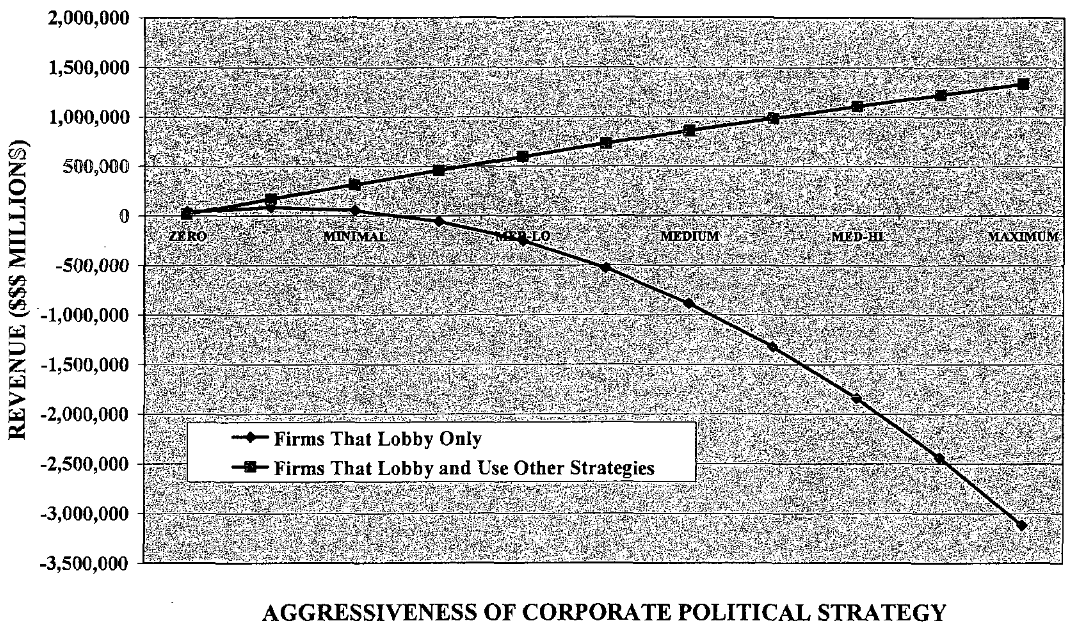


Figure 10.12 The Value of Lobbying
Cumulative Gross Profit 2001 - 2007

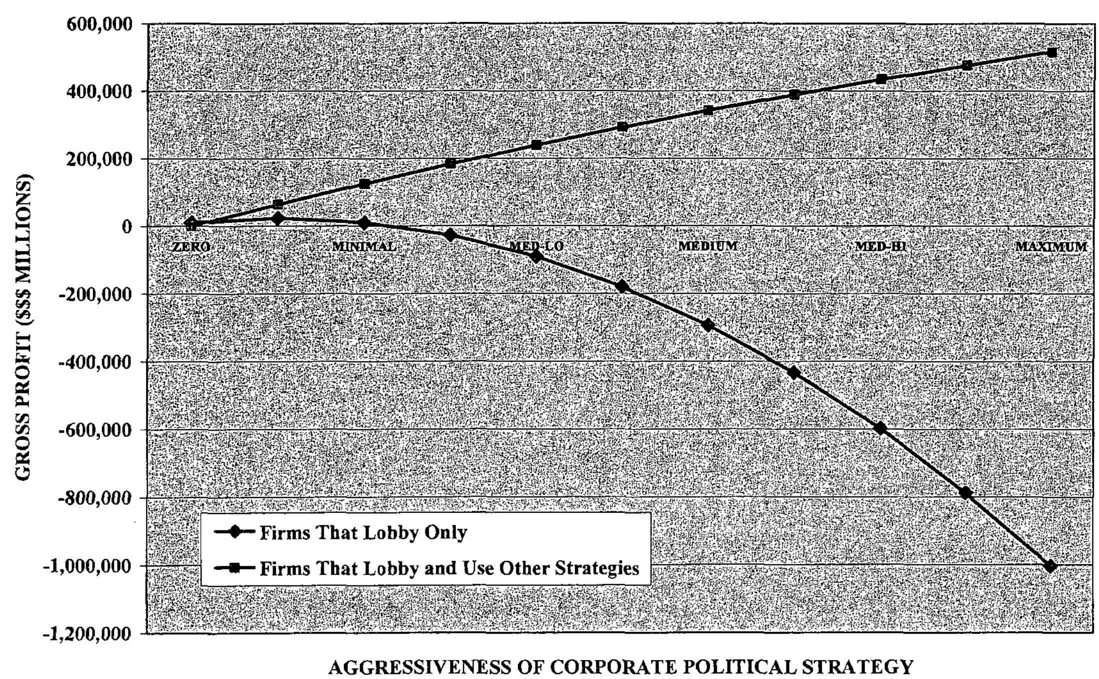


Figure 10.13 The Value of Lobbying
Cumulative Net Income 2001 - 2007

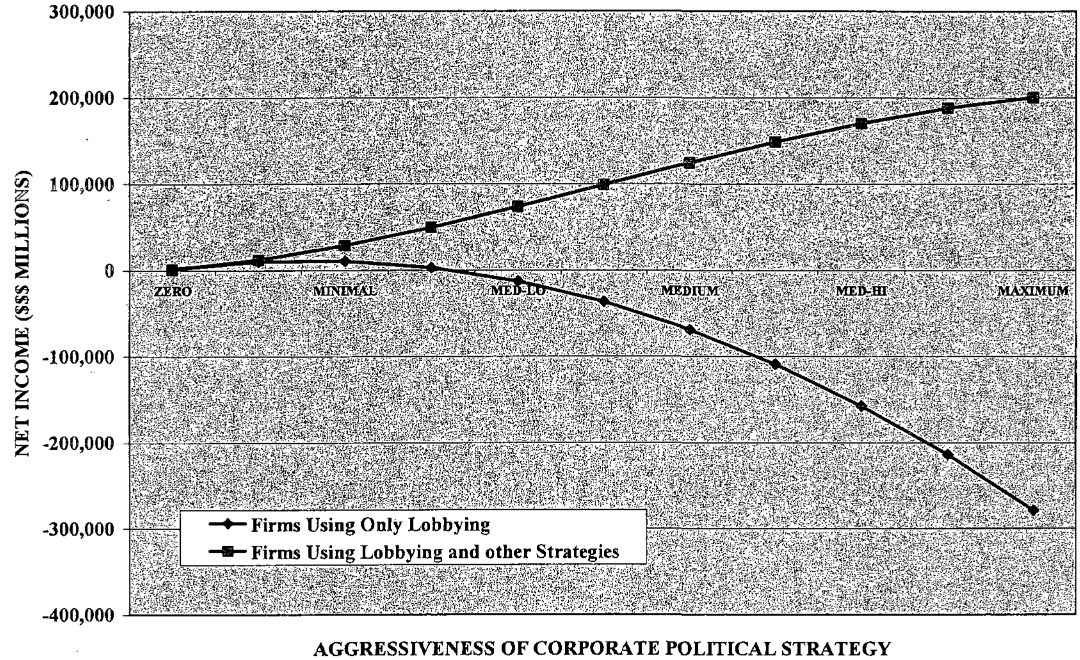


Figure 10.14 The Value of Lobbying
Average Market Share (within SIC)
2001 - 2007

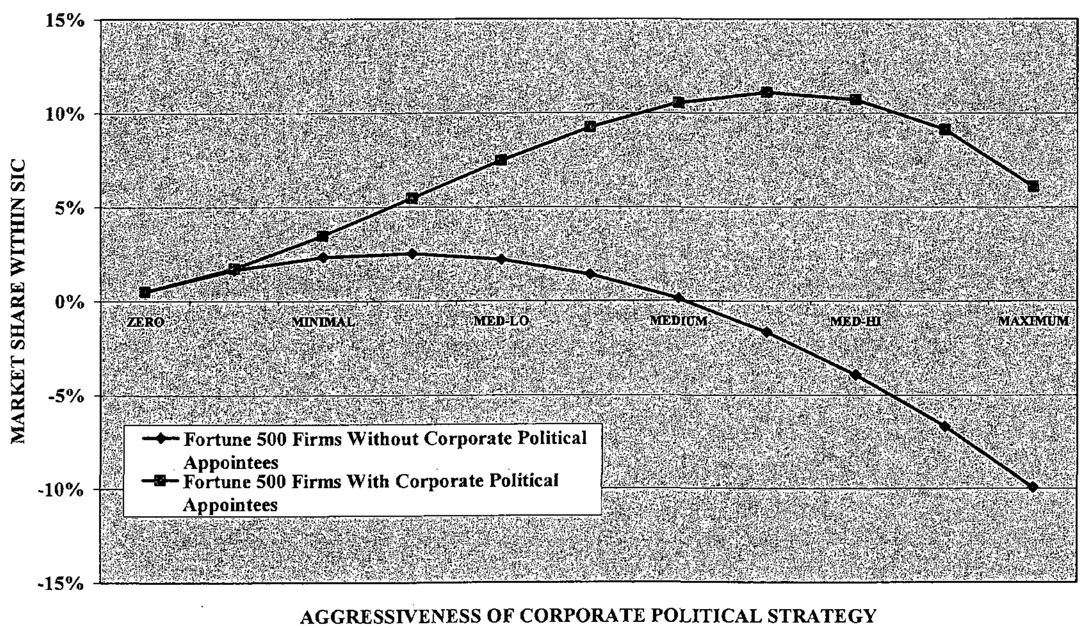
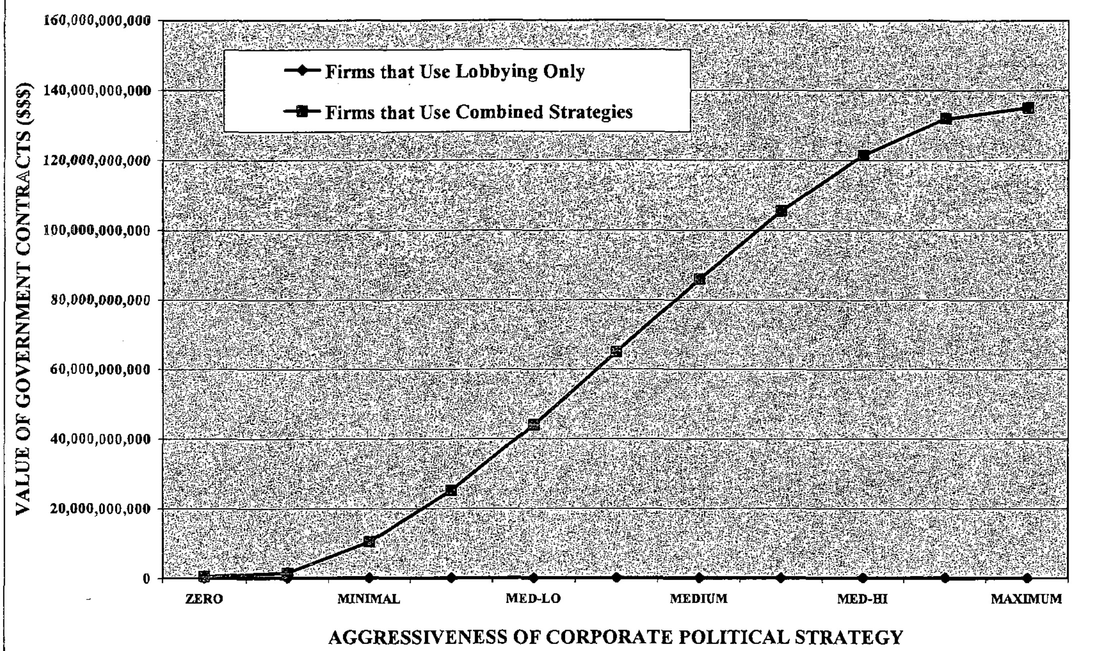


Figure 10.15 The Value of Lobbying
Cumulative Government Contracts 2001 - 1008



H3b: Firms that engage in the use of a political action committee as a single approach to corporate political activity will enjoy fewer benefits (government contracts and/or abnormal returns) than firms that engage in two or more forms.

Only fifty-one firms use Corporate Campaign Contributions in isolation as a corporate political strategy. For these firms, the model predicts that the amount of money required to support even a moderately aggressive corporate political strategy would very rapidly surpass the firm's employee's capacity (or willingness) to give to the PAC. The strategy is not supportable (Figure 10.16 and Figure 10.17).

Figure 10.16 The Value of Corporate Campaign Contributions
Cumulative Gross Profit 2001 - 2007

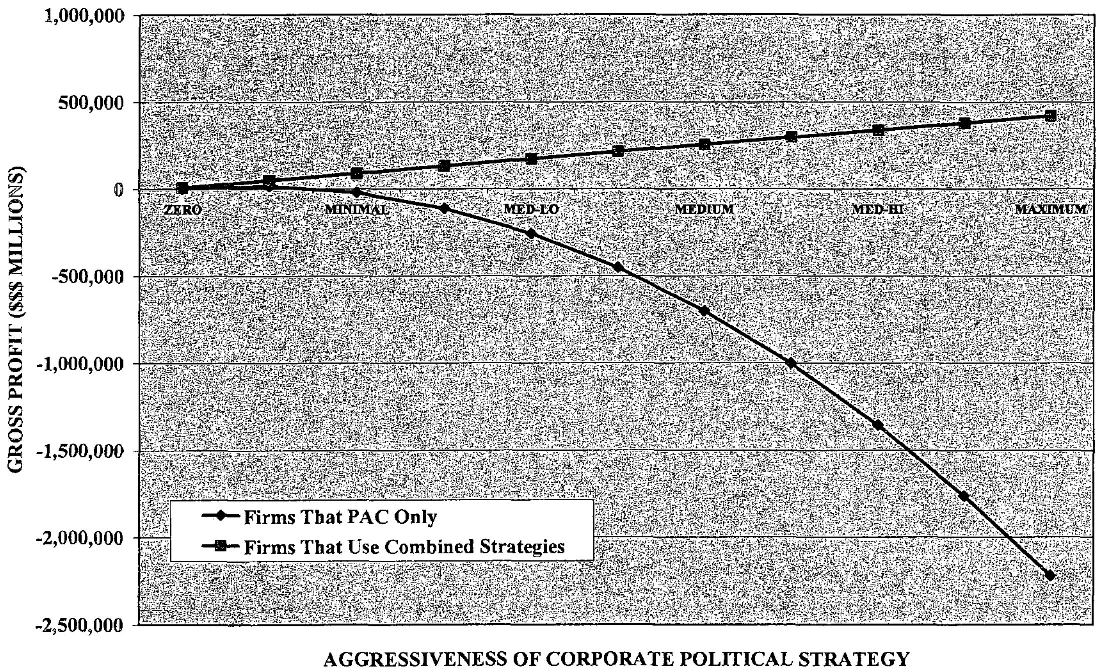
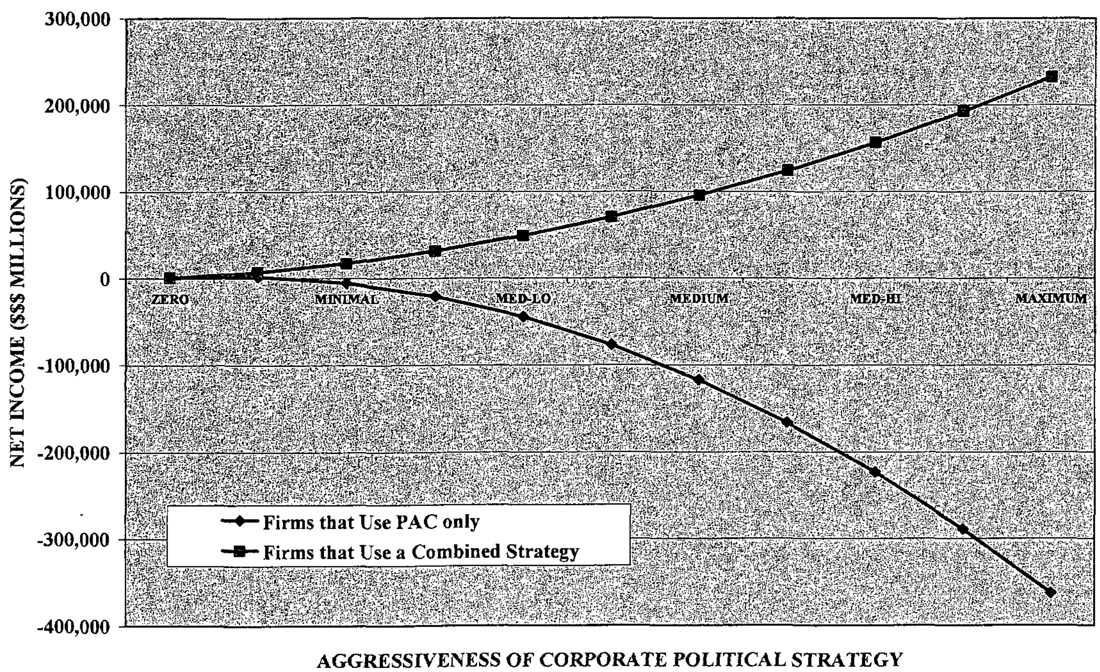


Figure 10.17 The Value of Corporate Campaign Contributions
Cumulative Net Income 2001 - 2007



H3c: Firms that engage only in personal services as a single approach to corporate political activity will enjoy fewer benefits (government contracts, relaxed regulation, and/or abnormal returns) than firms that engage in two or more forms.

Only 1.2% of all firms in the sample use the personal service strategy as the sole means of corporate political strategy. Because the sample size is so small, it is not possible to produce meaningful statistical analysis.

H4: Interactive or moderating effects between corporate political strategies are associated with stronger financial performance in the firm.

As noted in the development of the theoretical model, we are interested in detecting evidence of interactive (moderating) effects of the independent variables. For example, is the case that:

(a) Because firms invest in lobbying activities, corporate campaign contributions positively affect financial performance or federal contracts awarded?

(b) Because firms make campaign contributions, lobbying positively affects financial performance or federal contracts awarded?

(c) Because firms use the personal service strategy, lobbying and campaign contributions together positively affect corporate financial performance or federal contracts awarded?

We test Hypothesis 4 as a part of the overall testing that follows in the next section.

H5: Firms that engage in more aggressive corporate political strategies in all three forms of corporate political activity (defined as higher dollar value of lobbying and corporate campaign

contributions, and higher numbers or more senior corporate political appointees) will be have higher levels of financial return and/or dollar value of government contracts.

While the *number* of corporate political strategies used by a firm is useful as a crude indicator of financial outcome, it is less important than the *magnitude* of the effort in the employment of each tool in the corporate political arsenal of activities. Accordingly, using the Omnibus Sample (all years, all firms), we proceed with analysis of the nature of the relationship between each Dependent Variable and each Independent Variable as proposed in the overall theoretical model. Our over-arching goal is to determine the amount of change in firm financial performance resulting from one unit change in each of the independent variables and to determine whether the relationships are best represented by linear or curvilinear (quadratic and cubic) functions.

Focusing on the Personal Service strategy analyzed in depth for the first time in this study, we examine the main effects of the Number and Power of Corporate Political Appointees (Number of Corporate Political Appointees - PNtot; Seniority/Power of the Corporate Political Appointees - PNpwr) during the seven-year period of the Bush administration for which financial information was available in COMPUSTAT (North America) at the time of writing (2001 – 2007).

The findings for the first time provide evidence of strong, statistically significant, positive relationships (Table 10.6):

- The political appointment of corporate surrogates in senior government political positions (as measured by both the Number and Power of the Political

Appointees) is positively correlated with Revenue, Gross Profit, Net Income, Market Share (within SIC) and Government Contracts awarded.

- "Bundling" of others' campaign contributions is positively correlated with Revenue, Net Income, Gross Profit, and Market Share (within SIC).
- Past/Present CEO Personal Campaign Contributions are positively correlated with Revenue, Net Income, Gross Profit, and Market Share within SIC.

The results also validate earlier studies, confirming strong, statistically significant, positive relationships:

- Corporate Campaign Contributions are positively correlated with financial performance indicators (Revenue, Gross Profit, Net Income, Market Share (within SIC), Dollar Value of Government Contracts)
- Lobbying Investments are positively correlated with financial performance (Revenue, Gross Profit, Net Income, Market Share (within SIC) and Dollar Value of Government Contracts.

Table 10.6 Predictive Power of the Independent Variables
Note: All R^2 Values p < .001

	REVENUE	NET INCOME	GROSS PROFIT	MARKET SHARE (WITHIN SIC)	GOVERNMENT CONTRACTS
Number of Corporate Political Appointees					
Linear	0.158	0.170	0.253	0.171	0.158
Quadratic	0.168	-	0.268	0.175	0.179
Cubic	0	0.183	0.304	-	-
Power (seniority) of Corporate Political Appointees					
Linear	0.157	0.164	0.239	0.165	0.152
Quadratic	0.167	-	0.256	-	0.186
Cubic	-	0.182	0.286	-	0.193
Bundling of Others' Campaign Contributions					
Linear	0.014	0.038	0.054	0.005	-
Quadratic	0.013	0	-	-	-
Cubic	0.017	0	0.057	-	-
PAC Campaign Contributions					
Linear	0.189	0.159	0.240	0.202	0.111
Quadratic	0.236	0.201	0.292	0.247	0.185
Cubic	0.240	0.225	0.304	0.254	0.187
CEO Campaign Contributions					
Linear	0.043	0.056	0.103	0.029	-
Quadratic	-	-	-	-	-
Cubic	0.048	0.067	0.110	0.036	-
Lobbying Investment					
Linear	0.247	0.215	0.324	0.315	0.204
Quadratic	0.253	-	0.336	-	0.323
Cubic	0	0.228	0.360	0.317	0.327

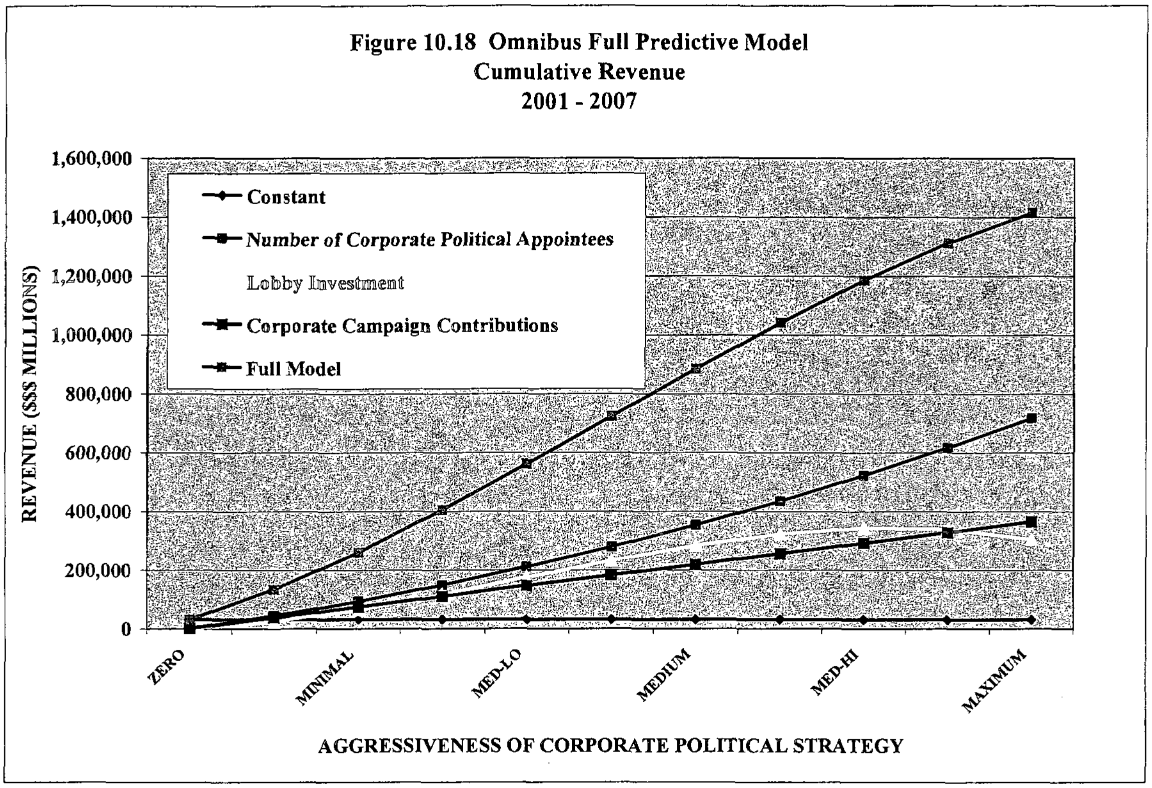
We test the individual years 2001 through 2007, lagging the dependent variables by one year to determine whether the effect of corporate political investment in year one achieves effects in the subsequent year. The Omnibus findings are validated in every year of the study.

10.5 Hierarchical "Build-Up" of Effects. Cohen et al (2003:210) advocate the use of either "Build-Up" or "Tear-Down" procedures to ascertain the combined effects of all variables. Having ascertained the main effects, we are able to examine the interactive (moderating) effects as well. We employ the "Build-Up" method to describe the relationship between the Independent Variables and each of the Dependent Variables in the Omnibus sample for all firms, all years.

10.6 Development of the Omnibus Models. Using the R^2 values, constants, and un-standardized coefficients, we develop mathematical formulas for the full model (all independent variables with statistically significant effects) for each dependent variable in the Omnibus sample. We develop an aggressiveness scale for each corporate political strategy using the full range of data for each independent variable. For example, firms with no investment in campaign contributions of any kind, no lobbying investment, and no corporate political appointees are described adjectivally as "zero." Firms with the highest levels investment in campaign contributions and lobbying and the highest number of corporate political appointees are described adjectivally as "maximum." Graphic presentations of the predictive mathematical models for each dependent variable are presented in the next section.

Revenue (Figure 10.18). For the Omnibus sample (all firms, all years), we find statistically significant ($p < .001$) R^2 values for the independent variables Number of Corporate Political Appointees, Lobbying (cubic), and Corporate Campaign Contributions. The Number of Corporate Political Appointees in aggregate over the period explains 16.8% of the variance in cumulative Revenue. Together, these three independent variables explain 30.6% of the variance in Revenue. There is evidence of a statistically significant three-way interaction between the Number of Corporate Political

Appointees, Lobbying Investment, and Corporate Campaign Contributions, with a small (.003) effect, significant at the $p < .034$. The "best fit" mathematical model is a polynomial that shows evidence of a minimal rate of return on corporate political strategy to the 10th percentile of the aggressiveness scale. A mild inflection of the slope of the overall curve at the 10th percentile, driven by the increasing effectiveness of additional Corporate Political Appointees, additional PAC Campaign Contributions, and additional Lobbying Investment continues to the 70th percentile on the aggressiveness scale, at which point the effects begin to taper as additional Lobbying Investment looses effectiveness and becomes counterproductive. Between the 10th and 70th percentile, cumulative total Revenue increases from $132.54 billion to $1,041.7 billion. From the 70th to the 100th percentile the rate of return decreases, but remains substantially higher than with the minimal investment strategies. There is no improvement in the model using the Power of the Corporate Political Appointees and no interactive effects are discernible.



The full model is described mathematically as:

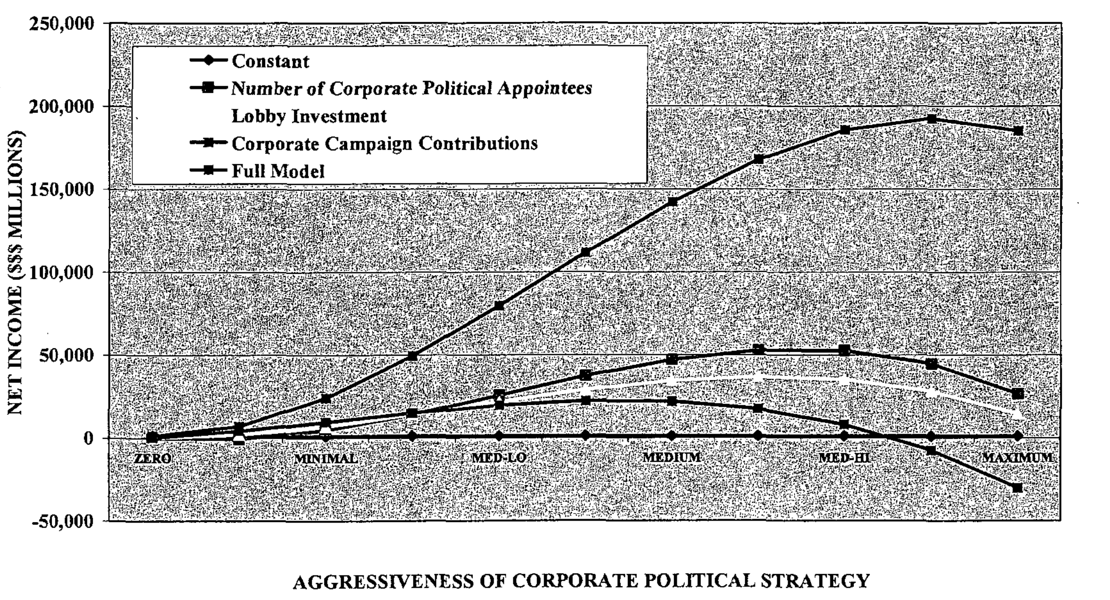
$\hat{Y} = a + b_1 PN_{total} + b_2 PN_{total}^2 + b_3 LOBB - b_4 LOBB^2 + b_5 LOBB^3 + b_6 PAC$

Where:

> $\hat{Y}$ = Cumulative Revenue
> PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
> LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
> PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)

Net Income (Figure 10.19). The number of Corporate Political Appointees, in aggregate over the period 2001 through March 2008 explains 18.3% of the variance in Net Income for the firm over the fiscal years 1999 through 2007 (cubic function; $p <$,000). Additional variance in Net Income is explained by the amount of Lobbying Investment (cubic function; $p < .000$) and by the amount of Corporate Campaign Contributions ($p < .000$). Together, these three independent variables explain 32.5% of the variance in Net Income. The "best fit" mathematical model is a polynomial that shows evidence of a minimal increase in Net Income to the 10th percentile of the aggressiveness scale. A moderate inflection of the slope of the overall curve at the 10th percentile, driven by the increasing effectiveness of the additional Corporate Political Appointees, additional Corporate Campaign Contributions, and additional Lobbying Investment continues to the 70th percentile at which point the effects taper sharply as all three independent variables lose their effectiveness and become counterproductive. Between the 10th and 70th percentile on the aggressiveness scale, cumulative Net Income increases from \$7,058.4 million to \$167,825.7 million. There are no discernible interactive effects.

Figure 10.19 Omnibus Full Predictive Model
Cumulative Net Income
2001 - 2007



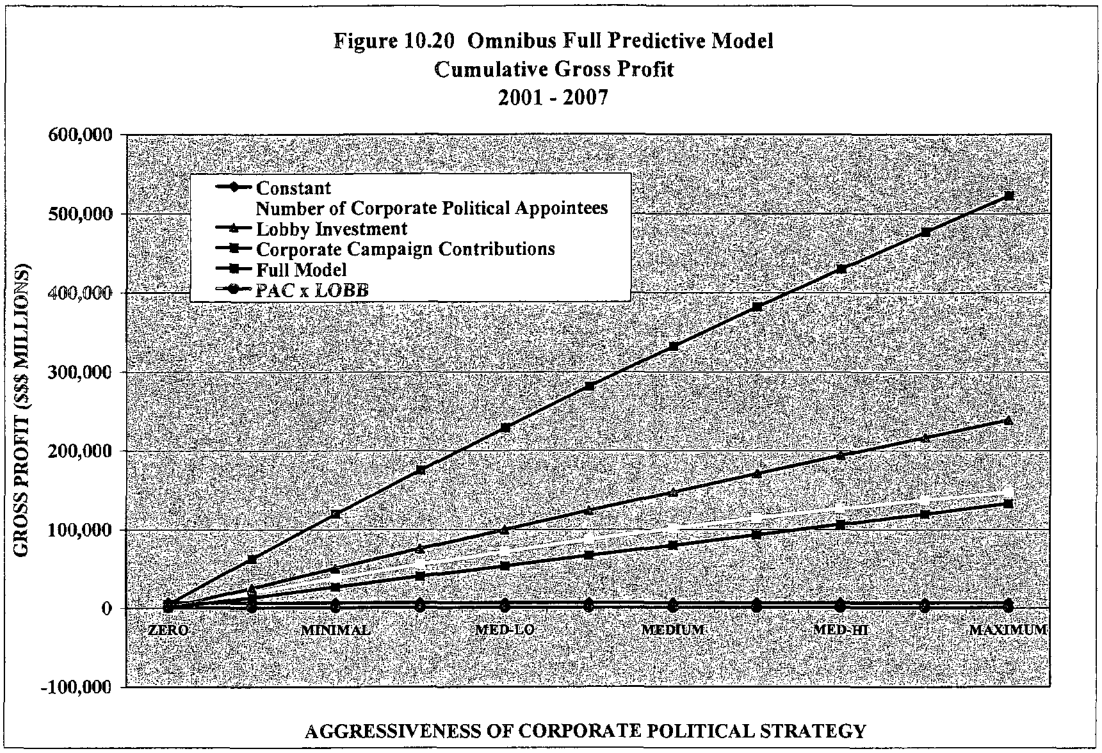
The model is described mathematically as:

$$\hat{Y} = a - b_1 PN_{total} + b_2 PN_{total}^2 - b_3PN_{total}^3 + b_4LOBB^2 - b_5LOBB^3 + b_6PAC + b_7PAC^2 - b_8PAC^3$$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years).

Gross Profit (Figure 10.20). The number of Corporate Political Appointees, in aggregate over the period 2001 through March 2008 explains 26.8% of the variance in Gross Profit (quadratic function; $p < ,000$). Additional variance in Gross Profit is explained by the amount of Lobbying Investment (quadratic function; $p < .000$) and by the amount of Corporate Campaign Contributions (linear; $p < .000$). Together, these three independent variables explain 41.2% of the variance in Gross Profit. There is a very small, negative interaction ($R^2 = 0.017$) between the dollar value of Corporate Campaign Contributions and Lobbying Investment ($p < .000$). The "best fit" mathematical model is a near linear function with increasing effectiveness of for increasing aggressiveness, driven by the increasing effectiveness of the additional Corporate Political Appointees, additional Corporate Campaign Contributions, and additional Lobbying Investment, tempered minimally by the interaction between Lobbying Investment and Corporate Campaign Contributions.



The model is described by the formula:

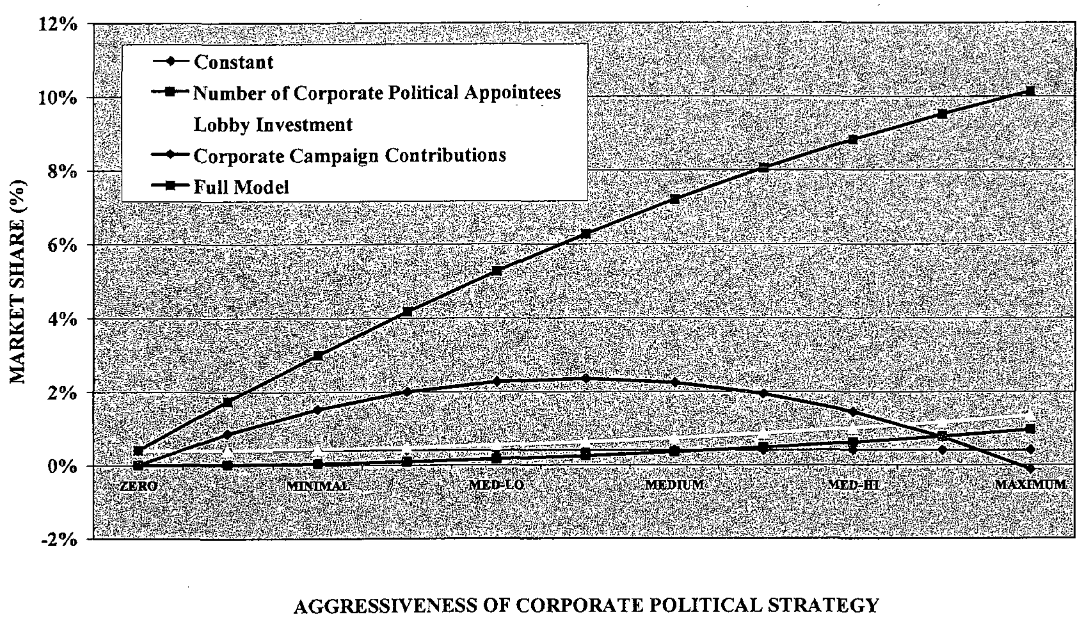
$\hat{Y} = a - b_1 PN_{total} - b_2 PN_{total}^2 + b_3 LOBB + b_4 LOBB^2 + b_5 PAC - b_6 PAC{*}LOBB$

Where:

$\hat{Y}$ = Cumulative Gross Profit
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PAC*LOBB = Interactive Effect of Lobbying Investment and Corporate Campaign Contributions.

Market Share (within SIC) (Figure 10.21). The number of Corporate Political Appointees, in aggregate explains 17.1% of the variance in Market Share (quadratic function; $p < .039$). Additional variance in Market Share is explained by the amount of Lobbying Investment (quadratic function; $p < .000$) and by the amount of Corporate Campaign Contributions (quadratic; $p < .000$). Together, these three independent variables explain 35.5% of the variance in Market Share. While there are no discernible interactive effects, it is important to note that the positive relationship between Corporate Campaign Contributions and Market Share reverses at the 50th percentile on the aggressiveness scale. The "best fit" mathematical model is a quadratic function with increasing effectiveness of aggressiveness, tempered by reversal of the effects of Corporate Campaign Contributions.

Figure 10.21 Omnibus Full Predictive Model
Average Annual Market Share
2001 - 2007



The model is described by the formula:

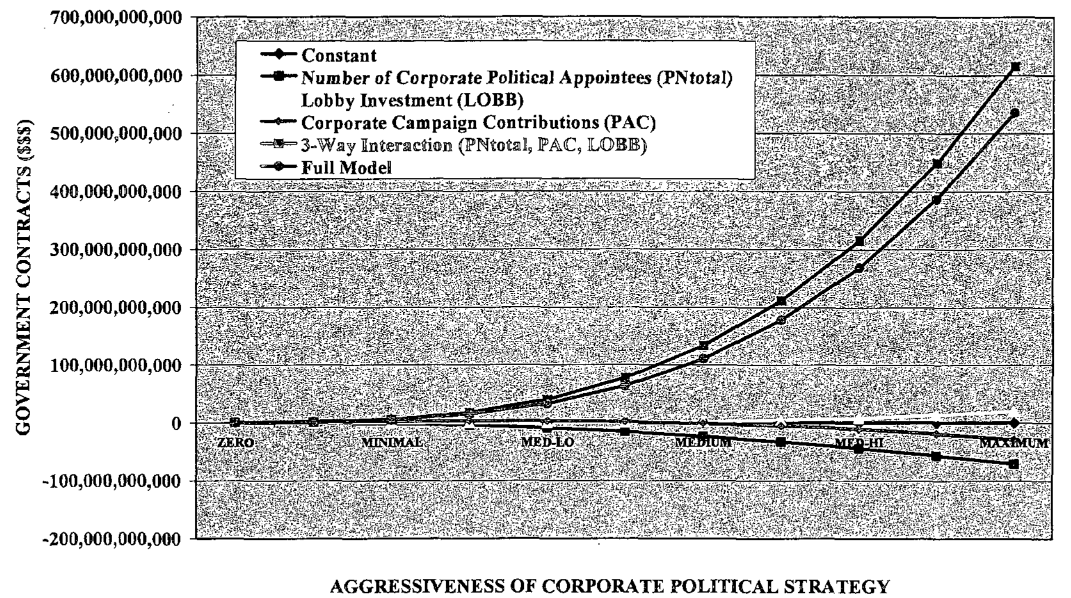
$\hat{Y} = a - b_1 PN_{total} - b_2 PN_{total}^2 + b_3LOBB + b_4LOBB^2 + b_5PAC - b_6PAC^2$

Where:

$\hat{Y}$ = Average Annual Market Share
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years).

Government Contracts (Figure 10.22). The number of Corporate Political Appointees, in aggregate explains 15.8% of the variance in dollar value of Government Contracts (quadratic function; $p < .039$). Additional variance in value of Government Contracts is explained by the amount of Lobbying Investment (cubic function; $p < .000$) and by the amount of Corporate Campaign Contributions (cubic; $p < .000$). There is a very strong, three-way interactive effect between the Number of Corporate Political Appointees, the dollar value of Corporate Campaign Contributions and amount of Lobbying Investment. Together, these three independent variables explain 56.5% of the variance in value of Government Contracts. The effect of the overall corporate political strategy is minimal until the 40^{th} percentile. At that point, the three-way interactive effect dramatically increases the effectiveness of the strategy with the dollar value of government contracts rising from \$32.6 billion at the 40^{th} percentile to \$\$536 billion at the 100^{th} percentile. The "best fit" mathematical model is a quadratic function with increasing effectiveness of aggressiveness driven powerfully by the three-way interaction of the independent variables (Number of Corporate Political Appointees, dollar value of Corporate Campaign Contributions, and Lobbying Investment).

Figure 10.22 Full Omnibus Predictive Model
Cumulative Dollar Value of Government Contracts
2001 - 2007



The model is described by the formula:

$$\hat{Y} = a + b_1 PN_{total} - b_2 PN_{total}^2 + b_3 LOBB - b_4 LOBB^2 + b_5 LOBB^3 + b_6 PAC + b_7 PAC^2 - b_8 PAC^3 + b_9 PNtotal*PAC*LOBB$$

Where:

$\hat{Y}$ = Cumulative Dollar Value of Government Contracts
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PNtotal*PAC*LOBB = Interactive Effect of the Number of Corporate Political Appointees, Lobbying Investment, and Corporate Campaign Contributions.

10.7 Summary of Findings.

The study model reliably predicts financial performance from the aggressiveness of the Fortune 500 firm's corporate political campaign. The Number of Corporate Political Appointees is a powerful indicator of corporate financial performance, as is the amount of money invested in Lobbying. Taken together, they can be used to mount an aggressive corporate political campaign that predicts overall financial performance as well as dollar value of government contracts for those firms engaged in the contracting process.

Returning to Hypothesis 4, we do find evidence of interactive or moderating effects between and among the variables in the omnibus sample. The amount of money invested in Corporate Campaign Contributions and Lobbying in very aggressive corporate political campaigns interact to eventually predict a negative effect on Gross Profit as the investments consume earnings. Of greater interest, in the model predicting the Dollar Value of Government Contracts, the strong three-way interaction between the Number of Corporate Political Appointees, Corporate Campaign Contributions, and Lobbying Investment is of particular interest to firms with high dependence on government contracts (Defense).

10.8 Effects of Standard Industry Code. The significance of results in the omnibus sample beg further questions about the effects of corporate political activities within specific industrial sectors. Table 10.7 provides omnibus (all firms, all years) proportionality statistics for the Independent and Dependent Variable *by Standard Industry Code*.

TABLE 10.7 PROPORTIONALITY INDICES						
INDEPENDENT VARIABLES						
	CORPORATE POLITICAL APPOINTMENTS		CAMPAIGN CONTRIBUTIONS			LOBBYING INVESTMENT
INDUSTRIAL SECTOR	NUMBER OF POLITICAL APPOINTEES	POWER OF POLITICAL APPOINTEES	BUNDLING	PAC	CEO	LOBBY
Agribusiness	4.42%	4.48%	0.00%	3.82%	3.25%	3.13%
Communications & Electronics	11.94%	11.74%	14.15%	9.98%	12.01%	10.63%
Construction	17.28%	17.22%	14.15%	16.17%	16.79%	15.40%
Defense	34.15%	34.02%	28.30%	31.50%	32.65%	30.33%
Energy & Natural Resources	5.41%	6.64%	12.26%	7.59%	6.53%	10.56%
Finance, Insurance & Real Estate	13.97%	13.66%	18.87%	12.10%	10.03%	11.43%
Health	2.74%	2.46%	1.89%	5.41%	5.60%	6.35%
Miscellaneous Business (including Lawyers & Lobbyists)	6.21%	6.18%	4.72%	7.65%	11.22%	6.74%
Transportation	3.88%	3.60%	5.66%	5.79%	1.91%	5.41%
DEPENDENT VARIABLES						
INDUSTRIAL SECTOR	PERCENT OF SAMPLE	PERCENT MARKET VALUE	PERCENT TOTAL REVENUE	PERCENT GROSS PROFIT	PERCENT FEDERAL CONTRACTS	DEPENDENCE ON GOVERNMENT CONTRACTS
Agribusiness	8.20%	5.60%	7.48%	7.12%	1.14%	0.31%
Communications & Electronics	15.00%	21.37%	13.27%	17.12%	8.60%	1.31%
Construction	4.20%	1.05%	2.00%	1.35%	6.09%	6.16%
Defense	1.60%	2.29%	2.61%	1.67%	64.12%	49.87%
Energy & Natural Resources	16.80%	13.16%	16.17%	10.80%	2.13%	0.27%
Finance, Insurance & Real Estate	15.90%	21.16%	16.89%	23.47%	0.63%	0.08%
Health	6.70%	11.33%	8.46%	9.24%	6.97%	1.67%
Miscellaneous Business (including Lawyers & Lobbyists)	24.30%	20.69%	23.34%	23.32%	6.92%	0.60%
Transportation	7.40%	3.36%	9.76%	5.91%	3.39%	0.70%

Clear distinctions and differences emerge when we parse the Dependent and Independent Variable descriptive statistics by Standard Industry Code sub-sample. For example:

- The Defense Industry makes up just 1.6% of the sample by number of firms, 2.29% of the sample by market value, 2.61% of the sample by Revenue and

1.67% of the sample by Gross Profit. In contrast, these same Defense firms received over 64% of all federal contracts. Their dependence on Government Contracts (defined as Dollar Value of Contracts/Revenue) approached 50%. Defense firm CEOs were responsible for 28.3% of "bundled" donations, 31.5% of all Corporate Campaign Contributions, 32.65% of Past/Present CEO personal campaign Contributions, 30.33% of all Fortune 500 Lobbying investment, and over 34% of all corporate Political Appointees.

- The Energy & Natural Resources sub-sample constitutes 16.8% of the sample by number of firms, 13.16% of the sample by Market Value, 16.17% of the sample by Revenue, and 10.8% of the sample by Gross Profit. The sector receives just 2.13% of all federal contracts awarded, with negligible dependence on Government Contracts (0.27%). Energy & Natural Resources firms were responsible for 12.26% of candidate Bush's "bundling," 7.59% of all Corporate Campaign Contributions, 6.53% of Past/Present CEO personal campaign contributions, 10.56% of all Fortune 500 Lobbying investment, and 5.41% of all Corporate Political Appointees.
- The Finance, Insurance & Real Estate sub-sample constitutes 15.9% of the sample by number of firms, 21.16% of the sample by Market Value, 16.89% of the sample by Revenue, and 23.47% of the sample by Gross Profit. The firms' dependence on Government Contracts is negligible (0.08%) with less than 1% of Government Contracts during the study period awarded to firms in the sector. Fortune 500 firms in the Finance, Insurance & Real Estate sector were responsible

for 18.87% of candidate Bush's "Bundling," 12.1% of Corporate Campaign Contributions, 10.03% of all Past/Present CEO personal Campaign Contributions, 11.43% of Fortune 500 Lobbying investment, and nearly 14% of all Corporate Political Appointees.

Main Effects of the Control Variable SIC. Recall (Chapter 8) that the Control Variable for Standard Industry Code (SIC) was dummy coded using the "un-weighted effects coding" methodology since we have not used a random or representative sampling technique to develop the sample; the sample includes all firms holding a place in the Fortune 500 during the time period in question; and we do not wish to generalize the results to the entire population of all U.S. firms, limiting the application to the population of Fortune 500 firms. Preliminary results using moderated multiple regression techniques indicate that industrial sector (SIC) explains a statistically significant portion of the variance in Dependent Variables Net Income, Market Share (within SIC), and Government Contracts, but not Gross Revenue or Gross Profit (Table 10.8).

TABLE 10.8 STANDARD INDUSTRY CODE MAIN EFFECTS

Dependent Variable	R^2	Significance of F Change
Gross Revenue	-.002	.624
Gross Profit	.011	.037
Net Income	.028 *	.000
Market Share (within SIC group)	.182 *	.000
Government Contracts	.397 *	.000

*Note: Indicates R^2 significance at the .001 level.

Traditional multiple regression techniques can be unreliable in testing categorical moderating variables if the homogeneity of error variance assumption is violated. Before proceeding, we conduct alternative tests (Bartlett's M statistic; DeShon and Alexander's

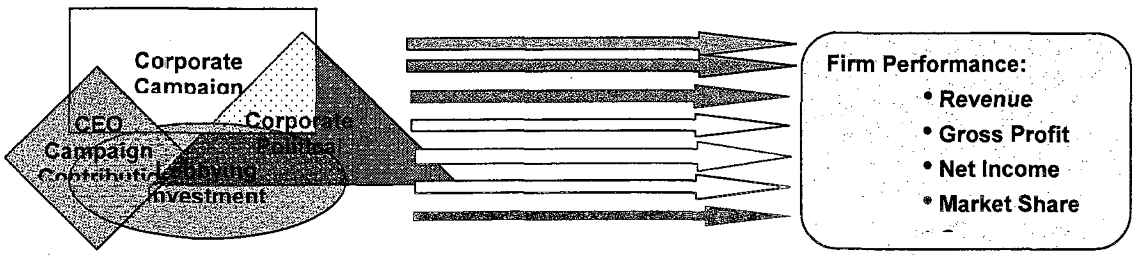
1.5 rule of thumb) to determine whether the homogeneity of error variance assumption is violated in our data set (Aguinas 2004: 56-61). We find no evidence that SIC acts as a moderating variable, and we find clear evidence of heterogeneous error variance. ("A" and "J" statistics are in Table 10.9).

TABLE 10.9 HOMOGENEITY OF ERROR VARIANCE TEST RESULTS

DEPENDENT VARIABLE	REVENUE	GRSPROF	NETINC	MKTSH(SIC)	GOVCONT
DeShon & Alexander's "1.5 Rule of Thumb"	Not Met	Not Met	Not Met	Not Met	Not Met
Nature of Error Variance	Homogeneous	Homogeneous	Homogeneous	Homogeneous	Homogeneous
Different Slope Between SIC's	NO	NO	NO	NO	NO
Largest Error Variance Ratio	01:07.6	01:36.3	1:56	1:44	1:41957
M Value	2598.34	127.52	240.72	384.3	2769.14
P Value	1	<.00001	<.00001	<.00001	1
JAMES' P Value	<.05	<.05	<.05	<.05	<.05
JAMES' U Value	0.8357	1.4678	4.5814	0.8357	1.5502
JAMES U (critical) Value	16.3841	16.4009	16.3991	16.4512	16.4679
Alexander's A Value	0.8309	1.4569	4.5254	7.9614	1.4607
Alexander's P Value	0.9991	0.9934	0.8069	0.4372	0.9933

Given that the F tests will be unreliable under these conditions, as recommended by Aguinis (2004:62,139) and Fields (2009:251), we proceed to independent examinations of the control variable SIC effects within sub-groups and adjust the model accordingly (Figure 10.23).

Figure 10.23 Revised Full Model for Each Standard Industrial Sector



CHAPTER 11: THREE INDUSTRIAL SECTORS

Rather than generalizing the results across the entire Fortune 500 sample, we narrow the focus of the study to three industry sectors of particular interest in the study, given the Bush administration's close ties before the election and ongoing relationship during the study period 2001 - 2008:

- Defense
- Energy & Natural Resources
- Finance, Insurance & Real Estate.

Descriptive statistics and analysis for each sub-sample follow.

11.1 Defense. The sample includes 13 firms. Descriptive statistics are presented in Table 11.1.

TABLE 11.1
DEFENSE SECTOR
DESCRIPTIVE STATISTICS
2001 – 2007 CUMULATIVE

	MINIMUM	MAXIMUM	MEAN	SUM
INDEPENDENT VARIABLES				
Number of Corporate Political Appointees	0	76	17.3	225
Power of Corporate Political Appointees	0	269	55.8	725
Bundling	0	0	0	0
Past/Present CEO Campaign Contributions	0	$125,600	$23,347	$303,514
Corporate Campaign Contributions	0	$7,481,298	$2,773,200	$36,051,344
Lobbying Investment	$440,000	$132,000,000	$46,919,000	$610,000,000
DEPENDENT VARIABLES				
Revenue	0	$507,285,000,000	$150,396,326,900	$1,955,152,250,000
Net income	0	$23,687,000,000	$7,083,452,300	$92,084,880,000
Gross profit	0	$96,775,000,000	$30,956,955,400	$402,440,420,000
Market Share	0	25.94%	7.69%	100%
Government Contracts	0	$221,000,000,000	$65,839,000,000	$856,000,000,000

Main Effects. Table 11.2 contains the complete set of R^2 values for all relationships between the independent and dependent variables for the Defense sector. Aguinas (2004:130) cautions that quadratic terms should only be used in situations when correlations between independent and dependent variables is greater than or equal to .50; when reliabilities for the independent and dependent variables are less than or equal to .70; *and when sample size is approximately 75 or larger.* Because the Defense sub-sample size is less than 75, we treat the results with caution and make no attempt to detect interactive effects between the independent variables. The results cannot be generalized beyond this sample.

TABLE 11.2
DEFENSE SECTOR
ADJUSTED R2 FOR ALL VALUES BELOW <.05

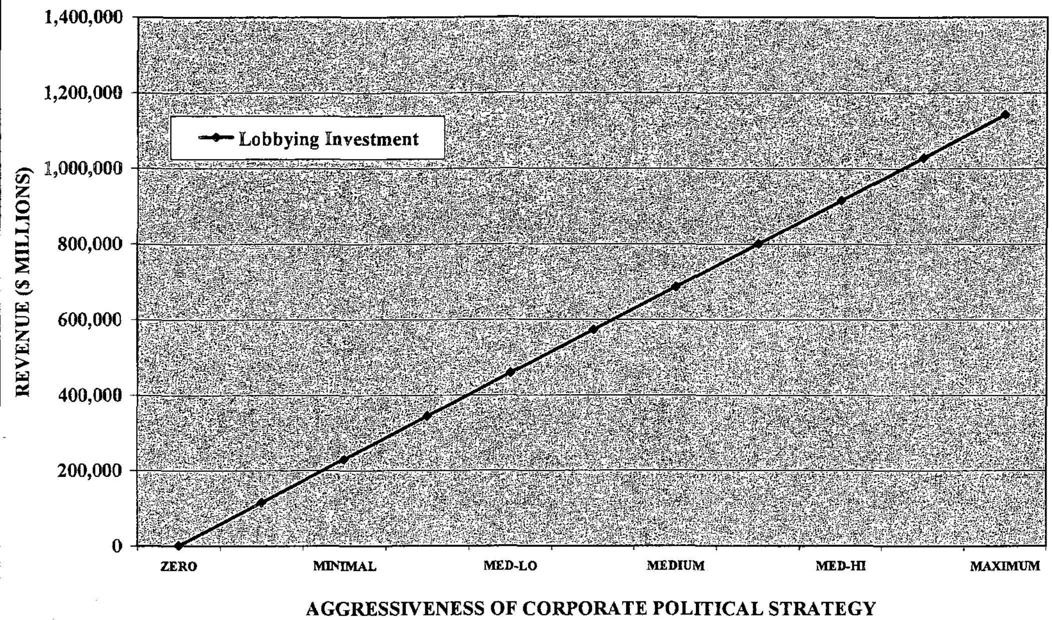
Independent Variables	Dependent Variables				
	Gross Profit	Net Income	Gross Revenue	Market Share	Government Contracts
Number of Political Appointees	-	-	-	-	.376
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	-	-	-
Seniority of Political Appointees	-	-	-	-	.376
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	-	-	-
R/P Bundling Total (Linear Effect)	-	-	-	-	-
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	-	-	-
PAC Corporate Campaign Contributions	-	-	.353	.374	.820
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	-	-	-
CEO Campaign Contributions	-	.259	-	-	-
Quadratic Effect	.570	.587	.328	.308	-
Cubic Effect	-	-	-	-	-
Lobbying Investment	-	.281	.352	.307	.624
Quadratic Effect	.584	.547	.807	.775	.722
Cubic Effect	-	-	-	-	.925

Hierarchical "Buildup" of Effects (Table 11.3). We employ the "Build-Up" method to describe the relationship between the Independent Variables and each of the Dependent Variables in the Defense Industry sample for all firms, all years.

TABLE 11.3 DEFENSE SECTOR POWER OF THE COMBINED VARIABLES			
Independent Variable	**Cumulative Variance Explained in the Model**	**Significance of F Change**	**Nature of Relationship**
GOVERNMENT CONTRACTS			
Power of Political Appointees	.376	.015	Linear
Lobbying Investment	.671	.008	Linear
Corporate Campaign Contributions	.785	.033	Linear
MARKET SHARE			
Corporate Campaign Contributions	.282	.045	Linear
Lobbying Investment	.847	.003	Linear
GROSS REVENUE			
Corporate Campaign Contributions	.324	.034	Linear
Lobbying Investment	.865	.002	Linear

Revenue (Figure 11.1). Neither the Number nor Power of Corporate Political Appointees explains variance in total Revenue over the study period 2001 – 2007 for Fortune 500 Defense firms. While Corporate Campaign Contributions do have a positive and significant effect on Revenue, the strength of the Lobbying Investment ($p < .000$) overwhelms that of Corporate Campaign Contributions, rendering thee effect indiscernible in the full model. The effect is quadratic, but the change in slope is so small as to be rendered insignificant for all practical purposes. An increasingly aggressive corporate political strategy, made up entirely of Lobbying Investment, is associated with very large increases in Revenue. The relationship is linear for the firms in the sample. Lobbying Investment alone explains 80.7% of the variance in total Revenue for these Defense firms.

Figure 11.1 Defense Sector Full Predictive Model
Cumulative Revenue
2001 - 2007



The model is described by the formula:

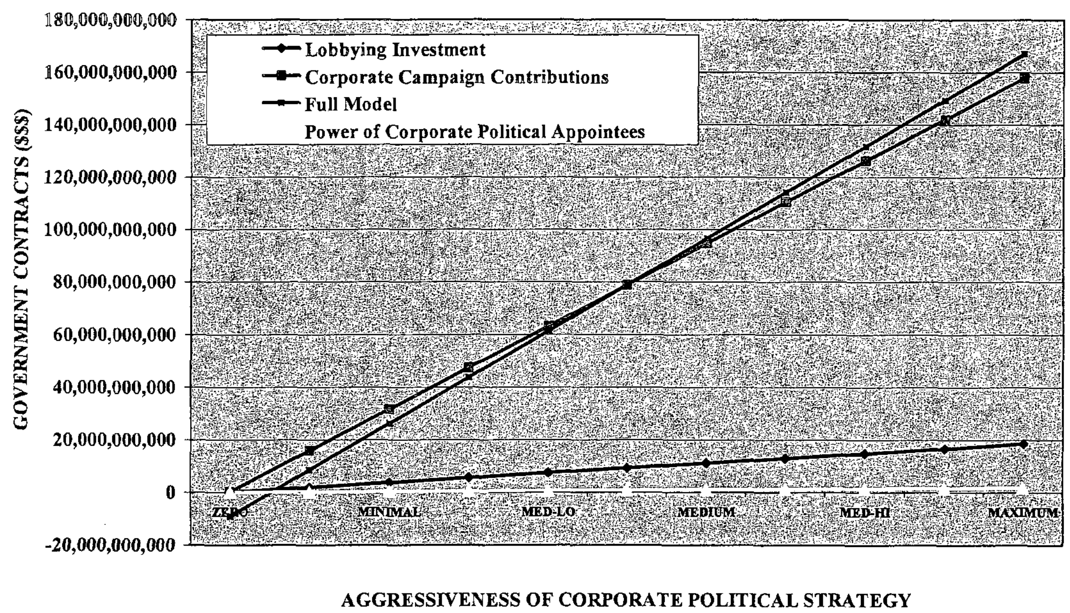
$\hat{Y} = -a + b_1 LOBB - b_2 LOBB^2$

Where:

$\hat{Y}$ = Cumulative Revenue
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)

Government Contracts (Figure 11.2). The Power of the Corporate Political Appointees explains 37.6% of the variance in dollar value of Defense contracts for firms in the sample. Together, the Power of Corporate Political Appointees, dollar value of Corporate Campaign Contributions, and Lobbying Investment in the Full Defense Model explain 78.5% of the variance in dollar value of government contracts awarded. The results are robust and statistically significant ($p < .015$, $p < .008$; $p < .033$). While defense firms with minimally aggressive corporate political strategies do not fare well in award of government contracts, even moderately aggressive strategies are associated with very large increases in the dollar value of government contracts.

Figure 11.2 Defense Industry Full Predictive Model
Dollar Value of Government Contracts
2001 - 2007



The model is described by the formula:

$\hat{Y} = -a + b_1 PN_{power} + b_2 LOBB + b_3 PAC$

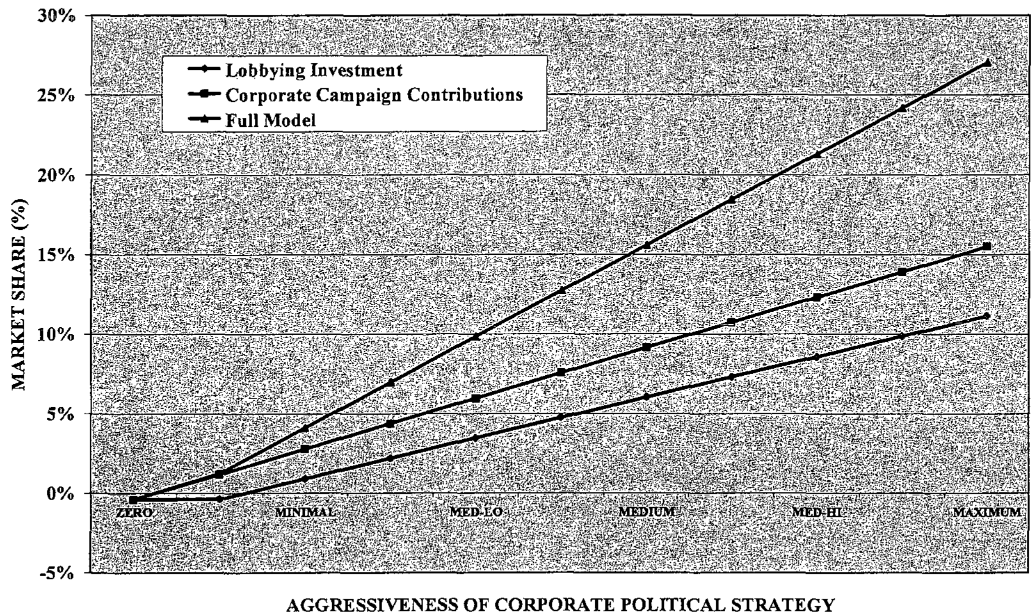
Where:

$\hat{Y}$ = Dollar Value of Government Contracts
PN_{power} = Power (Seniority) of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years).

Market Share (Figure 11.3). The Full Defense Model explains 95.3% of the variance in Average Annual Market Share over the study period 2001 – 2007. When employed in a combined strategy, 10% increases in Lobbying Investment and Corporate Campaign Contributions are associated with an average annual increase of 2.9% Market

Share. In the full model, there is no discernible relationship between Revenue and the Number of Corporate Political Appointees, Bundling of Campaign Contributions, or the personal campaign contributions of past/present CEOs.

Figure 11.3 Defense Full Predictive Model
Average Market Share
2001 - 2007



The model is described mathematically as:

$\hat{Y} = - a + b_1LOBB + b_2LOBB^2 + b_3 LOBB^3 + b_4PAC + b_5PAC^2$

Where:

$\hat{Y}$ = Dollar Value of Government Contracts
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years).

11.2 Energy & Natural Resources.

Descriptive Statistics. The sample includes 133 firms. Descriptive statistics are presented in Table 11.4.

TABLE 11.4 ENERGY & NATURAL RESOURCES SECTOR DESCRIPTIVE STATISTICS 2001 – 2007 CUMULATIVE				
	MINIMUM	MAXIMUM	MEAN	SUM
INDEPENDENT VARIABLES				
Number of Corporate Political Appointees	0	20	1.28	170
Power of Corporate Political Appointees	0	112	5.36	713
Bundled Campaign Contributions	0	$300,000	$10,000	$1,300,000
Past/Present CEO Campaign Contributions	0	$110,052	$12,394	$1,648,511
Corporate Campaign Contributions	0	$3,610,293	$425,784	$56,203,493
Lobbying Investment	0	$104,000,000	$7,323,300	$9,670,000,000
DEPENDENT VARIABLES				
Revenue	$9,274,000,000	$2,071,589,000,000	$105,502,469,500	$10,339,242,010 000
Net Income	$7,881,380,000	$207,580,000,000	$7,281,862,800	$655,367,650,000
Gross Profit	$26,300,000	$478,438,000,000	$23,611,092,200	$2,124,998,300,000
Market Share	0	18.9%	0.75%	100%
Government Contracts	-$1,389,060	$6,400,000,000	$2,125,000	$25,500,000,000

Main Effects of the Independent Variables Table 11.5). The results for the Energy & Natural Resource Sector indicate a strong, statistically significant positive relationship (Adjusted $R^2 < .05$) between Corporate Campaign Contributions, Lobbying, and Personal Services and each financial performance indicator, including government contracts.

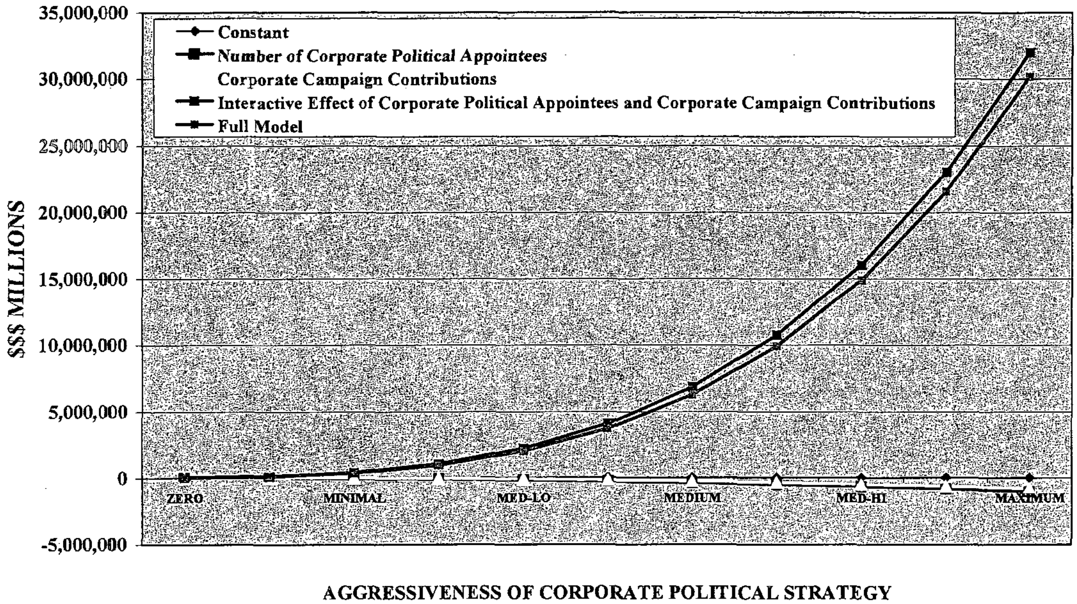
TABLE 11.5 ENERGY & NATURAL RESOURCES Adjusted R2 < .05					
Independent Variables	Dependent Variables				
	Gross Profit	Net Income	Revenue	Market Share	Government Contracts
Bundling Total (Linear Effect)	-	-	-	-	-
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	-	-	-
PAC Corporate Campaign Contributions	.371	.336	.370	.371	.248
Quadratic Effect	.655	.677	.615	.638	.562
Cubic Effect	.738	.777	.670	.709	.597
CEO Campaign Contributions	-	-	-	-	-
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	-	-	-
Lobbying Investment	.473	.456	.431	.452	.225
Quadratic Effect	.544	.568	.479	.512	.387
Cubic Effect	.655	.684	.574	.618	.510
Number of Political Appointees	.400	.373	.452	.460	.091
Quadratic Effect	.665	.645	.708	.697	.208
Cubic Effect	.681	.656	.721	.709	-
Seniority of Political Appointees	.267	.255	.316	.314	.041
Quadratic Effect	-	-	-	-	-
Cubic Effect	.564	.309	.594	.599	.179

Hierarchical "Build-up" of Effects (Table 11.6). We employ the "Build-Up" method to describe the relationship between the Independent Variables and each of the Dependent Variables for all firms, all years. Because the sample meets the required conditions for detection of interactive (moderating) effects, we include them in the analysis.

TABLE 11.6 ENERGY & NATURAL RESOURCES POWER OF THE COMBINED VARIABLES		
Independent Variables	**Cumulative Variance Explained by the Model**	**Significance of F Change**
GROSS PROFIT		
PNtot	.665	.000
PAC	.893	.000
PNtot x PAC	.902	.000
MARKET SHARE		
PNtot	.697	.000
PAC	.889	.000
PACxPNtot	.930	.000
REVENUE		
PNtot	.708	.000
PAC	.873	.000
PACxPNtot	.922	.000
NET INCOME		
PNtot	.645	.000
PAC	.908	.000
PACxPNtot	.935	.000
GOVERNMENT CONTRACTS		
PNtot	.208	.000
LOB	.608	.000
PACxPNtot	.676	.000

Revenue (Figure 11.4). The Number of Corporate Political Appointees alone explains 70.8% of the variance in Revenue over the study period. In concert with the dollar value of Corporate Campaign Contributions, the Full Model explains 92.2% of the variance in Revenue for firms in the Energy & Natural Resources sector for 2001 – 2007. While the relationship between Number of Corporate Political Appointees and Revenue in isolation are negligible (but statistically significant), the interactive effect is powerful, positive, and statistically significant ($p < .001$). The individual effect of Lobbying Investment is overwhelmed by that of Corporate Campaign Contributions and not discernible in the model. Large returns in the form of Revenue are associated with increasingly aggressive corporate political strategies.

Figure 11.4 Energy & Natural Resources Sector Full Predictive Model
Cumulative Revenue
2001 - 2007



The model is described by the formula:

$\hat{Y} = a + b_1 PN_{total} - b_2 PN_{total}^2 + b_3PAC - b_4PAC^2 + b_5PAC^3 + b_6PN_{total}*PAC - b_7PN_{total}*PAC^2 +$
$b_8PNtotal2*PAC2$

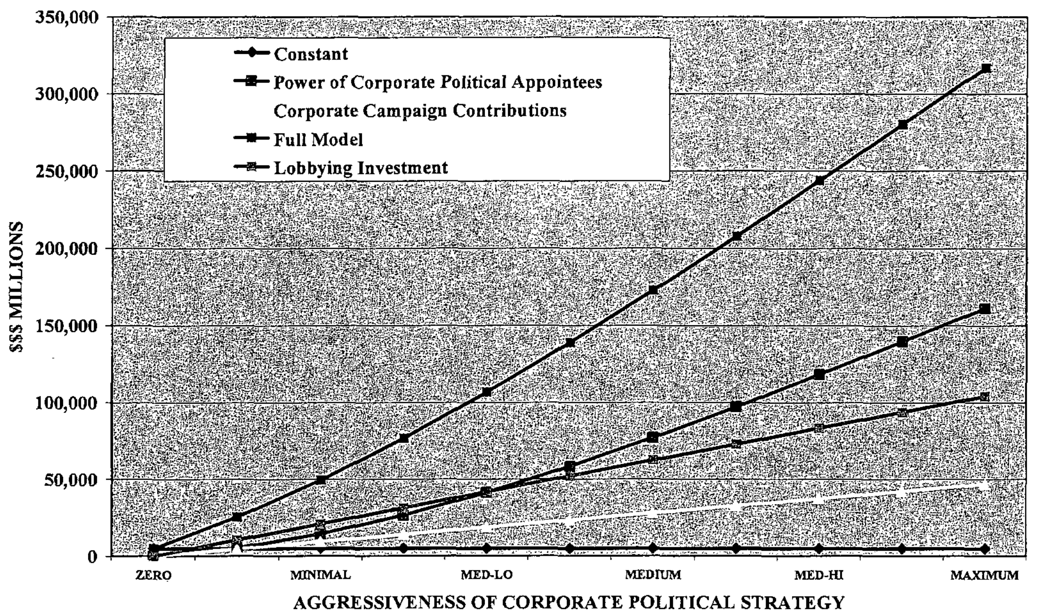
Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PNtotal*PAC = Interactive Effect of the Number of Corporate Political Appointees and the dollar value of Corporate Campaign Contributions.

Gross Profit (Figure 11.5). The Number of Corporate Political Appointees alone explains 66.5% of the variance in Gross Profit. In concert, the Number of Corporate Political Appointees and the dollar value of Corporate Campaign Contributions explain 92.3% of variance in cumulative Gross Profit for firms in the Energy & Natural

Resources sector for 2001 – 2007. While the relationship between Number of Corporate Political Appointees and Gross Profit in isolation is negative, the interactive effect is powerful, positive and statistically significant ($p < .001$). The effect of Lobbying Investment is overwhelmed by Corporate Campaign Contributions and not discernible in the model. Firms engaging in even moderately aggressive corporate political strategies are associated with a quadratic increase in Gross Profit.

Figure 11.5 Energy & Natural Resources Full Predictive Model
Cumulative Gross Profit
2001 - 2007



The model is described by the formula:

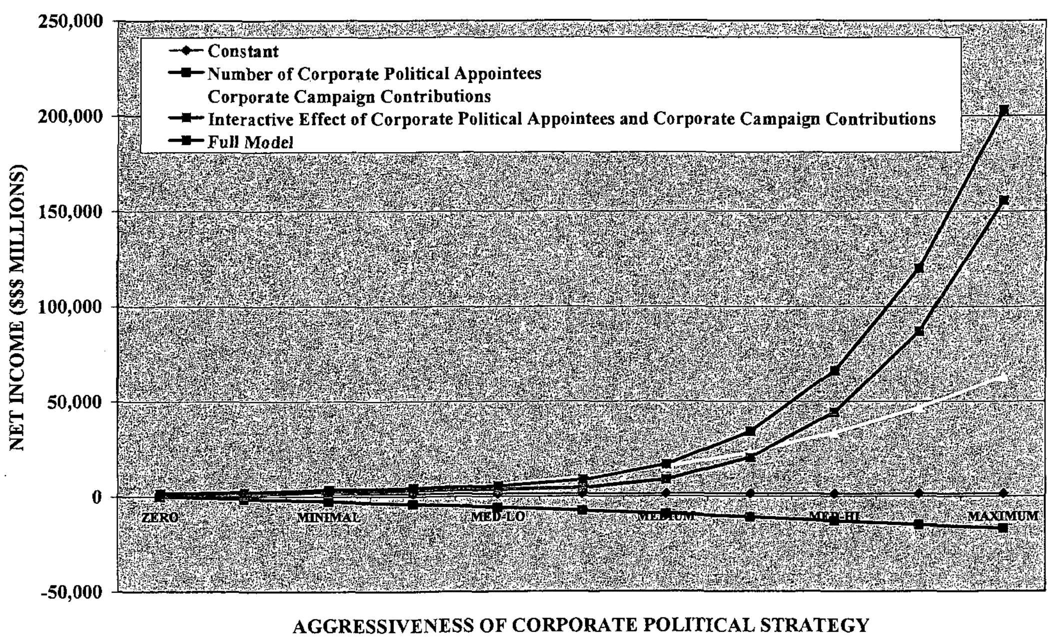
$$\hat{Y} = a - b_1 PN_{total} - b_2 PN_{total}^2 + b_3PAC - b_4PAC^2 + b_5PAC^3 + b_6PN_{total}*PAC - b_7PN_{total}*PAC^2 + b_8PNtotal2*PAC2$$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PNtotal*PAC = the Interactive Effect of the Number of Corporate Political Appointees and dollar value of Corporate Campaign Contributions

Net Income (Figure 11.6). The Number of Corporate Political Appointees alone explains 64.5% of the variance in Net Income for firms in the sample, the relationship in isolation is negative. The dollar value of Corporate Campaign Contributions is positive, robust, and statistically significant. The interactive effect between the two is powerful, positive, and statistically significant ($p < .001$). Taken aggressively in combination, they have a dramatic effect on Net Income in this sector. Lobbying Investment effects are overwhelmed by the power of Corporate Campaign Contributions and not discernible in the model. The Full Model explains 93.5% of variance in Net Income for firms in the Energy & Natural Resources sector for 2001 – 2007. Very large returns in Net Income are associated with aggressive corporate political strategies.

Figure 11.6 Energy & Natural Resources Full Preidctive Model
Cumulative Net Income
2001 - 2007



The model is described by the formula:

$$\hat{Y} = a - b_1 PN_{total} - b_2 PN_{total}^2 + b_3PAC - b_4PAC^2 + b_5PAC^3 + b_6PN_{total}*PAC - b_7PN_{total}*PAC^2 + b_8PNtotal2*PAC2$$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PNtotal*PAC = the Interactive Effect of the Number of Corporate Political Appointees and dollar value of Corporate Campaign Contributions

Government Contracts (Figure 11.7). The Number of Corporate Political Appointees alone explains 20.8% of the variance in Government Contracts for firms in the Energy & Natural Resources industrial sector during the period 2001 – 2007. In isolation, the effects of Corporate Campaign Contributions and the Number of Corporate Political Appointees are significant, but negligible. In combination, their interactive effect is very powerful with extremely aggressive corporate political strategies associated with very high levels of Government Contracts. The Full Model explains 67.6% of the variance in dollar value of Government Contracts.

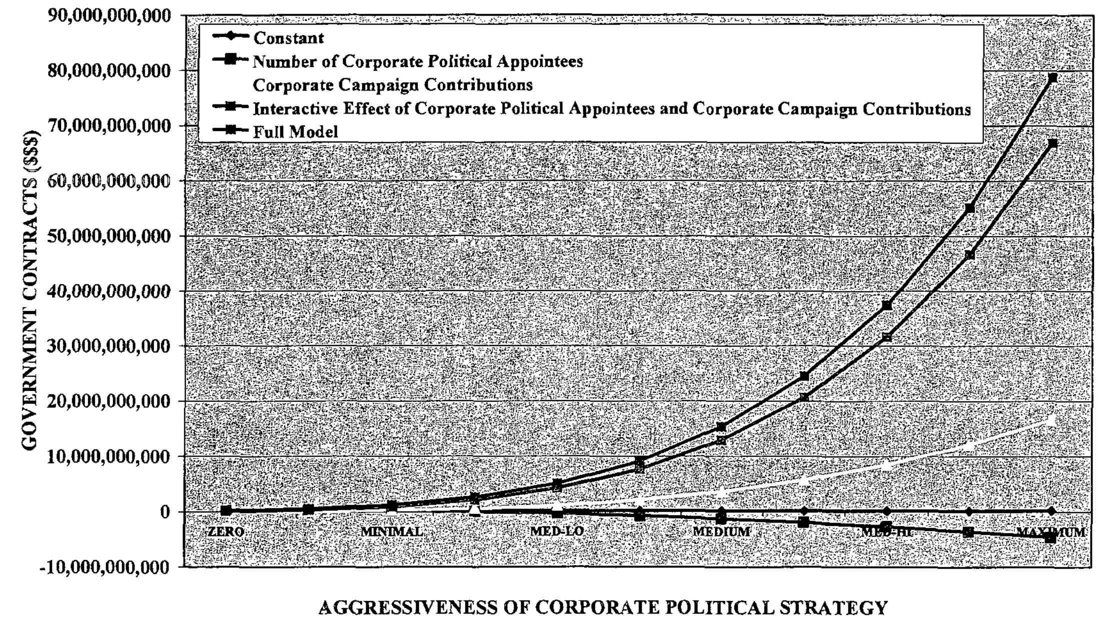


Figure 11.7 Energy & Natural Resources Full Predictive Model
Cumulative Dollar Value of Government Contracts
2001 - 2007

The model is described by the formula:

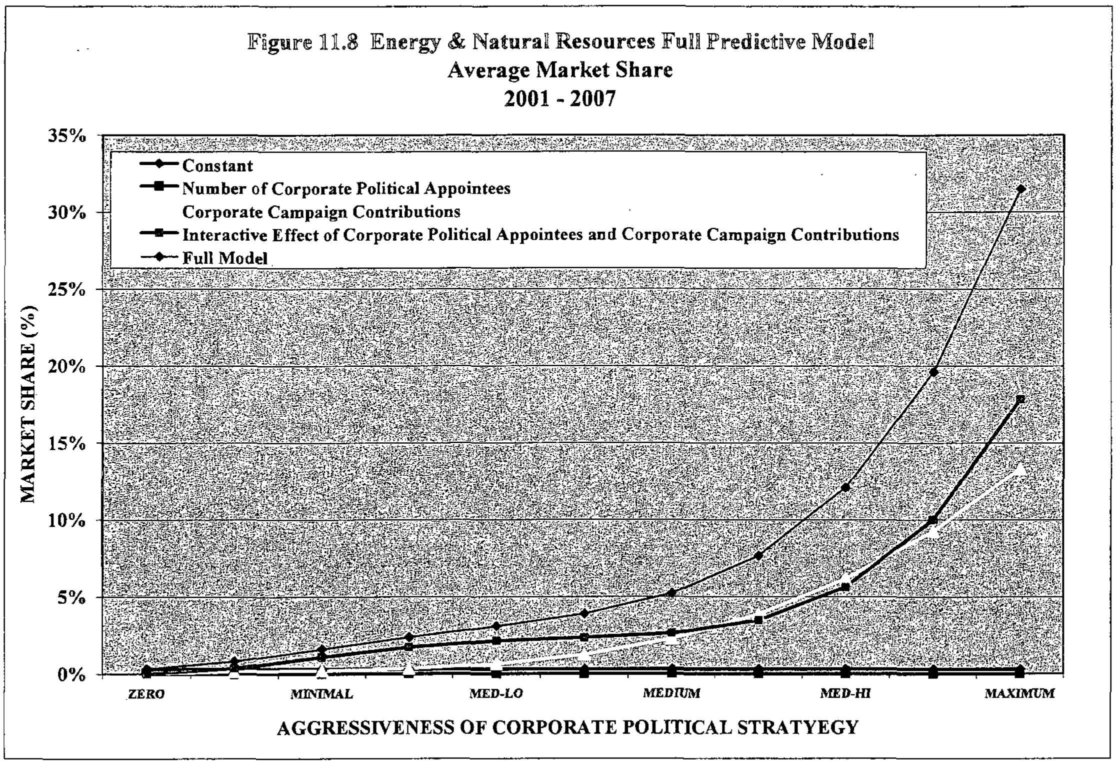
$\hat{Y} = a - b_1 PN_{total} + b_2 PN_{total}^2 + b_3PAC + b_4PAC^2 + b_5PAC^3 + b_6PN_{total}*PAC + b_7PN_{total}*PAC^2 + b_8PNtotal2*PAC2$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PNtotal*PAC = the Interactive Effect of the Number of Corporate Political Appointees and dollar value of Corporate Campaign Contributions

Market Share (within SIC) (Figure 11.8). The Number of Corporate Political Appointees alone explains 69.7% of the Variance in Market Share for firms within the Energy & Natural Resources industrial sector. In isolation, unless the corporate political strategy is at the 50th percentile, the effects are minimal. However, in combination the Number of Corporate Political Appointees and dollar value of Corporate Campaign

Contributions have a powerful quadratic effect with extremely aggressive corporate political strategies associated with very high Market Share. The Full Model explains 93.0% of the variance in Market Share



The model is described by the formula:

$\hat{Y} = a - b_1 PN_{total} + b_2 PN_{total}^2 + b_3PAC + b_4PAC^2 + b_5PAC^3 + b_6PN_{total}*PAC + b_7PN_{total}*PAC^2 +$
b_8PNtotal2*PAC2

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PNtotal*PAC = the Interactive Effect of the Number of Corporate Political Appointees and dollar value of Corporate Campaign Contributions

11.3 Finance, Insurance & Real Estate

Descriptive Statistics. The sample includes 126 firms. Descriptive statistics are presented in Table 11.7.

TABLE 11.7 FINANCE, INSURANCE & REAL ESTATESECTOR DESCRIPTIVE STATISTICS 2001 – 2007 CUMULATIVE				
	MINIMUM	MAXIMUM	MEAN	SUM
INDEPENDENT VARIABLES				
Number of Corporate Political Appointees	0	79	3.48	439
Power of Corporate Political Appointees	0	266	11.99	1511
Bundling	0	$700,000	$15,873	$2,000,000
Past/Present CEO Campaign Contributions	0	$187,874	$20,192	$2,524,032
Corporate Campaign Contributions	0	$6,654,097	$719,698	$89,242,648
Lobbying Investment	0	$91,064,048	$8,164,900	$1,010,000,000
DEPENDENT VARIABLES				
Revenue	0	$942,854,000,000	$137,397,877,500	$10,579,636,570,000
Net Income	$6,598,500,000	$127,564,000,000	$16,186,913,600	$1,116,897,040,000
Gross Profit	$293,770,000	$381,757,000,000	$68,229,109,400	$4,639,579,440,000
Market Share	0	8.16%	0.79%	100%
Government Contracts	0	$3,390,000,000	$65,395,000	$7,720,000,000

Main Effects of the Independent Variables (Table 11.8). The results for the Financial, Insurance & Real Estate Sector indicate strong, statistically significant positive relationships between each political strategy (Adjusted $R^2 < .05$) and each financial performance indicator, with the exception of the dollar value of government contracts.

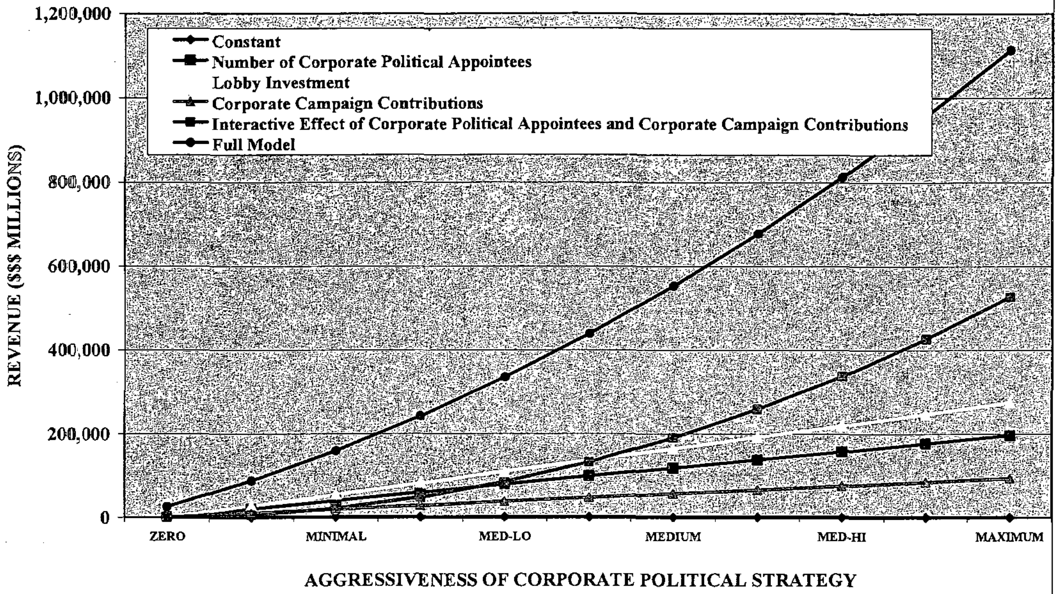
TABLE 11.8 FINANCE, INSURANCE & REAL ESTATE Adjusted $R^2 < .05$					
Independent Variables	**Dependent Variables**				
	Gross Profit	**Net Income**	**Revenue**	**Market Share**	**Government Contracts**
R/P Bundling Total (Linear Effect)	.194	.172	.143	.147	-
Quadratic Effect	.250	.283	.211	.221	-
Cubic Effect	-	.314	-	-	--
PAC Corporate Campaign Contributions	.277	.320	.264	.278	-
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	-	-	-
CEO Campaign Contributions	.194	.230	.222	.235	-
Quadratic Effect	-	.267	.247	.264	-
Cubic Effect	.291	.427	.384	.405	-
Lobbying Investment	.359	.251	.375	.382	-
Quadratic Effect	-	-	-	-	-
Cubic Effect	-	-	.389	.400	-
Number of Political Appointees	.547	.524	.454	.483	-
Quadratic Effect	.563	.535	-	-	-
Cubic Effect	.586	-	-	-	-
Seniority of Political Appointees	.537	.523	.452	.480	-
Quadratic Effect	.548	.541	-	-	-
Cubic Effect	.567	-	-	-	-

Hierarchical "Build-up" of Effects (Table 11.9). We employ the "Build-Up" method to describe the relationship between the Independent Variables and each of the Dependent Variables for all firms, all years. Because the sample meets the required conditions for detection of interactive (moderating effects), we include them in the analysis.

TABLE 11.9 FINANCE, INSURANCE & REAL ESTATE POWER OF THE COMBINED VARIABLES		
Independent Variable	**Cumulative Variance Explained in the Model**	**Significance of F Change**
	GROSS PROFIT	
PNtot	.547	.040
LOB	.616	.000
PAC	.668	.001
	NET INCOME	
PNtotal	.535	.000
LOB	.577	.002
PAC	.652	.000
	REVENUE	
PNtotal	.454	.000
LOB	.563	.000
PAC	.592	.010
PNtotal X PAC	.610	.012
	MARKET SHARE	
PNtotal	.483	.000
LOB	.582	.000
PAC	.624	.040

Revenue (Figure 11.9). The Power of the Corporate Political Appointees explains 45.4% of the variance in Revenue for firms in the Finance, Insurance & Real Estate industrial sector over the study period. The individual effects of the independent variables Lobbying Investment, Corporate Campaign Contributions, and Number of Corporate Political Appointees are all positive and significant ($p < .01$). The interactive effect of the Number of Corporate Political Appointees and Corporate Campaign Contributions is strong, enhancing the overall effect for firms willing to engage in even moderately aggressive corporate political strategies. The Full Model explains 67.1% of the change in Revenue over the period 2001 – 2007.

Figure 11.9 Finance, Insurance & Real Estate Full Predictive Model
Cumulative Revenue
2001 - 2007



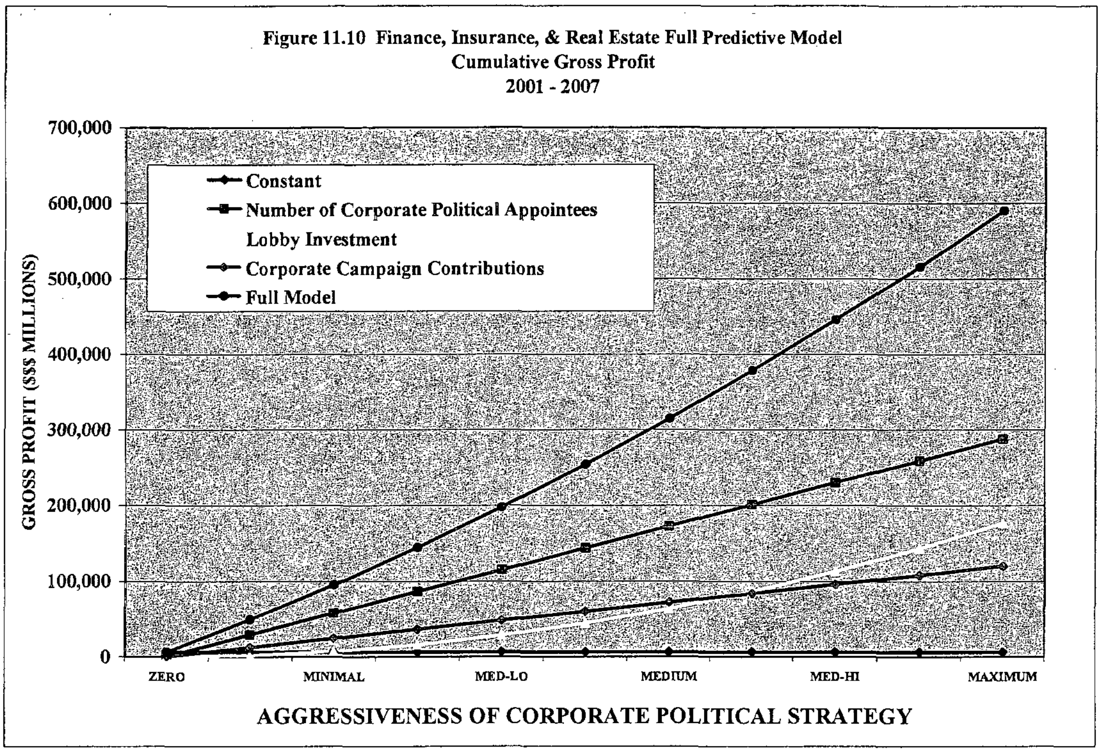
The model is described by the formula:

$\hat{Y} = a - b_1 PN_{total} + b_2 LOBB + b_3 LOBB^2 + b_3 PAC + b_4 PN_{total} * PAC$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)
PNtotal*PAC = the Interactive Effect of the Number of Corporate Political Appointees and dollar value of Corporate Campaign Contributions

Gross Profit (Figure 11.10). The Number of Corporate Political Appointees explains 54.7% of the variance in Gross Profit for firms in the Finance, Insurance & Real Estate industrial sector during the period 2001 - 2007. The relationship is strong, positive, and statistically significant ($p < .001$), surpassing the effect of Lobbying Investment for firms engaging in aggressive corporate political strategies. There are no discernible interactive effects between the independent variables. The Full Model explains 66.8% of the variance in Gross Profit for the period 2001 – 2007.



The model is described by the formula:

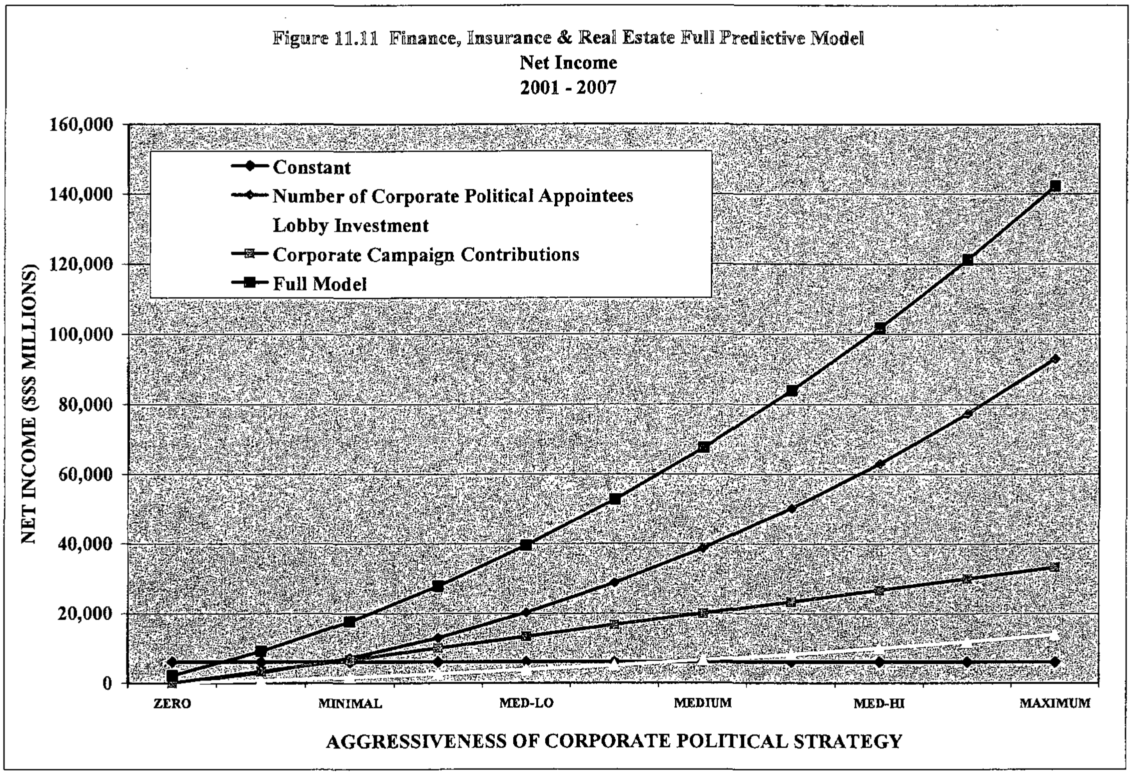
$\hat{Y} = a + b_1 PN_{total} + b_2 LOBB + b_3 LOBB^2 + b_3 PAC$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)

Net Income (Figure 11.11). The Power of the Corporate Political Appointees alone explains 53.5% of the variance in Net Income for firms in the Finance, Insurance & Real Estate industrial sector during the study period. The effect is very strong and statistically significant ($p < .001$). The dollar value of Corporate Campaign

Contributions is significant and linear as is the effect of Lobbying Investment, but neither approach the effect of the Power of the Corporate Political Appointees. The Full Model explains 65.2% of the variance in Net Income during the period 2001 – 2007.



The model is described by the formula:

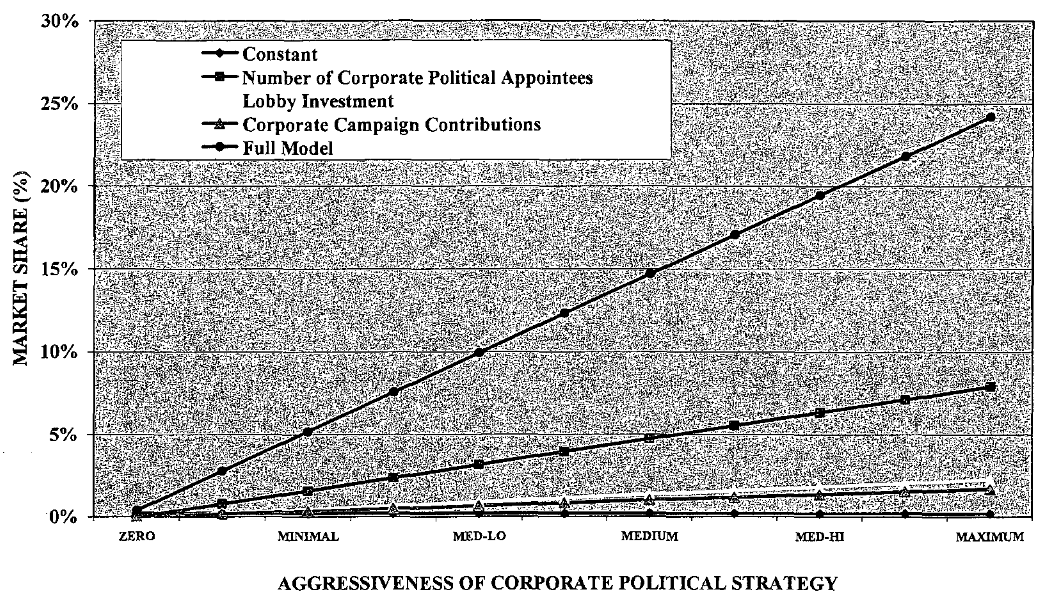
$\hat{Y} = a + b_1 PN_{total} + b_2 PN_{total}^2 + b_3 LOBB + b_4 LOBB^2 + b_4 PAC$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)

Market Share (Figure 11.12). The Number of Corporate Political Appointees explains 48.3% of the variance in Market Share in the Finance, Insurance, & Real Estate industrial sector during the study period. The effect is strong, positive, and statistically significant ($p < .001$). While both the dollar value of Corporate Campaign Contributions and Lobbying Investment are positive and significant, neither approach the power of the Number of Corporate Political Appointees. The Full Model explains 62.4% of the variance in Market Share within the Finance, Insurance & Real Estate Sector for the period 2001 – 2007. Very aggressive corporate campaign strategies are associated with Market Share approaching 25%.

Figure 11.12 Finance, Insurance & Real Estate Full Predictive Model
Average Annual Market Share
2001 - 2007



The model is described by the formula:

$\hat{Y} = a + b_1 PN_{total} + b_2LOBB + b_3PAC$

Where:

$\hat{Y}$ = Cumulative Net Income
PN_{total} = Total Number of Political Appointees (all years 2001 – 2007)
LOBB = Cumulative Dollar Value of Lobbying Investment (all years)
PAC = Cumulative Dollar Value of Corporate Campaign Contributions (all years)

CHAPTER 12: DISCUSSION & CONCLUSIONS

"To the extent that large contributions are given to secure a political quid pro quo from current and potential office holders, the integrity of our system of representative democracy is undermined. Although the scope of such pernicious practices can never be reliably ascertained, the deeply disturbing examples surfacing after the 1972 election demonstrate that the problem is not an illusory one."

Supreme Court Justice Brennan
Buckley v. Valeo 424 US 1 (1976)

12.1 SUMMARY

Without doubt, Fortune 500 firms enjoyed deep reach and unfettered access into the executive and legislative branches of the federal government during the period 2001 – 2008, including the appointment of corporate executives to top tier positions inside the federal government through the political process. Their presence in these positions is positively associated with strong financial performance in the Fortune 500 firms from which they came, including the award of government contracts, year after year and across industrial sectors. Across the board, Fortune 500 financial returns are positively associated with the aggressiveness of the firm's corporate political strategy, and the evidence that aggressive campaigns are more complex than lobbying alone, campaign contributions alone, or the two combined, is compelling. The study model provides excellent overall fit for the data and reliably predicts variance in Fortune 500 firm financial performance over the study period. More importantly, the mathematical models derived from the data can be used to reliably predict the effects of changes in corporate political strategy on firm financial performance in specific industrial sectors and can be used to optimize corporate political resources to affect the bottom line.

Within the Defense sector, both the number and seniority of corporate political appointees reliably predicts the dollar value of government contracts. At stake over the study period was $856 billion. During the period of the study, forty-one (41) former defense firm executives received a total of fifty (50) appointments to the most senior positions in the executive branch where they established policy, controlled decision-making, and were responsible for resource allocation and oversight:

Secretary of Air Force
Secretary of Navy
Undersecretary of the Air Force
Assistant Secretary of the Air Force
Assistant Secretary of the Navy
(3) Assistant Secretaries of Defense,
General Counsel to the Secretary of Defense
Director of Operational Test & Evaluation
Undersecretary of Defense
Deputy Undersecretary of Defense for Acquisition, Technology, & Logistics
Director of Defense Research & Engineering
Department of Homeland Security Undersecretary for Science & Technology
Secretary of Veterans Affairs
Deputy Secretary of Veterans Affairs
Chief Financial Officer of NASA
Associate Attorney General of the Department of Justice

The seniority of these political appointees alone explains 37.6% of the dollar value of contracts awarded. In concert with traditional corporate political strategies (lobbying and campaign contributions), the personal service strategy explains nearly 79% of the variance in government contracts over the study period. Each additional political appointee is associated with a mathematically predictable increase in Market Share, Revenue, Net Income, and Gross Profit. The firm's investment in Lobbying and Corporate Campaign Contributions explain 84.7% of the variance in Average Annual Market Share and 86.5% of the variance in Gross Revenue across the study period.

Within the Energy & Natural Resources sector, during the period of the study thirty-four (34) former executives from the industry served in forty-five (45) key positions of the federal government.

Vice President of the United States
Secretary of the Interior
Deputy Secretary of the Interior
Undersecretary of the Interior
Assistant Secretary of the Interior
Deputy Secretary of Energy
Assistant Secretary of Energy for Environmental Management
Director of the Department of Energy Office of Civilian Radioactive Waste Management,
Administrator of the Federal Energy Regulatory Commission
Member of the Federal Mine Safety & Health Review Commission
Administrator of the Office of Information and Regulatory Affairs (Executive Office of the President)
U.S. Trade Representative (Executive Office of the President)
Deputy Secretary of State
Ambassador to Iraq
Ambassador to the Transitional Islamic State of Afghanistan
U.S. Representative of the United States to the United Nations General Assembly
Secretary of Commerce
Executive Director of the Inter-American Development Bank
Alternate Director of the Inter-American Development Bank
Executive Director of the International Bank for Reconstructions & Development
Alternate Executive Director of the International Bank for Reconstruction & Development
Member of the Defense Nuclear Facilities Safety Board
Department of Justice Assistant Attorney General

The seniority of these appointees alone explains nearly 60% of the variance in Market Share, 56.5% of the variance in Gross Profit, and 59.4% of Revenue. At stake over the study period was over $10 billion in Revenue and over $2 billion in Gross Profit. Each additional political appointee is associated with a predictable increase in Revenue, Net Income, and Gross Profit. The aggressiveness of the firm's corporate political campaign, including the number of corporate political appointees and their interaction with Corporate Political Contributions, reliably predicts Revenue (92.2%), Gross Profit (90.2%), Net Income (93.5%) and Market Share (93%).

Within the Finance, Insurance & Real Estate sector, eighty-five (85) former Fortune 500 executives from firms in the sector were appointed to one hundred nineteen (119) key government positions where they controlled policy and regulatory matters, enforcement, decision-making, and resources. These included virtually every key position in the senior-most management structure of the Department of Treasury and played key roles in immigration matters.

Secretary of Treasury
Deputy Secretary of Treasury
Undersecretaries of Treasury
Assistant Secretaries of Treasury
Director Office of Management & Budget
Controller Office of Federal Financial Management
U.S. Trade Representative
Deputy U.S. Trade Representative
Department of Housing & Urban Development Assistant Secretaries
Director Office of Federal Housing Enterprise Oversight
Deputy Secretary of Commerce
Undersecretary of Commerce
Assistant Secretary of Commerce
Secretary of Labor
Deputy Secretary of Labor
Secretary of Energy
Assistant Secretary of Energy for Congressional & Intergovernmental Affairs
Chairman of the Commodity Futures Trading Commission
Member of the Commodity Futures Trading Commission
Deputy Secretary of State
Undersecretary of State for Economic, Energy, & Agricultural Affairs
Chief Executive Officer of the Millennium Challenge Corporation
Director Federal Housing Finance Board
Vice Chairman of the Board of Governors of the Federal Reserve System
U.S. Governor of the International Monetary Fund
Executive Director of the International Monetary Fund
Director of the Securities Investor Protection Corporation
Administrator of the Small Business Administration
Director of the Pension Benefit Guarantee Corporation
Members of the Board of Directors of the Overseas Private Investment Corporation
Members of the Board of Directors of the National Consumer Cooperative Bank
Director of the Federal Housing Finance Board
Vice Chairman of the Board of Governors of the Federal Reserve System
Members of the Board of Governors of the Federal Reserve System
Members of the Board of Trustees of the Securities & Exchange Commission,
Members of the Board of Trustees of the Federal Hospital Insurance Trust Fund
Members of the Board of Trustees of the Federal Insurance Trust Fund
Deputy Commissioner of the Social Security Administration
Members of the Social Security Advisory Board
Department of Transportation Assistant Secretaries
Administrator of the Federal Railroad Administration
Administrator of the National Highway Traffic Safety Administration
Administrator of the Department of Transportation Research & Innovative Technology Administration
Department of Homeland Security Director of the Bureau of Citizenship & Immigration Service
Department of Justice Commissioner of Immigration & Naturalization
Ambassador to France
Ambassador to India
Ambassador to Ireland
Ambassador to Japan
Ambassador to Monaco
Ambassador to Morocco
Ambassador to New Zealand & Samoa
Ambassador to Portugal
Ambassador to Singapore
Ambassador to Spain
Ambassador to Sweden
Ambassador to Switzerland
Ambassador to the Czech Republic
Ambassador to the Netherlands
Ambassador to El Salvador
Ambassador to Poland
Ambassador to the Slovak Republic
U.S. Director of the Asian Development Bank
First Vice President of the Export-Import Bank of the United States
Alternate Governor of the International Bank for Reconstruction and Development
Representative of the Unites States to the European Union
Executive Director of the Inter-American Development Bank
Alternate Executive Director of the Inter-American Development Bank

The number of appointees alone explains 58.6% of the firm's Gross Profit and 48.3% of the firm's Market Share. Each additional corporate political appointee is associated with a predictable increase in Revenue, Net Income, Gross Profit, and Market Share. In combination with lobbying and campaign contributions, the total investment in corporate political strategy reliably predicts Revenue, Gross Profit, and Market Share. In the years 2001 – 2007, over $10.5 trillion in Revenue and $4.6 trillion in Gross Profit were at stake. During the economic decline, over $73 billion was at stake.

Questions of reverse causality haunt the literature surrounding corporate political strategies. We make no assertions of causality, nor are such assertions necessary. In the study sample, firms that did not engage in corporate political strategies simply never demonstrated the strongest financial performance within their industrial sector, including the award of government contracts. Firms that did engage in extremely aggressive corporate political campaigns routinely were associated with the strongest financial performance within their industrial sector. Strong interactive and moderating effects among the variables were demonstrated to exist. To varying degrees, the number and/or power of corporate political appointees worked hand-in-hand with lobbying investment, corporate political campaign contributions, or both. In some cases these interactive effects are statistically significant when the main effects are not, suggesting a complexity of interaction not previously studied and certainly not well understood.

12.1 Troubled Asset Relief Program (TARP)

As a capstone exercise in assessing the utility of the study model, the tools in the corporate political arsenal were regressed against the dollar value of funds received through the Department of Treasury's recently enacted "Troubled Asset Relief Program" (TARP) for firms in the Finance, Insurance & Real Estate sector, then more specifically the commercial banks. The exercise is pertinent, particularly given the involvement of former bank executives in the development, execution, and oversight of the program.

The government bailout of some of the largest firms in the Fortune 500 followed months of steep economic decline in the United States in 2008 described in Chapter One. It had become clear that drastic action was necessary to stem the freefall of the U.S. economy. It was widely accepted that whatever actions were contemplated must be bold, unprecedented, and above all, swift, in order to resuscitate an American economy widely believed by experts to be on the brink of a crisis that would rival the Great Depression of the 1930's.

The architect of the so-called "bailout" was then Treasury Secretary Henry Paulson, the former Chairman and CEO of Goldman Sachs. Paulson was assisted by Ben Bernanke, Chairman of the Board of the Federal Reserve, a Princeton academic who spent no time in the corporate world, and Christopher Cox, (then) Chairman of the Securities and Exchange Commission, an attorney and former California Congressman who also had no past Fortune 500 corporate experience. Under the Paulson plan, the U.S. Treasury would buy toxic securities from firms in financial free-fall, stabilizing confidence in the firms and re-starting investment and lending. Under Paulson's original proposal, the Treasury Secretary would have an unlimited mandate, with oversight of Treasury's management of the program by any other agency of the government or any court of law specifically prohibited.[44] The release of the proposed Paulson plan on 20 September 2009 set off intense Congressional debate. Plans for the program were revised during the last two weeks of the fiscal year and ultimately, while the unbridled authority sought by the Treasury Secretary was moderated, the legislation authorized the program along with Treasury's oversight responsibility. With attention diverted to the bailout,

[44] "Text of Draft Proposal for Bailout Plan," *The New York Times*, 21 September 2008.

Treasury quietly lifted a long-standing restriction in the tax code that "limited a kind of tax shelter arising in corporate mergers" (Paley, 2009). The rule, Section 382 of the tax code, had been a thorn in the side of affected firms since enacted by Congress in 1986

> "to end what it considered an abuse of the tax system {as companies sheltered} their profits from taxation by acquiring shell companies whose only real value was the losses on their books. The firms would then use the acquired company's losses to offset their gains and avoid paying taxes. The notice was released ... one day after Wachovia agreed to be acquired by Citigroup in a government-brokered deal. The Treasury notice suddenly made it much more attractive to acquire distressed banks, and Wells Fargo, which had been an earlier suitor for Wachovia, made a new and ultimately successful play to take it over ... analysts soon dubbed {it} 'the Wells Fargo Ruling' {since} it could be worth about $25 billion for Wells Fargo" (Paley, 2009).

President Bush signed the Emergency Economic Stabilization Act on 3 October 2009 and Paulson's plan became law. Congress appropriated $700 billion for the executive branch to dispense to commercial banks, insurance companies, independent lenders, and ultimately the automakers. In October 2008, the first government payments were made to Citigroup ($25 billion), JPMorgan Chase ($25 billion), Wells Fargo ($25 billion), Bank of America ($15 billion); Goldman Sachs ($10 billion), Morgan Stanley ($10 billion), Bank of New York Mellon ($10 billion), and State Street Bank of Boston ($2 billion). Near the end of June 2009, *The New York Times* was reporting that over $549.4 billion had been handed over to eligible firms, including automakers ($85.3 billion), homeowners ($50 billion), and small businesses ($15 billion) (Ericson et al, 2009). The largest payments were made to those firms deemed "too big to fail": insurance giant AIG ($69.835 billion), Citigroup ($45 billion), Bank of America ($45 billion), JPMorgan Chase ($25 billion), Wells Fargo ($25 billion), General Motors ($13.4 billion), Goldman Sachs ($10 billion), and Morgan Stanley ($10 billion).

In January 2009 the Pew Charitable Trust established a watchdog website ("SubsidyScope"), posting every individual transaction recorded under the TARP bailout through an interactive searchable website. By August 1st, SubsidyScope was reporting that six hundred sixty-five (665) companies had received "bailout" money. Four automobile companies received a total of $69.5 billion. Six hundred twenty (620) banks (252 publicly held, 352 privately held, 16 community) received a total of $181 billion. Four financial services firms received a total of $98.6 billion; three insurance companies received a total of $74.2 billion, and thirty-four (34) mortgage service companies received a combined $20 billion. The largest commercial bank recipients of bailout funds (as of 1 August 2009) were Bank of America ($53.3 billion), Citigroup ($51.1 billion) and Wachovia/Wells Fargo ($27.4 billion).

In the year before the freefall of the economy began, twenty-seven Corporate Political Appointees from Bank of America, Citigroup, and Wachovia, along with former executives of Goldman Sachs, Fannie Mae, Freddie Mac, and Lehman Brothers were serving in senior politically appointed government positions. After passage of the TARP legislation, Treasury Secretary Paulson placed additional Goldman Sachs executives in key Treasury positions, including assignment of the firm's former Vice President, Neel Kashkari, as Interim Assistant Secretary of the Treasury for Financial Stability with responsibility for oversight of the Troubled Asset Relief Program.[45]

The study model was used to determine whether the number of corporate political appointees serving in the administration prior to the enactment of the TARP legislation,

[45] U.S. Department of the Treasury Press Release, "Kashkari Appointed Interim Assistant Secretary for Financial Stability," October 6, 2008.

along with the firm's investment in lobbying and campaign contributions over the study period, would predict the amount of TARP funds received by Fortune 500 commercial banks (as reported by Pew Charitable Trust). The results mirror those of the larger study, with the aggressiveness of the corporate political strategy strongly and positively associated with the dollar value of TARP funds received. For commercial banks, the model predicts 98.3% of the variance in dollar value of bailout money ($p < .003$) using the combined effects of *Number* of Corporate Political Appointees in key government positions still serving in political appointments in 2008 and the Lobbying Investment over the entire study period. The model predicts 99.2% of the variance in dollar value of bailout money ($p < .000$) using the combined effects of the *Power* of Corporate Political Appointees still serving in political appointments in 2008 and Lobbying Investment over the entire study period. While an interactive effect between Lobbying Investment and the Number or Power of the Corporate Political Appointees could not be detected, the strong positive relationship between the Number and Power of the appointees raised the threshold of TARP dollars significantly, mitigating an ultimate downturn in the effects of the Lobbying Investment. The mathematical models for these relationships are presented in Figures 12.1 and 12.2.

Figure 12.1 Troubled Asset Relief Program Predictive Model

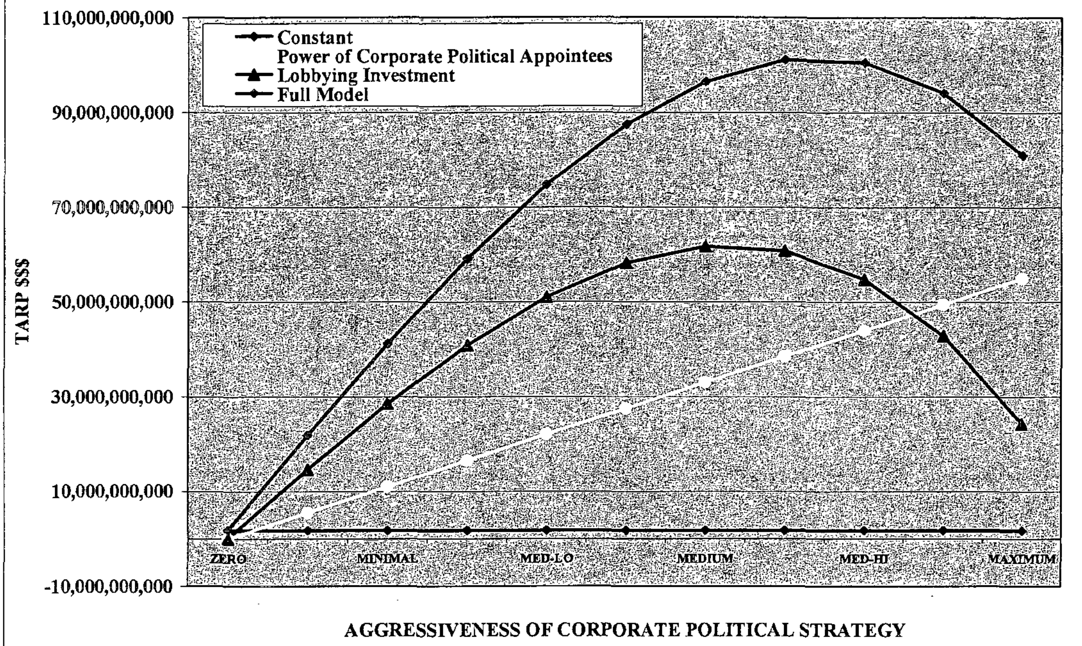
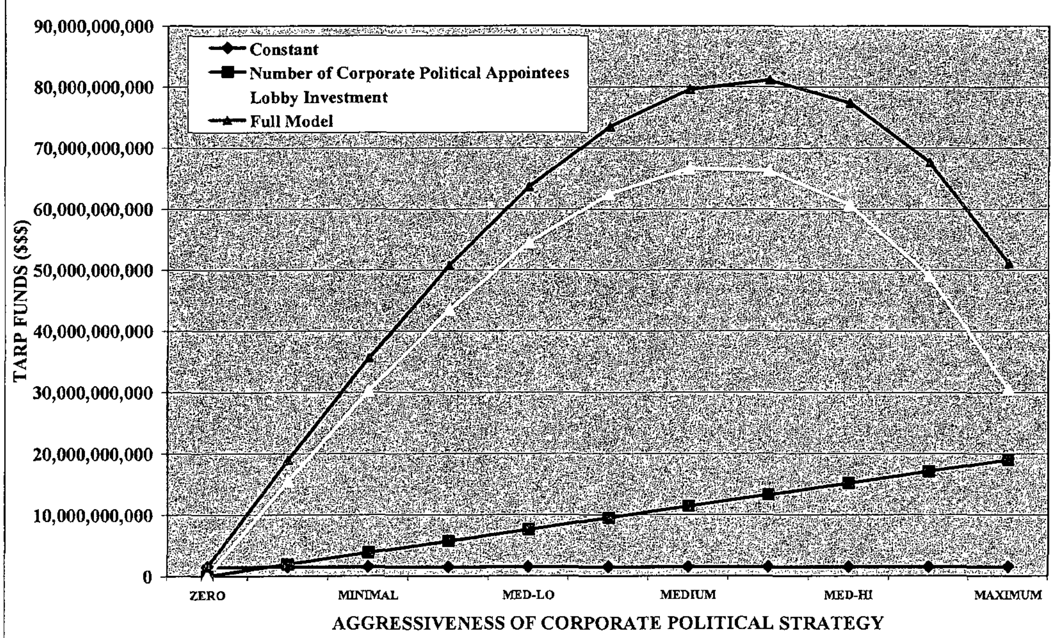


Figure 12.12 Troubled Asset Relief Program Full Predictive Model
Fortune 500 Commercial Banks



12.3 Capture, Cooptation or Corruption?

In the worst scenario, the study findings point to corporate political strategies that are tantamount to "crony capitalism," a tight-knit network of power brokers who leverage the federal government toward their own personal gain, paying entrance fees through corporate campaign contributions, purchasing power through the legislative branch with lobbying investments and power in the executive branch through political appointments. A more gratuitous view interprets corporate campaign contributions as nothing more than Fortune 500 firms' justifiable participation in the political process, supporting like-minded candidates, and lobbying as nothing more than the use of experts to ensure the firm's business needs vis-à-vis government are accurately represented to members of Congress. Corporate executives who are called to government service in this interpretation compete fairly for political appointments through the same process as all other candidates, submitting their resumes for consideration by the Office of the President and letting the chips fall where they may.

We take no position on the moral issue, asking a more fundamental behavioral question instead. Under either scenario described above, when it comes to corporate political appointees, we should ask whether it really is possible for Fortune 500 executives to shed their corporate skin when they move into high-power government positions. Dean Baker of the Center for Economic and Policy Research believes that the controversial political appointees from Goldman Sachs may in fact be too corporate for government work.

> I don't think they're consciously doing things to tilt the playing field to Goldman Sachs and the other major banks ... but when you work at a place, you tend to internalize their views, and that is going to color your policies. It's not that they're being deliberately

> corrupt; it's that they come to incorporate the interests of major banks in their views. (Irwin, 2009)

Perhaps Mr. Baker's concern applies to the Securities & Exchange Commission's 2004 rule change, commandeered by then Goldman Sachs CEO Henry Paulson, to lift the limit on the volume of debt that could be held by brokerage units and allowing the firms to police themselves. Annette Lazareth, then responsible for SEC's market regulation, supported the initiative. She had come from Citigroup and later served as a member of the Securities & Exchange Commission. Perhaps it all made sense in that culture. Research into human behavior would suggest that expecting individuals to shift gears with the change in culture may simply be a bridge too far.

Given the predictive value of the Full TARP Model, larger question arise concerning the corporate culture that Fortune 500 political appointees bring to government. We have evidence that firm's place value on the employment of individuals after they leave government service (Hillman, 1989; Holburn & Spiller, 2002; Holburn & Vanden Bergh, 2003; DeFigueiredo & Edwards, 2007; Faccio, 2002, 2004, 2006; Choi & Thum, 2007; McGuire et al, 1988). Clearly, corporate political appointees come away from government service with a sophisticated understanding of the inner workings not only of the corporate world, but also of the federal government. Is it possible to prevent these lines from blurring? The popular press has reported a number of investigations, indictments, and prosecutions of past political appointees for collusion, corruption, fraud, and other forms of illegal activities related to the business-government relationship that suggest the temptation to abuse federal executive power may to be too great for some to bear.

High ranking Department of Justice official "Robert E. Coughlin II, who {in 2006} received a prestigious attorney general's award, "pleaded guilty to accepting thousands of dollars worth of meals and sports tickets from Republican lobbyist Jack Abramoff in exchange for helping a variety of Abramoff's clients" (Grimaldi, 2008b:A04), while also discussing a possible job offer" with Abramoff's firm (Grimaldi, 2008:A08). Principal Deputy Assistant Secretary of the Air Force for Acquisition and Management Darlene A. Druyun was found guilty of giving preferential treatment to Boeing during the contracting process in exchange for a job as Boeing's Vice President and Deputy General Manager of Boeing's missile defense systems (Palmer, 2005). Secretary of Housing and Urban Development Alphonso R. Jackson, resigned abruptly incident to a federal investigation into his relationship with a New Orleans housing developer as it was revealed that the developer had received a $127 million contract to rebuild a public housing project in New Orleans. "That developer {had} paid Mr. Jackson more than $250,000 in fees since Mr. Jackson joined the Bush administration in 2001" (Swarns, 2008).

Laurita A. Doan, Administrator of the General Services Administration, was asked by the White House to submit her resignation when it was discovered that she had "improperly {mixed} government business with politics {as she attempted} to steer government contracts to her friends" (Stout, 2008). Prior to her appointment as head of the agency that "oversees billions of dollars in contracts and manages thousands of government-owned buildings," Ms. Doan was employed by New Technology Management, a major contractor with the Department of Homeland Security. David H.

Safavian, Administrator of the Office of Management and Budget's Federal Procurement Office, was convicted of lying and obstructing a criminal investigation into his affiliation with influential lobbyists (Smith & Schmidt, 2005:A01). Steven Griles, former Deputy Secretary of the Interior, was convicted of obstruction of justice related to a U.S. Senate investigation of convicted lobbyist Jack Abramoff. He was sentenced to 10 months in prison.[46]

Some agencies experienced second and third order effects of the decisions and policies made by corporate political appointees as career executives reacted to the approach taken by the administration. Some resigned in protest or blew the whistle on the activities of political appointees they believed had violated federal regulations. Susan F. Wood, Assistant FDA Commissioner resigned after five years on the job when the FDA Commissioner overruled final approval of the "Plan B" morning after birth control pill despite the fact that it had been "fully evaluated and recommended for approval by the professional staff" (Kaufman, 2005:A08). The commissioner had also failed to fully disclose information about his financial holdings incident to his confirmation by the Senate (Pear & Pollack, 2005). "More than half the Environmental Protection Agency scientists who responded to an independent survey made public {in April 2008} said that they had witnessed political interference in scientific decisions at the agency during the past five years" (Lee, 2008:A19). The scientists listed among their specific complaints their belief that "data sometimes were used selectively to justify a specific regulatory outcome and that political appointees had directed them to inappropriately exclude or

[46] U.S. Department of Justice Press Release "Former Interior Deputy Secretary Steven Griles Sentenced to 10 Months in Prison for Obstructing U.S. Senate Investigation into Abramoff Corruption Scandal," June 26, 2007.

alter technical information in EPA scientific documents." Thomas Scully, former Administrator of the Centers for Medicare & Medicaid Services was investigated for "threatening to fire Medicare's top actuary if the actuary revealed internal cost projections on {a} massive Medicare reform bill that were higher than the $400 billion that the Bush administration suggested the bill would cost. Critics also {charged} that at the same time Scully was negotiating with Congress over the details of the reform bill, he was talking about a job with law and lobbying firms, some of whose health care clients stood to benefit from the bill" (Jacobson & Stone, 2004; Pear, 2004).

Other political appointees experienced moral compass problems after leaving government service, calling into question the ethical boundaries they may have crossed when serving as political appointees. David Aufhauser, former General Counsel for the Department of Treasury (2001 – 2003), left government service to take the job as the senior attorney for UBS. Five years later, he settled with New York Attorney General Andrew Cuomo for $6.5 million rather than face prosecution for alleged insider trading.[47]

12.4 Conclusions

In Chapter One, we asked whether it might have been possible to know which Fortune 500 firms would come out on top and which firms would be failing if we had been privy to their corporate political strategy – to peer inside their relationship with the federal government. We suggested that the Bush administration's relationships with the corporate executives before and after the election might provide clues, specifically

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[47] Office of the New York Attorney General Press Release "Attorney General Cuomo Announces $6.5 Million Insider Trading Settlement With UBS Top Executived David Aufhauser," October 7, 2008.

pointing to three industrial sectors (Defense; Energy & Natural Resources; Finance, Insurance & Real Estate). We explored this relationship in depth using publicly available information about each firm's "investment" in the corporate political strategy, with specific focus on corporate political appointee representation inside the federal government. The data confirm that those firms with the most aggressive corporate political strategies (Citigroup, Lockheed Martin, Bank of America, Goldman Sachs, Fannie Mae, Freddie Mac, and Northrop Grumman) fared very well in an environment of economic growth (2001 – 2007) as measured in revenue, gross profits, government contracts, or market share. They also received the lion's share of relief in the economic downturn (2008) as measured in government relief (TARP). Firms with little or no representation inside the federal government, by-and-large fell to the bottom of the heap. The study findings are sobering. They provide empirical support to the concerns of Stigler, Epstein, and others about the "capture" of government by corporations. Former executives of Fortune 500 firms moved into positions of enormous federal responsibility to set and enforce policy, and regulation, and to make decisions about the use of government resources and assets. The same firms invested millions of dollars in lobbying and campaign contributions and they enjoyed the highest rates of financial return or federal contracting in the Fortune 500. America's largest firms do leverage the federal government and they do so in a very big way.

The argument can be legitimately made that the amount of money any given firm can invest in lobbying is a function of the cash it can make available. As goes revenue, so goes the lobbying investment. Can the same argument be made for the number of corporate political appointees serving in the top tiers of the federal government? What shall we conclude when we can predict with extraordinary accuracy, using only information about a Fortune 500 firm's corporate political strategy, the dollar value of its gross profit, market share, or the dollar value of its government contracts? Perhaps an administration that has its stated goal to privatize government functions as a crosscutting initiative was legitimately seeking nominees with the skill sets only corporate executives could bring to the table. Fair enough. But if those same individuals were, as a matter of the human condition, unable to shed their corporate identity, the argument begins to break down. Would de-regulation of the financial sector have whistled past the regulatory graveyard if academic economists had been at the reins of government rather than former corporate executives?[48] What are the real distinctions between the systems of federal checks and balances and the corporate bottom line under these conditions? Did the corporate mentality so blur government functioning that the system of checks and balances failed, that the regulators become one with the regulated as suggested by Stigler?

Ethics rules governing post-government employment (the so-called "revolving door" between business and government) were relaxed over the past decade (Gely & Zardkoohi, 2001; Pear, 2008), but pre-employment restrictions have never been an issue. Barack Obama campaigned in part on a platform stressing that he would not appoint

[48] We refer specifically to (1) the April 2004 exemption given to investment banks that placed limits on the amount of debt they were allowed to carry (Labaton, 2008); and (2) changes to IRS Tax Code Section 382 which placed limits on tax shelters that resulted from mergers (Paley, 2008).

lobbyists to key government positions.[49] He has tightened the vetting and appointment process, requiring completion of a lengthy questionnaire that many prospective nominees complain requires the assistance of attorneys and accountants, delaying the nomination of qualified candidates to fill key political positions.

At the same time, President Obama has been criticized for granting waivers to appointees so they could be appointed to serve in key positions. After signing an executive order on 21 January 2009 to "close the revolving door between industry and government," two days later he named William Lynn to serve as Deputy Secretary of Defense, a Tier II position of enormous importance and authority. Lynn required a waiver because after leaving government service as a political appointee in the Clinton Administration, he served as a registered lobbyist and Senior Vice President for Government Operations and Strategy at Raytheon, the fifth-largest defense contractor in the U.S. (Matthew, 2009). Less than a week later, Obama granted a waiver to Goldman Sachs lobbyist Mark Patterson, so he could assume duties as Chief of Staff to Secretary of Treasury Tim Geithner. Obama named Herbert Allison as successor to Neel Kashkari, Assistant Treasury Secretary for Financial Stability and Counselor to the Secretary. Responsible for developing and coordinating Treasury's policies on legislative and regulatory issues affecting financial stability, including overseeing the Troubled Assets relief Program, he is the former President and CEO of Fannie Mae, served as Chairman,

[49] Under the Obama administration, lobbyists were to be prohibited from serving in agencies they had lobbied for a period of two years.

President and CEO of TIAA-CREF, and former President, Chief Operating Officer, and a Member of the Board of Merrill Lynch.[50]

In the maelstrom of attention on former lobbyists, little, if any, attention has been paid to the issue of corporate representation inside government. If the evidence presented in this study is any indication, we may have reason to be concerned. If individual firms of the Fortune 500 can leverage the delicate system of checks and balances that make up the federal government in order to achieve financial gain, then the system carefully crafted by the founding fathers of the United States of America is in jeopardy. The freefall of the U.S. economy has left little doubt about the interdependence of the global economy, with actions in any market immediately affecting the financial stability of markets worldwide. Financial analysis has become a 24/7 occupation and business-government relationship is symbiotic. Wall Street awakens in the wee hours of the morning to comprehend the impact of the Asian markets on the rest of the world and federal executives check the market throughout the day as part of the decision and policy-making process. As the U.S. market goes, so go the markets worldwide. Perhaps this is not lost on those who craft the corporate political strategies of the top firms.

The Founding Fathers worried and wrote about the "tyranny of faction," that terrible force in which power seeks more power, with the potential to destroy the nascent system of democratic capitalism they so carefully crafted. Epstein worried about the effects of unfettered corporate interests, as did Stigler. A formidable cast of experts joins them, issuing similar warnings. Joseph Hayek:

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[50] Herbert M. Allison, Jr. official U.S. Treasury Biography, www.ustreas.gov/organization/bios/allison-p.html.

> …the practice of economic polity … has almost always meant one thing, and one thing only: the protection of certain groups against the necessity to descend from the absolute or relative material position which they have for some time enjoyed. (1978:186)

Economist Hernando DeSoto:

> A tiny, powerful minority will intuit that reform is bound to perturb their little niches, and they will resist silently and insidiously … Many of the statutes that wall off the majority of people from capital may also contain provisions that protect vital interests of powerful groups. (2000:188-189).

Mancur Olson (*Rise and Decline of Nations*):

> Eliminating certain types of government intervention and freeing trade and factor mobility will weaken cartels, but will not eliminate many of them. Moreover, the absence of government intervention (even if it were invariably desirable) may not be possible anyway, because of the lobbying of special-interest groups, unless we fly to the still greater evil of continuous instability. (1982:177).

Economist and Nobel Laureate Douglass North:

> The dominant beliefs – those of political and economic entrepreneurs in a position to make policies – over time result in the accretion of an elaborate structure of institutions that determine economic and political performance … cultural heritage provides the artifactual structure – beliefs, institutions, tools, instruments, technology – which not only plays an essential role in shaping the immediate choices of players in a society but also provides us with clues to the dynamic success or failure of societies through time. (North, 2005:2, 36, 48).

Joseph Schumpeter, in his seminal work *Capitalism, Socialism, and Democracy* predicted, "Ultimately, the institutional arrangements corrode and the entire superstructure collapses, consuming itself and rotting from the inside out" (1942:163).

These experts leave little to the imagination about the potential for the decline of capitalism. Their words echo a sense of deep foreboding. Their common concern is for an unavoidable sclerosis that inevitably cuts off the lifeblood from capitalist regimes. We might ask whether we are living through another chapter unfolding in economic and political time, a whipsaw effect no different than the cycles that occurred when big business was reined in after the Great Depression, or when labor finally gave way to capital in the Reagan years. Perhaps this is the fourth wave in the ongoing relationship between business and government, one that will be remembered as a shift back to the era of regulation, with the federal government creating new oversight agencies and watching over the shoulder of big business. If so, big business is resisting mightily. Banks and mortgage lenders including heavyweights JPMorgan Chase and Wells Fargo are already hard at work to prevent the establishment of a new consumer protection agency designed to "regulate home loans, credit card fees, payday loans, and other forms of consumer finance" (Andrews, 2009). The new face of the Securities and Exchange Commission has renewed its focus on an enforcement division that had gone stagnant under the previous administration (Goldfarb, 2009). The new anti-trust chief at the Department of Justice is moving forward to sharpen the department's focus on industry in what one reporter describes as a "crackdown," with early pushback from Fortune 500 communications giants Verizon, AT&T, Cox Communications, along with airline and railroad firms (Labaton, 2009). Time will tell.

Limitations and Implications for Future Research.

While the study results are profound, they cannot be generalized forward or backward in time. The results are descriptive of eight years in political and economic time, a small subset of long and complex political and economic cycles. The Republican Party retained control over the executive branch during the entire period. For six of those years, the Republican Party also had control over both the House of Representatives and the Senate. Further research is needed to determine the effectiveness of the study model in conditions of control of the executive and legislative branches by the Democratic Party and in conditions of mixed control.

Additionally, while the individual ethical breaches cited here do not all involve political appointees who came from the Fortune 500, they are demonstrative of the challenges associated with the use and abuse of enormous power at the helm of federal government. What we do not know is whether there is a relationship between the use of the personal service strategy and the likelihood of these types of legal breaches. We open the door to research on other industrial sectors and the ethical implications of the personal services corporate political strategy, inviting researchers to determine whether firms engaging in the personal services strategy as a form of corporate political activity are more likely to violate ethics rules than those that do not employ the strategy.

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APPENDIX A

Fortune 500 Firms in the Sample

3Com
3M
Abbott Laboratories
Ace Hardware
Adams Resources & Energy
ADC Telecommunications
Adelphia Communications
Administaff
Advance Auto Parts
Advanced Micro Devices
AdvancePCS
AES
Aetna
Affiliated Computer Svcs.
AFLAC
AGCO
Agilent Technologies
Air Products & Chem.
Airborne
AirTouch Communications
AK Steel Holding
Albertson's
Alcoa
Aleris International
Allegheny Energy
Allegheny Technologies
Allegiance
Allied Waste Industries
Allmerica Financial
Allstate
Alltel
Altria Group
Amazon.com
Amerada Hess
Ameren
America Online
American Axle & Mfg.
American Electric Power
American Express
American Family Ins. Grp.
American Financial Grp.
American General
American Intl. Group
American Standard
American Stores
Ameriprise Financial
AmerisourceBergen
Ameritech
Ames Dept. Stores
Amgen
AMP
AMR
AmSouth Bancorp.
Anadarko Petroleum
Anheuser-Busch
Anixter International
Aon
Apache
Apple
Applied Materials
Aquila
Aramark
Archer Daniels Midland
Armstrong Holdings
Arrow Electronics
ArvinMeritor
Asbury Automotive Group
Ashland
Associates First Capital
Assurant
AT&T
AT&T Wireless Services
Atlantic Richfield
Atmos Energy
Autoliv
Automatic Data Proc.
AutoNation
Auto-Owners Insurance
AutoZone
Avaya
Avery Dennison
Avis Budget Group
Avista
Avnet
Avon Products
Baker Hughes
Ball
Bank of America Corp.
Bank of New York Mellon Corp.
Bank One Corp.
BankBoston Corp.
Bankers Trust Corp.
Barnes & Noble
Baxter International
BB&T Corp.
Bear Stearns
Beazer Homes USA
Becton Dickinson
Bed Bath & Beyond
Bell Atlantic
BellSouth
Bergen Brunswig
Berkshire Hathaway
Best Buy
Bestfoods
Bethlehem Steel
Big Lots
Bindley Western
BJ Services
BJ's Wholesale Club
Black & Decker
BlackRock
Blockbuster
BlueLinx Holdings
Boeing
Boise Cascade Holdings
Borders Group
BorgWarner
Boston Scientific
Brinker International
Brink's
Bristol-Myers Squibb
Browning-Ferris Industries
Brunswick
Budget Group
Burlington No. Santa Fe
Burlington Resources
C.H. Robinson Worldwide
Cablevision Systems
Caesars Entertainment
Calpine
Cameron International
Campbell Soup
Capital One Financial
Cardinal Health
Caremark Rx
CarMax
Case
Caterpillar
CB Richard Ellis Group
CBS
CDW
Celanese
Cendant
CenterPoint Energy
Centex
Central & South West
Champion International
Charles Schwab
Charter Communications
Chase Manhattan Corp.
Chesapeake Energy
Chevron
ChevronTexaco
Chiquita Brands Intl.
CHS
CHS Electronics
Chubb
Cigna
Cincinnati Financial
Cinergy
Circuit City Stores
Cisco Systems
CIT Group
Citigroup
Clear Channel Communications
Clorox
CMS Energy
CNF
Coastal
Coca-Cola
Coca-Cola Enterprises
Colgate-Palmolive
Collins & Aikman
Columbia Energy Group
Columbia/HCA Healthcare
Comcast
Comdisco Holding
Comerica
Commercial Metals
Community Health Sys.
Compaq Computer
CompUSA

Computer Assoc. Intl.
Computer Sciences
ConAgra Foods
Conectiv
Conoco
ConocoPhillips
Conseco
Consolidated Edison
Consolidated Natural Gas
Constellation Brands
Constellation Energy
Continental Airlines
Cooper Industries
Cooper Tire & Rubber
Core-Mark International
Corning
Corporate Express
Costco Wholesale
Countrywide Financial
Coventry Health Care
Cox Communications
Crestline Capital
Crown Holdings
CSX
Cummins
CVS/Caremark
D.R. Horton
Dana
Dana Holding
Danaher
Darden Restaurants
DaVita
Dean Foods
Deere
Dell
Delphi
Delta Air Lines
Devon Energy
Dillard's
DIRECTV Group
DISH Network
Dole Food
Dollar General
Dominion Resources
Dover
Dow Chemical
DTE Energy
Duke Energy
DuPont
Dynegy
Eastman Chemical
Eastman Kodak
Eaton
eBay
Echostar Communications
Ecolab
Edison International
El Paso
Electronic Data Systems
Eli Lilly
Embarq
EMC
Emcor Group
Emerson Electric
Enbridge Energy Partners
Encompass Services
Energy East
Energy Future Holdings
Energy Transfer Equity
Energy Transfer Partners (ETP)
Engelhard
Enron
Entergy
Enterprise GP Holdings
Enterprise Products
Equity Office Properties
Erie Insurance Group
Estée Lauder
Exelon
Expeditors International of Washington
Express Scripts
Exxon Mobil
Family Dollar Stores
Fannie Mae
Farmland Industries
Federal-Mogul
Federated Dept. Stores
FedEx
Fidelity National Financial
Fidelity National Information Services
Fifth Third Bancorp
First American Corp.
First Data
FirstEnergy
Fiserv
Fisher Scientific Intl.
FleetBoston Financial
Fleetwood Enterprises
Fleming
Florida Progress
Flowers Industries
Fluor
FMC
Foot Locker
Ford Motor
Fort James
Fortune Brands
Foster Wheeler
Foundation Health Systems
FPL Group
Franklin Resources
Fred Meyer
Freddie Mac
Freeport-McMoRan Cpr. & Gld
Freescale Semiconductor (FSL)
Frontier Oil
GameStop
Gannett
Gap
Gateway
GenAmerica
General Dynamics
General Electric
General Mills
General Motors
Genuine Parts
Genworth Financial
Georgia-Pacific
Giant Food
Gillette
Global Partners
GMAC
Golden State Bancorp
Golden West Financial
Goldman Sachs Group
Goodrich
Goodyear Tire & Rubber
Google
GPU
Graybar Electric
Great Atlantic & Pacific Tea
Group 1 Automotive
GTE
Guardian Life of America
Guidant
H&R Block
H.J. Heinz
Halliburton
Hannaford Bros.
Harcourt General
Harley-Davidson
Harrah's Entertainment
Harris
Hartford Financial Services
Hasbro
HCA
Health Net
HealthSouth
Hechinger
Henry Schein
Hercules
Hershey Foods
Hertz Global Holdings
Hess
Hewlett-Packard
Hexion Specialty Chemicals
Hilton Hotels
Holly
Home Depot
Honeywell
Honeywell Intl.
Hormel Foods
Host Hotels & Resorts
Host Marriott
Household International
Hovnanian Enterprises
Hughes Supply
Humana
Huntsman
IAC/InterActiveCorp
IBM
IBP
Idacorp
Ikon Office Solutions
Illinois Tool Works
IMC Global
InaCom
Ingersoll-Rand
Ingram Micro
Insight Enterprises
Integrated Health Services
Integrys Energy Group
Intel
Interim Services
International Paper
International Steel Group
Interpublic Group
Interstate Bakeries
ITT
ITT Industries
J.C. Penney

J.P. Morgan Chase & Co.
Jabil Circuit
Jacobs Engineering Grp.
Jacuzzi Brands
Jarden
JDS Uniphase
Jefferson-Pilot
John Hancock Financial Svcs.
Johnson & Johnson
Johnson Controls
Jones Apparel Group
KB Home
KBR
Kellogg
Kelly Services
Kerr-McGee
KeyCorp
KeySpan
Kimberly-Clark
Kinder Morgan Energy
Kindred Healthcare
Kmart Holding
Knight-Ridder
Kohl's
Kraft Foods
Kroger
L-3 Communications
Laidlaw International
Land O'Lakes
LandAmerica Financial
Lear
Leggett & Platt
Lehman Brothers Holdings
Lennar
Lennox International
Level 3 Communications
Levi Strauss
Lexmark International
LG&E Energy
Liberty Global
Liberty Media
Liberty Mutual Ins. Group
Limited Brands
Lincoln National
Litton Industries
Liz Claiborne
Lockheed Martin
Loews
Longs Drug Stores
Lowe's
LTV
Lubrizol (LZ)
Lucent Technologies
Lutheran Brotherhood
Lyondell Chemical
M&T Bank Corp.
Macy's
Manpower
Marathon Oil
Marriott International
Marsh & McLennan
Marshall & Ilsley Corp.
Masco
Massachusetts Mutual Life Insurance
Massey Energy
Mattel
Maxtor
May Dept. Stores
Maytag
MBNA
McDonald's
McGraw-Hill
MCI WorldCom
McKesson
MDC Holdings
Mead
MeadWestvaco
Medco Health Solutions
Medtronic
Mellon Financial Corp.
Mercantile Bancorp.
Merck
Merisel
Meritor Automotive
Merrill Lynch
MetLife
MGM Mirage
MicroAge
Micron Technology
Microsoft
MidAmerican Energy Holdings
Mirant
Mobil
Mohawk Industries
Molson Coors Brewing
Monsanto
Morgan Stanley
Mosaic
Motorola
Murphy Oil
Mutual of Omaha Ins.
Nabisco Group Holdings
Nash-Finch
National City Corp.
National Oilwell Varco
Nationwide
Navistar International
NCR
Nebco Evans
Neiman Marcus
New Century Energies
New York Life Insurance
New York Times
Newell Rubbermaid
Newmont Mining
News Corp.
Nextel Communications
Niagara Mohawk Holdings
Nike
NiSource
Nordstrom
Norfolk Southern
Northeast Utilities
Northern Trust Corp.
Northrop Grumman
Northwest Airlines
NorthWestern
Northwestern Mutual
NRG Energy
NSTAR
NTL Europe
Nucor
NVR
Occidental Petroleum
Office Depot
Office Max
OGE Energy
Old Republic Intl.
Olsten
OM Group
Omnicare
Omnicom Group
ONEOK
Oracle
Oshkosh
Owens & Minor
Owens Corning
Owens-Illinois
Oxford Health Plans
Paccar
Pacific Life
PacifiCare Health Sys.
PacifiCorp
Paine Webber Group
Pantry
Parker Hannifin
Pathmark Stores
Peabody Energy
Pennzoil-Quaker State
Penske Automotive Group
Pepco Holdings
Pepsi Bottling
PepsiAmericas
PepsiCo
Performance Food Group
Perini
Peter Kiewit Sons'
PetSmart
Pfizer
PG&E Corp.
Pharmacia
Phelps Dodge
Phoenix
Pilgrim's Pride
Pinnacle West Capital
Pitney Bowes
Plains All Amer. Pipeline
Plains Resources
PNC Financial Services Group
PPG Industries
PPL
Praxair
Precision Castparts
Premcor
Principal Financial
Procter & Gamble
Progress Energy
Progressive
ProLogis
Providian Financial
Prudential Financial
Prudential Ins. Co. of America
Public Service Enterprise Group
Publix Super Markets
Puget Energy
Pulte Homes
Quaker Oats
Qualcomm
Quantum

Quest Diagnostics
Qwest Communications
R.R. Donnelley & Sons
RadioShack
Ralston Purina
Raytheon
Realogy
Reebok International
Regions Financial
Reliance Group Holdings
Reliance Steel & Alum.
Reliant Energy
ReliaStar Financial
Republic New York Corp.
Reynolds American
Reynolds Metals
Richfood Holdings
Rite Aid
Roadway
Robert Half International
Rockwell Automation
Rohm & Haas
Ross Stores
Roundy's
Ryder System
Ryerson
Ryland Group
S&C Holdco 3
Safeco
Safeway
SAIC
Saks
Sanmina-SCI
Sara Lee
SBC Communications
SCANA
Schering-Plough
SCI Systems
Science Applications Intl.
Seagate Technology
Sealed Air
Sears Holdings
Sears Roebuck
Sempra Energy
Service Corp. Intl.
Service Merchandise
ServiceMaster
Shaw Group
Shaw Industries
Sherwin-Williams
ShopKo Stores
Sierra Pacific Resources
Silicon Graphics
SLM
Smith International
Smithfield Foods
Smurfit-Stone Container
Sodexho Marriott Services
Solectron
Sonat
Sonic Automotive
Southern
SouthTrust Corp.
Southwest Airlines
Sovereign Bancorp
Spartan Stores
Spectra Energy
Spherion
Sprint Nextel
SPX
St. Paul Travelers Cos.
Staff Leasing
Standard Pacific (SPF)
Staples
Starbucks
Starwood Hotels & Rsrts.
State Farm Insurance Cos
State St. Corp.
Steelcase
Stryker
Summit Bancorp
Sun Healthcare Group
Sun Microsystems
SunGard Data Systems
Sunoco
SunTrust Banks
Supermarkets Genl. Holdings
Supervalu
Symantec
Synnex
Sysco
Targa Resources
Target
Tech Data
Tele-Communications
Telephone & Data Systems
Tellabs
Temple-Inland
Tenet Healthcare
Tenneco
Tenneco Automotive
TEPPCO Partners
Terex
Tesoro
Texaco
Texas Instruments
Texas Utilities
Textron
Thermo Electron
Thermo Fisher Scientific
Thrivent Financial for Lutherans
TIAA-CREF
Time Warner
Times Mirror
Timken
TJX
Toll Brothers
Tosco
Toys "R" Us
Trane
Trans World Airlines
Transamerica
TransMontaigne
TravelCenters of America
Travelers Cos.
Travelers Property Casualty
Triad Hospitals
Tribune
True Value
TRW
TRW Automotive Holdings
Turner Corp.
TXU
Tyson Foods
U.S. Bancorp
U.S. Foodservice
U.S. Office Products
UAL
UGI
Ultramar Diamond Shamrock
Unicom
Union Camp
Union Carbide
Union Pacific
Union Planters Corp.
Unisource
Unisys
United Auto Group
United Parcel Service
United States Filter
United States Steel
United Stationers
United Technologies
UnitedHealth Group
Universal
Universal Health Services
Unocal
Unum
UnumProvident
URS
US Airways Group
US West
USA Education
USAA
USG
Valero Energy
Verizon Communications
VF
Viacom
Virgin Media
Visteon
W.R. Berkley
W.W. Grainger
Wachovia Corp.
Walgreen
Wal-Mart Stores
Walt Disney
Warner-Lambert
Washington Group Intl.
Washington Mutual
Waste Management
WellChoice
Wellpoint
WellPoint Health Networks
Wells Fargo
Wesco International
Western & Southern Financial
Western Digital
Western Gas Resources
Western Refining
Western Union
Weyerhaeuser
Whirlpool
Whitman
Whole Foods Market
Willamette Industries
Williams
Winn-Dixie Stores
Wisconsin Energy
Wm. Wrigley Jr.
World Fuel Services

WPS Resources (WPS)
Wyeth
Xcel Energy
Xerox
XTO Energy
Yahoo
Yellow Roadway
York International
YRC Worldwide
Yum Brands

APPENDIX B
Executive Branch Agencies, Organizations, Boards & Commissions

Cabinet Level Agencies (including Bush designated equivalents)

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Homeland Security
Department of Housing and Urban Development
Department of Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of Treasury
Department of Veterans Affairs
Chief of Staff to the President
Environmental Protection Agency
Office of Management and Budget
Office of National Drug Control Policy
U.S. Trade Representative

Independent Agencies

Administrative Committee of the Federal Register
Advisory Council on Historic Preservation
African Development Bank
African Development Foundation
American Battle Monuments Commission
Appalachian Regional Commission
Architect of the Capitol
Architectural & Transportation Barriers Compliance Board
Arctic Research Commission
Arthritis & Musculoskeletal Interagency Coordinating committee
Asian Development Bank
Barry M. Goldwater Scholarship & Excellence in Education Foundation
Broadcasting Board of Governors
Central Intelligence Agency
Chemical Safety & Hazard Investigation Board
Circuit Court Judge
Citizens' Stamp Advisory Committee
Commission of Fine Arts
Committee for Purchase from People Who Are Blind or Severely Disabled
Committee for the Implementation of Textile Agreements
Committee on Foreign Investment in the United States
Commodity Futures Trading Commission
Congressional Budget Office
Consumer Product Safety Commission
Coordinating Council on Juvenile Justice & Delinquency Prevention
Corporation for National and Community Service
Defense Nuclear Facilities Safety Board
Delaware River Basin commission
District Court of Appeals
District Judge
Endangered Species Committee
Environmental Protection Agency
Equal Employment Opportunity Commission
Export Administration Operating committee
Export Import Bank of the United States
Farm Credit Administration
Federal Claims Judge

Federal Communications Commission
Federal Deposit Insurance Corporation
Federal Election Commission
Federal Energy Regulatory Commission
Federal Financial Institutions Examination Council
Federal Financing Bank
Federal Hospital Insurance Trust Fund
Federal Housing Finance Board
Federal Insurance Trust Fund
Federal Interagency Committee on Education
Federal Labor Relations Authority
Federal Laboratory Consortium for Technology Transfer
Federal Library & Information Center Committee
Federal Maritime Commission
Federal Mediation and Conciliation Service
Federal Mine Safety and Health Review Commission
Federal Reserve System
Federal Retirement Thrift Investment Board
Federal Trade Commission
Foreign Claims Settlement commission
General Services Administration
Government Accountability Office
Government National Mortgage Association
Government Printing Office
Harry S. Truman Scholarship Foundation
Indian Arts & Crafts Board
Institute of American Indian & Alaskan Native Culture & Arts Development
Institute of Museum & Library Services
Inter American Foundation
Inter-American Defense Board
Inter-American Development Bank
Inter-American Investment Corporation
International Atomic Energy Agency
International Bank for Reconstruction & Development
International Boundary & Water Commission, U.S. & Mexico
International Boundary Commission, U.S. & Canada
International Development Association
International Finance Corporation
International Joint Commission, U.S. & Canada
International Monetary Fund
International Organization for Migration
J. William Fulbright Foreign Scholarship Board
James Madison Memorial Fellowship Foundation
Japan-United States Friendship Commission
Joint Board for the Enrollment of Actuaries
Joint Mexican-United States Defense Commission
Legal Services Corporation
Library of Congress
Marine Mammal Commission
Medicare Payment Advisory Commission
Merit Systems Protection Board
Metropolitan Washington Airports Authority
Migratory Bird Conservation Commission
Millennium Challenge Corporation
Mississippi River Commission
Morris K.. Udall Scholarship & Excellence in National Environmental Policy Foundation
Multilateral Investment Guarantee Agency
National Aeronautics and Space Administration
National Archives and Records Administration
National Board for Education Sciences
National Capital Planning Commission
National Commission on Libraries & Information Science
National Consumer Cooperative Bank
National Council on Disability
National Credit Union Administration
National Foundation of the Arts and Humanities
National Indian Gaming Commission

National Institute for Building Sciences
National Institute for Literacy
National Labor Relations Board
National Mediation Board
National Museum & Library Services Board
National Nuclear Security Administration
National Park Foundation
National Railroad Passenger corporation (AMTRAK)
National Science Foundation
National Services Museum Board
National Transportation Safety Board
Northwest Power & Conservation Council
Nuclear Regulatory Commission
Occupational Safety and Health Review Commission
Office of Government Ethics
Office of Navajo & Hopi Indian Relocation
Office of Personnel Management
Office of Special Counsel
Office of the Director of National Intelligence
Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects
Organization for Economic Cooperation & Development
Organization of American States
Overseas Private Investment Corporation
Peace Corps
Pension Benefit Guaranty Corporation
Permanent Committee for the Oliver Wendell Holmes Devise
Permanent Joint Board on Defense, U.S. & Canada
Postal Rate Commission
Postal Regulatory Commission
President's Council on Integrity & Efficiency
President's Foreign Intelligence Advisory Board
Presidio Trust
Privacy & Civil Liberties Oversight Board
Railroad Retirement Board
Saint Lawrence Seaway Development Corporation
Securities and Exchange Commission
Securities Investors Protection Corporation
Selective Service System
Small Business Administration
Smithsonian Institution
Social Security Administration
Social Security Advisory Board
Social Security Commission
Special Panel on Appeals
State Justice Institute
Superior Court
Supreme Court of the United States
Surface Transportation Board
Susquehanna River Basin Commission
Tax Court Judge
Tennessee Valley Authority
Trade Policy Staff Committee
United Nations
United States Advisory Commission on Public Diplomacy
United States Botanic Garden
United States Holocaust Memorial Museum
United States Institute of Peace
United States Nuclear Waste Technical Review Board
US Agency for International Development
US Commission on Civil Rights
US International Trade Commission
US Parole Commission
US Postal Service
US Sentencing Commission
US Trade and Development Agency
Veterans Day National Committee
White House Commission on Presidential Scholars

Boards and Commissions

Administrative Committee of the Federal Register
Advisory Council on Historic Preservation
American Battle Monuments Commission
Appalachian Regional Commission
Architectural & Transportation Barriers Compliance Board
Arctic Research Commission
Arthritis & Musculoskeletal Interagency coordinating committee
Barry M. Goldwater Scholarship & Excellence in Education Foundation
Chemical Safety & Hazard Investigation Board
Citizens' Stamp Advisory Committee
Commission of Fine Arts
Committee on Foreign Investment in the United States
Committee for the Implementation of Textile Agreements
Committee for Purchase from People Who Are Blind or Severely Disabled
Coordinating Council on Juvenile Justice & Delinquency Prevention
Delaware River Basin commission
Endangered Species Committee
Export Administration Operating committee
Federal Financial Institutions Examination Council
Federal Financing Bank
Federal Interagency Committee on Education
Federal Laboratory Consortium for Technology Transfer
Federal Library & Information Center Committee
Harry S. Truman Scholarship Foundation
Indian Arts & Crafts Board
J. William Fulbright Foreign Scholarship Board
James Madison Memorial Fellowship Foundation
Japan-United States Friendship Commission
Joint board for the Enrollment of Actuaries
Marine Mammal Commission
Medicare Payment Advisory Commission
Migratory Bird Conservation Commission
Mississippi River commission
Morris K.. Udall Scholarship & Excellence in National Environmental Policy Foundation
National Commission on Libraries & Information Science
National Council on Disability
National Indian Gamine Commission
National Park Foundation
Northwest Power & Conservation Council
Office of Navajo & Hopi Indian Relocation
Permanent Committee for the Oliver Wendell Holmes Devise
President's Council on Integrity & Efficiency
President's Foreign Intelligence Advisory Board
Presidio Trust
Social Security Advisory Board
Susquehanna River Basin Commission
Trade Policy Staff Committee
United States Holocause Memorial Museum
United States Nuclear Waste Technical Review board
Veterans Day National Committee
White House Commission on Presidential Scholars

Bilateral Organizations

International Boundary Commission, U.S. & Canada
International Boundary & Water Commission, U.S. & Mexico
International Joint commission, U.S. & Canada
Joint Mexican-United States Defense commission
Permanent Joint board on Defense, U.S. & Canada

Multilateral Organizations

African Development Bank
Asian Development Bank
Inter-American Defense Board

Inter-American Development Bank
Inter-American Investment Corporation
International Bank for Reconstruction & Development
International Development Association
International Finance Corporation
International Monetary Fund
International Organization for Migration
Multilateral Investment Guarantee Agency
Organization of American States
United Nations

APPENDIX C
Lobbying Firms Represented by Bush Political Appointees

Lobbying Firm	Number of Bush Appointees
Ernst & Young LLP	15
Latham & Watkins	13
Wiley Rein & Fielding	13
Hogan & Hartson	10
Sidley Austin Brown & Wood	9
Skadden, Arps, Slate, Meagher & Flom	9
Wilmer Cutler Pickering Hale and Dorr LLP	9
Akin Gump	8
Patton Boggs	8
Covington & Burling	7
King & Spalding	7
McKenna Long & Aldridge LLP	7
Steptoe & Johnson	7
Alston & Bird LLP	6
Gibson Dunn & Crutcher	6
Hunton & Williams	6
Mayer Brown & Platt	6
Miller & Chevalier	6
Venable & Venable	6
Crowell & Moring	5
Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel	5
Perkins Coie	5
Preston Gates Ellis Rouvelas & Meeds LLP	5
Pricewaterhouse Coopers	5
Reed Smith LLP	5
Verner, Liipfert et al	5
Arnold & Porter	4
Baker & Hostetler	4
Baker, Donelson, Bearman & Caldwell	4
Carmen Group	4
Cassidy & Assoc	4
DLA Piper Rudnick Gray Cary LLP	4
Holland & Knight	4
Sonnenschein Nath & Rosenthal	4
Vinson & Elkins	4
Arent Fox PLLC	3
Barbour, Griffith & Rogers	3
Blank & Rome LLP	3
Foley & Lardner LLP	3
Kpmg, LLP	3
McGuireWoods LLP	3
Public Strategies, Inc.	3
Shaw, Pittman, Potts & Trowbridge	3
Winston & Strawn	3
Bracewell & Giuliani LLP	2
Brownstein Hyatt & Farber	2
Cornerstone Government Affairs	2
Dorsey & Whitney	2
Dykema Gossett	2
Fleishman-Hillard Inc. (an Omnicom Group company)	2
Goodwin Procter LLP	2
Howrey Simon Arnold & White	2
McGuiness Norris & Williams	2
McLeod, Watkinson & Miller	2
Palmetto Group	2
Piper Rudnick LLP	2
Quinn, Gillespie & Assoc	2
Russ Reid Company	2
Swidler Berlin Sherreff Friedman	2
Alpine Group (The)	1
American Continental Group Inc.	1
Bergner, Bockorny, Castagnetti, Hawkins & Brain	1
Bracy Tucker Brown	1
Capitol Hill Consulting Group	1
Capitolink	1
Dewey Ballantine LLP	1
Dutko Group (Worldwide)	1
Dyer Ellis & Joseph	1
Interpublic Group of Companies, Inc.	1
Jefferson Consulting Group LLC	1
Jones, Walker, Waechter, Poitevent, Carrere & Denegre	1
K&L Gates	1
Kirkpatrick & Lockhart	1
LeBoeuf, Lamb, Greene & MacRae	1

Livingston Group	1
Loeffler Group (loeffler)	1
Manatt, Phelps & Phillips	1
Mintz Levin	1
National Environmental Strategies Company Inc.	1
National Group	1
Ogilvy Government Relations	1
Pace-Capstone	1
PodestaMattoon	1
Policy Directions Inc	1
Ryan Phillips Utrecht & MacKinnon	1
Thelen, Reid & Priest	1
Timmons & Co	1
Troutman Sanders	1
Van Scoyoc Associates, Inc.	1
Wexler & Walker Public Policy Assoc	1
Williams & Jensen	1
Willkie Farr & Gallagher	1