

## CORPORATE POLITICAL STRATEGY FORMULATION: A MODEL OF APPROACH, PARTICIPATION, AND STRATEGY DECISIONS

AMY J. HILLMAN  
University of Western Ontario

MICHAEL A. HITT  
Texas A&M University

In this article we examine two general approaches to political action (transactional and relational), two levels of participation (individual and collective), and three types of generic political strategies (information, financial incentive, and constituency building), thus presenting a comprehensive taxonomy of political strategies. In addition, we identify firm and institutional variables that affect the likelihood of making specific decisions within the formulation model. The result is a decision-tree model of political strategy formulation that integrates and extends prior diffused work.

Because government policies have significant effects on the competitive environment of firms, many firms are expanding their efforts to affect public policy decisions. There are a variety of ways in which firms try to influence public policy decisions. Relatively little is known, however, about the formation or choice of particular political strategies by firms. To date, researchers have focused on why government policy is important to firms' profitability (Keim & Baysinger, 1988; Schuler, 1996; Shaffer, 1995), what the objectives are of firm political activity (Baysinger, 1984; Weidenbaum, 1980), and what types of firms are likely to become politically active (Pittman, 1976; Zardkoohi, 1985). In this article we begin not with the question of why firms engage in political behavior but how firms engage in political behavior. We examine the process of political strategy formulation by examining the specific decisions firms make when formulating political strategy and by exploring firm and institutional variables that affect these decisions. This work adds value to the literature on corporate political strategies by developing a comprehensive taxonomy of specific political strategies, by building a decision-tree model of political strategy formulation that integrates and extends previous diffused literature, and by

exploring variables that affect political strategy formulation.

We begin with a review of political decision-making importance to a firm's market or competitive environment and the objectives of corporate political action. Next, we develop a decision-tree model of political strategy formulation wherein firms that have decided to be politically active face three sequential decisions: (1) approach to political strategy, (2) participation level, and (3) specific strategy choices. Although existing literature provides insight into the decision of participation level, we add to this literature by developing the choice of approach and by developing a taxonomy of strategic options available to firms, both of which are grounded in resource dependence and market exchange theories. Finally, in an exploratory effort, we draw on the resource-based view and institutional theory to develop propositions regarding specific firm and institutional variables that affect each of the three critical decisions in formulating political strategy.

### THE IMPORTANCE OF GOVERNMENT POLICY AND THE OBJECTIVES OF FIRM POLITICAL ACTIVITY

The effects of government policy on the competitive position of businesses represent, in turn, important determinants of firm performance (Shaffer, 1995). The government—and government policies—are critical sources of un-

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certainty for firms (Boddeyn, 1988; Jacobson, Lenway, & Ring, 1993) and have control over critical resources that shape firms' competitive environments. There is substantial interdependence between a firm's economic or competitive environment and government policy (Baron, 1995; Lenway & Murtha, 1994; Murtha & Lenway, 1994; Porter, 1990). In advanced industrialized nations literally hundreds of issues are formulated in a public policy process in a given year. This vast number of issues and directives creates uncertainty for firms and may substantially increase the transaction costs (Jacobson et al., 1993; Williamson, 1979) of doing business.

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 (Gale & Buchholz, 1987); 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 Weidenbaum (1980) argues that the expansion of government regulation since the 1970s has fundamentally altered the relationship between business and government and that these changes are tantamount to a second managerial revolution. Weidenbaum contends that the shift of decision making away from the firm to government regulators (through increased regulation and selected deregulation) is as significant for management as the separation of ownership and control was earlier this century (Berle & Means, 1932).

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 (1969: 142). For example, MCI's initial strategy was political. The company successfully created a market opportunity by influencing regulators to deregulate the U.S. long-distance telephone market (Yoffie & Bergenstein, 1985). Firms also use political strategies to ensure competitive advantage, or possibly even survival. Recently, PepsiCo, Inc., losing

in a fierce competitive battle for international soft drink market share to rival Coca-Cola, turned to the governments of Venezuela, France, India, and the United States for help in regaining market share (Light, 1998). In a study of the U.S. steel industry, Schuler (1996) found that domestic steel producers used the government's control over access to the U.S. market as a political tool to enjoy stabilized prices and profits in a declining market and to gain temporary relief from downsizing by lobbying for trade protection. Similarly, as the tobacco industry faces serious threats in the U.S. market, tobacco firms are using political strategies to ward off similar threats in the European and Asian markets (*Financial Times*, 1997).

In many industries the success of business in the public policy arena is no less important than business success in the marketplace; as a result, it is critical for firms to develop political strategies as a part of their overall strategy (Baron, 1995; Oberman, 1993; Yoffie & Bergenstein, 1985). If the government is important to a firm's competitive future, political action must be a business priority (Yoffie, 1988). In some countries, such as Sweden, Japan, and Germany, businesses formally participate in the public policy process. In many others, such as the United States, Canada, and Mexico, firms "compete" with a variety of other interest groups informally to affect public policy.

In general, corporate political behavior is an attempt to use the power of government to advance private ends (Mitnick, 1993). The overall objective of political behavior is to produce public policy outcomes that are favorable to the firm's continued economic survival and success (Baysinger, 1984; Keim & Baysinger, 1988). To the extent that individual firms are able to influence the nature and extent of public policy, corporate political behavior may be viewed as strategic (Salorio, 1993). Firms can use their influence in public policy for a number of strategic ends: to bolster their economic positions, to hinder both their domestic and foreign competitors' progress and ability to compete, and to exercise their right to a voice in government affairs (Keim & Zeithaml, 1986; Wood, 1986). Through political behavior firms can potentially increase overall market size; gain an advantage related to industry competition, thereby reducing the threats of substitutes and entry; and increase their bar-

gaining power relative to suppliers and customers.

Although the importance of government policy to firms, the relationship between firm competitive and political strategy, and the general objectives of firm political activity are commonly accepted and understood, the specific behaviors that firms choose in order to participate in the public policy process have received relatively little attention. Thus, we need a better understanding of the strategic decisions required to become politically active—that is, what are the specific decisions firms face, and what are the specific choices to be made? We now turn to these questions of specific actions firms may take in order to achieve the overall objectives of political action.

### CORPORATE POLITICAL ACTION: PROACTIVE STRATEGIES

Weidenbaum (1980) outlined three general business responses to public policy: (1) passive reaction, (2) positive anticipation, and (3) public policy shaping. The first two—passive reaction and positive anticipation—are reactive, with no direct participation in the public policy process, and are similar to Boddewyn and Brewer's (1994) "nonbargaining" form of political behavior. In passive reaction firms make no attempt to play a role in policy formulation or implementation; rather, they react only post hoc to new legislation. Positive anticipation denotes more of an active stance toward public policy but still does not include participation in the process; rather, it refers to factoring government policy into the planning process of a firm. In this response method firms try to anticipate future regulations and make adjustments accordingly to their strategies, thereby turning regulation into a business opportunity. Weidenbaum's third form—public policy shaping—represents the common conceptualization and objectives of political behavior discussed by Baysinger (1984). Public policy shaping entails proactive behavior undertaken by firms to achieve specific political objectives.

Although corporate political behavior may be proactive or reactive in general, efforts to anticipate political problems and to set political objectives have become essential for most firms in the current competitive landscape (Bettis & Hitt, 1995; Hitt, Keats, & De Marie, 1998); only imitat-

ing a competitor's moves or coping with a problem on an ad hoc or crisis basis is a poor way of handling government relations (Boddewyn, 1993; Keim, 1981). As Weidenbaum so aptly explains, "Public policy is no longer a spectator sport for business" (1980: 46). If firms remain passive and only react to government policies, they can be assured that other interest groups are proactively working to shape government policies in a direction that benefits other interests—which may or may not coincide with those of the firm. Purely reacting to legislation is not sufficient if political behavior is to become an integral part of firm strategy. Instead, firms must be proactive to achieve the objectives and potential benefits from political behavior (Keim, 1981). Thus, our interest is on the proactive or public policy shaping form of political strategy; therefore, our focus now turns exclusively toward this type of political behavior. That is, our strategy formulation model begins after a firm responds affirmatively to the question "Will we be politically active?"

### Proactive Corporate Political Strategy Formulation

A proactive approach to political strategy may entail a number of specific strategies and tactics (Baysinger, Keim, & Zeithaml, 1985), but, to date, no generally accepted or uniform classification of corporate political strategies or what constitutes formulation of political strategies exists in the literature. Some scholars have focused on implementation levels of political behavior, such as whether action is taken by individual corporations, by executives within corporations, or collectively by such organizations as trade associations (Schollhammer, 1975; Yoffie, 1987). Other scholars have examined particular political tactics, such as Political Action Committee (PAC) contributions, lobbying, advocacy advertising, or grassroots mobilization (e.g., Baysinger et al., 1985; Keim & Zeithaml, 1986; Sethi, 1982), or have examined a limited number of political tactics (Getz, 1993; Lord, 1995; Oberman, 1993). Finally, in one stream of research, in the area of corporate political activity, scholars have focused on strategies used during different stages of the life cycle of a specific political issue (Buchholz, 1992; Getz, 1993).

In addition, much of the existing literature is country specific (e.g., Baysinger et al., 1985; Buch-

holz, 1992; Getz, 1993), providing little insight to the generalizability to different country contexts. Throughout this diffuse literature, there is no consensus regarding the appropriate integration of the many research questions or the meaning of an aggregate conceptualization of political strategy. A comprehensive schema for proactive political strategies that spans across nations is absent from the literature. Most existing literature, however, can be understood in terms of three general dimensions of political strategy: (1) approaches to political strategies, (2) participation levels, and (3) types of strategies. These three dimensions represent the sequence of decisions firms make in formulating political strategy.

In our discussion of each of the three decisions, we explore variables that are likely to influence such choices. Previous literature specifies general levels of variables that may affect the choice of political strategies, but little published work addresses the use of specific political strategies within a general model.<sup>1</sup> The following discussions are based on a number of important firm and institutional or country-specific variables that affect the likelihood of specific political action being formulated. Because of the various approaches, levels of participation, and strategies involved, we examine each decision, in turn, to discuss potentially influential variables.

Throughout this discussion, we adopt the resource-based view (Barney, 1991; Penrose, 1959; Wernerfelt, 1984) that firms are bundles of heterogeneous resources. We assume that firms make specific political action choices based on differential resources. For example, firms with plentiful resources are more likely to take individual political action, whereas resource-poor firms will use collective political action. Although many potential resources that can affect these choices may exist at the firm level, we examine a few suggested by previous research from diverse disciplines related to political action. In addition, we employ the traditions of institutional theory from organization theory and political economy (Granovetter, 1985; North, 1991; Scott, 1995) that important institutional differences affect the choice of political action.

<sup>1</sup> One exception is related work by Buchholz (1992), in which he develops an issue-specific model of political strategy choice. We discuss this later in a subset of our model.

Thus, as institutional arrangements vary by country, so will firms' political actions. We examine several institutional variables that affect the likelihood of certain choices within our decision tree. This discussion offers a first step in the examination of the variables that affect corporate political strategy formulation.

### Decision One: Approach to Political Strategy

The first decision a firm must make in formulating political strategy is its general approach to political strategy. In much of the existing literature on corporate political strategies, researchers assume that firms formulate political strategy only in response to specific, salient issues (e.g., Buchholz, 1992; Getz, 1993; Yoffie, 1987). This may be labeled a *transactional* approach, where firms await the development of an important public policy issue before building a strategy to affect this issue. Many firms, however, pursue political strategies over the long term, rather than on an issue-by-issue basis. This represents a more *relational* approach to political strategy. Instead of monitoring public interest and becoming involved only in specific issues, firms using a relational approach attempt to build relationships across issues and over time so that when public policy issues arise that affect their operations, the contacts and resources needed to influence this policy are already in place.

Transactional and relational approaches to political action differ in terms of length and scope of continued activity and exchange, and they parallel the notions of transactional and relational exchange in contract law (Macneil, 1974, 1980). Therefore, a transactional approach refers to a relatively short-term exchange relationship or interaction, whereas a relational approach denotes a long-term exchange relationship. Parallels in the area of contract law include how the primary focus of planning in the transactional approach is the substance of the exchange between parties, whereas in the relational approach the structures and processes of the relation are of key importance (Macneil, 1974).

Hillman and Keim (1995) describe the public policy process as having "demanders" and "suppliers" of public policy. In a relational approach trust develops between the suppliers and demanders of public policy, thereby reduc-

ing the marginal transaction costs of participation. In many ways a relational approach to political strategies is akin to the development of social capital that is embedded in a continued exchange relationship between parties (Nahapiet & Ghoshal, 1998). This social capital, in turn, facilitates continued exchange, because when parties trust one another, they are more willing to engage in cooperative exchange, which then increases each party's social capital.

The distinction between transactional and relational approaches is similar to that discussed in the context of supplier relationships (Martin, Mitchell, & Swaminathan, 1995) in that the government may be considered another factor of production (Kindleberger, 1970). Thus, firms first choose to develop either transactional or relational approaches to exchange with suppliers, which is akin to the spot or forward market approaches in traditional supplier markets (Lassar & Kerr, 1996).

The use of a relational approach is growing for both domestic and multinational firms. For example, the number of firms in the United States with government relations offices in Washington has increased dramatically over the last two decades (Walker, 1991); similarly, the number of firms with offices in Brussels (the head of the European Union) has increased (Grant, 1993). The existence of these offices (given the expense of having full-time representation in these areas) implies that some firms are regularly concerned with government relations. In addition, government relations functions within firms are receiving increased attention (Fleisher, Brenner, Burke, Dodd-McCue, & Rogers, 1993).

Scholars have not examined explicitly this long-term political emphasis (as witnessed in practice) in the literature on corporate political strategies, although the increased importance of firms' government relations function is widely accepted (Baetz & Fleisher, 1994). Two exceptions to this are Yoffie (1988), who asserts that executives must bring to politics the same long-term perspectives they apply to marketing and investment decisions, and Oberman (1993), who identifies evolutionary approaches to political strategy based on patterns of interaction across time. This evidence and the social capital implications of long-term relational approaches suggest the criticality that conceptualizations of corporate political strategies incorporate both

transactional and relational approaches to political behavior.

### Variables Likely to Affect Decision One

Several variables may affect a firm's decision to adopt a transactional versus a relational approach to political action. We examine three prominent ones: (1) the degree to which firms are affected by government policy, (2) the level of firm product diversification, and (3) the degree of corporatism/pluralism within the country in which firms are operating.

First, the distinction between transactional and relational approaches to political strategy may be dependent upon a company's perception of its dependence on government regulation. If, for example, a firm operates in a relatively unregulated environment, it may be more inclined to become involved in politics only sporadically—when a major important issue arises. However, firms operating in more regulated environments, or 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. Thus, we assert that a firm's perception of its dependence on the government may influence the decision to approach political action either transactionally or relationally, with those being more dependent opting for relational approaches.

*Proposition 1: Firms with higher perceived or actual dependence on government policy are more likely to use a relational approach to political action.*

A second variable that can affect transactional or relational approaches is a firm's degree of product diversification (related or unrelated). Single-business or related-product-diversified firms necessarily have a narrower focus on political issues because they are concerned with limited industry domains (Hoskisson & Hitt, 1990). Focused domains create opportunities for specialized political capital (defined as relationships with decision makers, in-depth information on particular policy domains, and so on). Firms with a limited primary policy domain (e.g., regulation of financial institutions) are able to focus attention on a relatively smaller set of issues and regulations than are more unrelated-product-diversified firms,

which are likely concerned with diverse policy domains (corresponding to diverse business units and product markets). Thus, highly related-product-diversified firms are more likely to adopt a relational approach to political action, to attempt to develop specialized political knowledge, and to form relationships with key policy makers within their domains of interest. However, more unrelated-product-diversified firms may not have the ability to form such long-standing relationships in all of the policy domains of interest or to invest in specialized knowledge across diverse policy and business domains. Therefore, unrelated-product-diversified firms are more likely to adopt a transactional approach to political action and become politically active only on select issues or regarding specific politically important events (e.g., election of critical decision makers). Thus, we assert the following:

*Proposition 2a: Firms with more related-product diversification (or that are single business) are more likely to use a relational approach to political action.*

*Proposition 2b: Firms with more unrelated-product diversification are more likely to use a transactional approach to political action.*

A third variable—an institutional or country-specific variable—that can affect the adoption of a transactional or relational approach to political action is a country's degree of corporatism/pluralism. A common means of distinguishing among political systems (which are rooted heavily in national culture) is the corporatist versus pluralist continuum (Murtha & Lenway, 1994; Schmidt, 1982; Schmitter, 1982). Corporatist political systems, on the one hand, have institutionalized participation by certain interests—usually business and labor and sometimes agriculture—in the public policy process. Pluralist systems, on the other hand, are characterized by a wider variety of interest groups that can influence political decisions on any given issue. Because corporatist nations emphasize cultural traits of cooperation and consensus, competition among firms or a perception of self-interest-seeking behavior by individual firms generally is viewed with suspicion (Wilson, 1990). Thus, firms operating in more corpo-

ratist countries often adopt a relational approach to political action to build social capital and to create positive-sum outcomes. In more pluralist nations, however, opportunities to affect public policy occur more idiosyncratically (Hillman & Keim, 1995). The competition among interest groups in more pluralist nations is constantly changing, thereby presenting opportunities for firms to act selectively. The emphasis on relationships important in more corporatist nations is relatively absent in more pluralist nations. As a result, firms in pluralist nations are more likely to employ a transactional approach to political action. Thus, we assert the following:

*Proposition 3a: Firms are more likely to use a relational approach to political action in more corporatist countries.*

*Proposition 3b: Firms are more likely to use a transactional approach to political action in more pluralist countries.*

After a firm selects a general approach, it must choose its level of participation. We examine the decision regarding participation level next.

### Decision Two: Levels of Participation

Mancur Olson's (1965) seminal work in political science delineates two levels of participation that individuals or interest groups may adopt when active in the public policy arena: individual and collective. *Individual* action refers to solitary efforts by individuals, or individual companies in this case, to affect public policy. *Collective* action refers to the collaboration and cooperation of two or more individuals or firms in the policy process. An example of the former is an individual firm lobbying political decision makers (individual participation). A trade association of firms lobbying political decision makers (collective participation) is an example of the latter.

In the political strategy literature, Scholhammer (1975) also has discussed participation levels but has categorized participation into three categories of action: (1) collective action, (2) action taken by individual corporations, and (3) action taken by individuals within the organization (e.g., executives). A further look at these

three levels, however, points to a problem with Schollhammer's delineation of individual action into actions taken by "individual corporations" and by individuals within the corporation. Individual corporations are not entities that "act," other than through the individuals who make up the organization (March & Olsen, 1976; Hitt & Tyler, 1991). That is, if the individuals within the corporation are participating as representatives of the corporation, there is no distinction between these two levels.

Therefore, it is more parsimonious and appropriate to use Olson's (later adopted by Yoffie, 1987<sup>2</sup>) two fundamental levels of participation. Firms, similar to individuals, choose between individual (independent) political participation and coacting with other firms. This distinction is similar to the one in the market strategy literature between competitive or cooperative strategies in that firms can choose either to pursue competitive advantage in the market independently or collaboratively (Grimm & Smith, 1997). Thus, the second dimension or choice in political strategy formulation is the level of participation: individual or collective. After a firm has decided to approach political action either transactionally or relationally, it must then decide whether to pursue political action alone or with others. Regardless of whether a firm decides to pursue a transactional approach or a relational approach, it may do so either alone or with others.

### Variables Likely to Affect Decision Two

Irrespective of the approach taken, perhaps the most obvious distinction regarding the choice between individual and collective participation in politics relates to the different financial resources necessary at each level. Individual action loads all costs directly on the participating party or firm, whereas in collective action, such as trade associations, the cost of

political action is shared among members (Olson, 1965). Larger firms with more slack resources and dominant firms in an industry often prefer individual rather than collective actions. In short, they have the requisite resources for individual action, and such independent action may allow them to affect a government policy that best favors the firm. Some firms may also have more intangible resources. For example, firms with experience influencing public policy have knowledge about the process that firms without such experience are unlikely to have. Firms with this knowledge are more likely to act independently. Firms without such knowledge may feel it necessary to act collectively.

Thus, overall, firms with fewer resources favor collective action. Collective action should provide a more forceful voice than any one firm, assuming constrained firm-level resources. Regardless of the dues structure for trade associations, member firms pool their resources, resulting in lower per-firm costs of political action (Chong, 1991). Instead of each firm monitoring the political process and attempting to influence this process alone, the trade association performs these functions in a collective manner, thereby creating economies of scale. Member firms also collectively pool their knowledge, which should enable them to capture synergies or other intangible resources by integrating their knowledge bases. Therefore, we assert the following:

*Proposition 4a: Firms with greater financial resources and/or other intangible resources, such as knowledge of influencing public policy, are more likely to use individual participation, regardless of approach chosen.*

*Proposition 4b: Firms with fewer financial resources and/or other intangible resources, such as knowledge of influencing public policy, are more likely to use collective participation, regardless of approach chosen.*

The choice of individual versus collective participation in politics may also be affected by the degree of corporatism/pluralism in a country. Weaver and Rockman (1993) suggest that in the more corporatist parliamentary systems (i.e., Austria, Germany, and Sweden), the centralization of legislative power presumably reduces

<sup>2</sup> Yoffie (1987) develops five main types of political strategy: (1) freerider, (2) follower, (3) leader, (4) private goods, and (5) entrepreneur. The first—freerider—refers to reactive political strategies, leaving the proactive shaping of policy to others and freeriding from their efforts. The remaining four are proactive strategies. The second and third—follower and leader—refer to collective participation in a group and the role individual firms take within those groups as either followers or leaders. The fourth and fifth—private goods and entrepreneur—represent individual participation.

the alternatives open to interest groups. Corporatist nations emphasize consensus on policy. Many corporatist structures are the result of national cultural trends that promote consensus and cooperation among relatively homogeneous interests. Rather than promoting the interests of one group at the expense of another, corporatist nations, in general, promote more positive-sum policies in the electorate (Hillman & Keim, 1995). Therefore, the opportunity to affect public policy in corporatist nations on specific issues is more limited than in systems that are open to individual special-interest-group pressure and that have a greater probability of developing negative-sum (where one group benefits at the expense of another) or zero-sum policies (Hillman & Keim, 1995). Thus, owing to the emphasis on consensus and working with others, it is likely that firms in more corporatist nations will choose to participate in politics collectively rather than individually, regardless of the choice of transactional or relational approach.

In more pluralist structures, however, the institutional arrangements result in a variety of interests coming into play in the policy arena (Hayes, 1992), resulting in the fragmentation of political and economic power (Vogel, 1996). The ability to gain support for issues may be affected by the fragmentation in society (Coleman, 1988). In the political process of pluralistic nations, interest groups and firms do not have to compromise with other groups. The policy maker may write or vote for policy that represents a compromise among his or her constituents, but the actual groups do not have to reach consensus across a variety of issues. Through these institutions, more pluralistic nations create the incentive for groups and firms to assert their own interests on specific issues in the political process (Murtha & Lenway, 1994). Thus, the likelihood of firms participating individually in politics is greater in more pluralist nations (Hillman & Keim, 1995). Thus, we assert the following:

*Proposition 5a: Firms are more likely to use collective participation in more corporatist countries, regardless of approach chosen.*

*Proposition 5b: Firms are more likely to use individual participation in more pluralist countries, regardless of approach chosen.*

One variable might affect the decision regarding participation level, however, for those firms pursuing a transactional approach. When pursuing an issue-by-issue approach to political action, a firm's encounter with specific issues will often affect the nature of participation. In the multitude of issues decided politically each year, whether in regulatory or legislative/parliamentary venues, firms may divide issues into one of two categories: (1) election issues and (2) non-election issues. Election issues are those that have received such a high degree of public interest, attention, and visibility that individual voters may cast ballots based on their position on them. Few issues reach this level of visibility and importance over the period of a year. Non-election issues represent the hundreds (sometimes thousands) of issues that often do not receive intense scrutiny or widespread interest. It is possible for a firm (or other interest group) to work for or against a non-election issue without much attention from others. However, this would be unlikely for election issues.

Therefore, firms may prefer collective action on election issues for two reasons. First, it limits their exposure and or liability if the position is unpopular or if they lose the battle. For example, lobbying against health care reform in the 1994 U.S. off-year election might have branded a pharmaceutical company as "working against the public interest" or "out to make money from sick people." Second, election issues by nature will dictate that a large coalition of parties, on any given side, is needed to win. This is necessary in order to persuade opinion and garner votes and also to obtain the resources required to conduct a highly visible campaign. In the health care example, large coalitions were formed from diverse industries and groups to have the financial resources and influence needed to affect the issue (Stone, 1994). Thus, we assert the following:

*Proposition 6: A firm is more likely to use collective participation with election issues and when it has chosen a transactional approach to political strategy.*

### **Decision Three: Specific Strategies and Tactics**

After a firm has decided to approach political strategies either transactionally or relationally,



and then has decided whether to pursue participation individually or collectively, its next decision relates to the specific strategies it should employ.<sup>3</sup>

Many scholars interested in political strategies have developed lists of specific strategies or tactics firms may use to compete in the public policy process. Unfortunately, there are many different lists of strategies, with little consensus among scholars. Many scholars limit their examination of political strategies to a few popular ones, such as lobbying or campaign contributions (e.g., Baysinger et al., 1985; Keim & Zeithaml, 1986; Sethi, 1982), or provide a list of five or six different strategies to use (e.g., Getz, 1993; Lord, 1995; Oberman, 1993). The comprehensiveness of these lists is questionable, and the theoretical origins that differentiate these strategies from one another have not been explored.

The public policy process has been described by some as a market (Hillman & Keim, 1995), with suppliers of policy and those demanding policy. The suppliers are political decision makers who shape government policies and agendas. The demanders include the interest groups, individual citizens, and firms that vie for public policy outcomes. The concept of mutual interdependence and exchange is of critical importance (Benson, 1975; Majumdar & Ramaswamy, 1995; Salisbury, 1969). Interest groups, including firms, desire specific forms of policy or policy outcomes.

The two primary incentives for political decision makers to supply these policies are information and direct incentives. In systems of interest aggregation, political decision makers serve as the agents of citizens and citizen groups (Getz, 1993; Mahon, 1993; Mitnick, 1993).

<sup>3</sup> It is important to note that the specific choices of strategies presented in this section are available to firms participating individually and to the collectives within which firms participate. The variables discussed below, therefore, are based upon the resources of the individual firms or collectives. With collective action, however, these decisions will be made at the collective level rather than within the individual firm. Therefore, individual interests of the firm in choosing political strategies within collective action are constrained. Once the collective participation level is chosen (whether in a transactional or relational approach), decision making falls primarily to the collective. These decisions, nonetheless, will be affected by similar resources, but at the collective level as opposed to the individual firm level.

However, it is often difficult for political decision makers to know the preferences of their principals on the multitude of issues considered. There exists the potential for information asymmetries between the suppliers and demanders of public policy. Therefore, one critical resource for political decision makers is the information required to form opinions or votes on particular policies.

Second, the suppliers of public policy may respond to direct personal incentives, such as constituent support or financial inducements (e.g., campaign contributions). For all political decision makers, constituent support is a critical resource. As an example, votes are the key to re-election, and constituent support is the driver of polls and popularity for elected decision makers. But even nonelected political decision makers are concerned with constituent support. Constituent support may affect the future funding allocated to their particular agency or other governmental positions, and it shapes the prestige and respect granted to a position within the government.

Third, political decision makers may also respond to financial inducements. For elected decision makers, campaign financing may be a very important resource (e.g., in the United States), and donations to a particular party will affect that party's control and influence in an election (e.g., Mexico). Other financial inducements may appeal to nonelected and elected decision makers alike. These inducements include promises of future employment (or current outside employment, such as is the case with over 50 percent of Italian bureaucrats; Grant, 1990), paid speaking fees, travel, and other honoraria. Although many personal financial inducements may be regarded as ethically suspect in some countries, they may nonetheless provide incentive for some suppliers of public policy.

Exchange theory suggests three general or "generic" political strategies that firms and interest groups may use to compete in the public policy process based on the fundamental resources exchanged: (1) information, (2) financial incentive, and (3) constituency building. We discuss these in order below.

It is important to note that each of the three strategies may involve a variety of tactics. In previous literature on corporate political strategies, researchers have used the terms *strategy*

and tactics interchangeably. However, in traditional strategic management literature "strategies" are more long term and involve a substantial amount of resources and commitment. "Tactics," however, generally refer to short-term activities designed to fine tune strategy, and they involve a smaller commitment of resources. In keeping with this tradition, the taxonomy we present in Table 1 is based on the three theoretically distinct strategies, each comprising a variety of tactics. These tactics are specific political behaviors that may be used repeatedly and in various combinations, but alone do not constitute a strategy.

**Information strategy.** Those using the information strategy seek to affect public policy by providing policy makers specific information about preferences for policy or policy positions and may involve providing information on the costs and benefits of different issue outcomes (Aplin & Hegarty, 1980). The target of this political strategy is the political decision maker, and the good provided is information. An information strategy includes such tactics as lobbying,<sup>4</sup> both by internal or external professionals and executives (Lord, 1995); reporting research and survey results; commissioning research/think-tank research projects; testifying as expert witnesses and in hearings or before other government bodies; and supplying decision makers with position papers or technical reports.

**Financial incentive strategy.** The financial incentive strategy also targets political decision makers directly. Users of this strategy, which is called "direct pressure" by Aplin and Hegarty (1980), however, attempt to influence public policy by directly aligning the incentives of the policy makers with the interests of the principals through financial inducements. This strategy includes such tactics as providing financial support (either direct contributions to a political decision maker or political party), PAC contributions in the United States, honoraria for speak-

ing, paid travel expenses, or personal service (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 hiring political decision makers' relatives) (Getz, 1993; Hillman, Zardkoohi, & Bierman, 1999).<sup>5</sup> This category of political strategy is similar to that of "absorption" described by Ring, Lenway, and Govekar (1990), in that these actions attempt to absorb a part of the external political environment into the firm, either by hiring or by direct financial incentives.

**Constituency-building strategy.** Whereas the information and financial incentive strategies target political decision makers directly, users of a constituency-building strategy attempt to influence public policy by gaining support of individual voters and citizens, who, in turn, express their policy preferences to political decision makers (Baysinger et al., 1985). Thus, this strategy targets political decision makers indirectly by working through individual constituents or voters via public exposure/appeal and constituent contact (Aplin and Hegarty's 1980 categories of public exposure/appeal and political). This strategy is similar to Buchholz's (1992) and Oberman's (1993) "bottom-up" communication strategy, which includes such tactics as grassroots mobilization of employees, customers, suppliers, retirees, or other individuals linked to the firm; advocacy advertising, wherein a particular policy position is advertised to the public (Sethi, 1982); public image or public relations advertising; press conferences on public policy issues; and economic or political education.

The targets of a constituency-building strategy are individuals linked to the firm or individual societal members, and the good provided to the political decision maker is constituent support, indicated by the expressed preferences of these individuals. A constituency-building strategy should not be confused with collective participation. Collective participation denotes a firm joining with other firms or interest groups in the public policy process but not the specific strategies and tactics used. A constituency-building strategy targets individual constitu-

<sup>4</sup> The term *lobbying* in this article refers to the common U.S. and other non-European connotations implying the provision of information to policy makers by individuals representing the firms interest—that is, by lobbyists; this information may be conveyed through informal meetings, formal settings, and social settings. The European connotation of lobbying, however, implies political action in general. That is, lobbying in the European sense refers to any proactive political strategy.

<sup>5</sup> This practice is a common political strategy in most Latin American countries.

TABLE 1  
Taxonomy of Political Strategies

Strategy	Tactics	Characteristics
Information strategy	<ul style="list-style-type: none"> <li>● Lobbying</li> <li>● Commissioning research projects and reporting research results</li> <li>● Testifying as expert witnesses</li> <li>● Supplying position papers or technical reports</li> </ul>	Targets political decision makers by providing information
Financial incentive strategy	<ul style="list-style-type: none"> <li>● Contributions to politicians or party</li> <li>● Honoraria for speaking</li> <li>● Paid travel, etc.</li> <li>● Personal service (hiring people with political experience or having a firm member run for office)</li> </ul>	Targets political decision makers by providing financial incentives
Constituency-building strategy	<ul style="list-style-type: none"> <li>● Grassroots mobilization of employees, suppliers, customers, etc.</li> <li>● Advocacy advertising</li> <li>● Public relations</li> <li>● Press conferences</li> <li>● Political education programs</li> </ul>	Targets political decision makers indirectly through constituent support

ents through its tactics (grassroots, advocacy advertising, and so on) and denotes the actual strategy taken rather than by whom. As an example, a group of firms acting collectively may take out advocacy advertising to induce individual constituents to express public policy preferences to political decision makers (this denotes collective participation and the adoption of a constituency-building strategy).

It is important to note that although political tactics can be classed in one of the three generic categories, the use of one political strategy (or tactic within) does not preclude the use of another. Rather, a configuration of strategies may be used (Meyer, Tsui, & Hinings, 1993). Mahon (1993) notes that several types of political behavior may be used simultaneously. In his study of political interest groups in the European Union, Grant states that "of course, interest groups are not so naive as to rely solely on one channel of access" (1993: 129). The simultaneous use of these three generic political strategies is akin to the more commonly discussed generic business strategies (cost leadership and differentiation) developed by Porter (1985). Recently, it has been argued that firms can integrate both the cost leadership and differentiation strategies into one (Hitt, Ireland, & Hoskisson, 1999). Similarly, a firm may use a combination of political strategies in an attempt to shape its competitive environment through public policy influence.

**Variables likely to affect decision three: transactional approach.** If a firm has chosen to pursue an issue-by-issue or transactional approach to political action, regardless of whether it pursues this approach individually or collectively, the key determinant of strategy choice is the current stage of the issue's life cycle. Ryan, Swanson, and Buchholz (1987) assert that there are three stages in the public policy issue life cycle: (1) public opinion formation, (2) public policy formulation, and (3) public policy implementation. Public opinion formation and public policy formulation refer to distinct stages, where the issue is emerging and public policy is formulated in response. Thus, these two issue life-cycle stages denote where proactive political action is possible. Public policy implementation, however, refers to the bureaucratization of the regulation, legislation, and so on. Therefore, during this stage, political action is reactive rather than proactive. Thus, we focus on the first two stages of the issue life cycle here.

Public opinion formation denotes the stage where issues of concern to business are emerging; public interest in the issue is emerging and developing. During this stage, corporations have the opportunity to shape public opinion. This opportunity may result in a policy preference that coincides with that of the firm or could obviate the need for public policy altogether. Thus, the key to shaping issue preferences dur-

ing the stage of public opinion formation is communication with the public (Buchholz, 1992). The emphasis on communication and on public opinion may be facilitated by the strategy of constituency building because it focuses on individuals within society. Therefore, we assert the following:

*Proposition 7: Firms or collectives are more likely to use a constituency-building strategy if the firm or collective has chosen a transactional approach to political action and the issue is in the public opinion formation stage.*

The public policy formulation stage is when specific regulations or policies are introduced in the political decision-making institutions that affect business. The issues at this stage have been politicized and have taken on the form of government enactments (Buchholz, 1992), meaning that the primary objective of the firm or collective is the wording, support, or opposition of such policy. In these cases, because the target is the political decision maker, firms are more likely to use directly targeted strategies, such as the information strategy that provides information to specific decision makers regarding policy preferences, or the financial incentive strategy that provides incentives for a political decision maker to adopt the preference of the firm or collective. Thus, we assert the following:

*Proposition 8: Firms or collectives are more likely to use an information or financial incentive strategy if the firm or collective has chosen a transactional approach to political action and the issue is in the public policy formulation stage.*

**Variables likely to affect decision three: relational approach.** If a firm has chosen to pursue a relational approach to political action, key determinants of the strategies chosen are not based upon specific issues since the relational approach spans across issues and time. Therefore, with a relational approach to political action, individual firms or collectives within which firms participate choose specific strategies based more on the resources at their disposal. Based on the underlying distinctions among the information, financial incentive, and constituent-

cy-building strategies, we identify two variables that can affect the choice of strategies, whether by individual firms or collections thereof.

First, credibility is a resource that affects the success of political behavior (Baron, 1995; Boddewyn, 1993; Boddewyn & Brewer, 1994; Hull, 1993; Keim & Baysinger, 1988). Recent studies confirm that credibility is the most important characteristic of effective lobbyists (a common term applied to the providers of information to political decision makers) in the United States, the European Union, and in most Asian nations (Heinz, Laumann, Nelson, & Salisbury, 1993; Hull, 1993; Nooteboom, Berger, & Noorderhaven, 1997). To have influence, information providers must be perceived by political decision makers as credible. In addition, Sethi (1982) found that the most important determinant of success in advocacy and public relations advertising was the credibility or reputation of the source. Similarly, grassroots mobilization (another tactic within the constituency-building strategy) is based on good relations with employees and other stakeholders (a form of social capital, which is an important resource; Dyer & Singh, 1998; Keim & Baysinger, 1988) so that credible firms have an advantage over less credible firms using this tactic. Given these indicators of the importance of credibility, we assert the following:

*Proposition 9: Firms or collectives with greater credibility are more likely to use an information or a constituency-building strategy if the firm or collective has chosen a relational approach to political action.*

Second, Masters and Keim (1985), Keim and Baysinger (1988), and Boddewyn and Brewer (1994) have argued that a minimum employment base, or a large number of employees, is essential to many types of political tactics. Keim and Baysinger (1988) assert that the greater the employment base, the greater the potential for constituency building. The ultimate goal of constituency building by a firm is to educate individuals on policy and to give them the incentive to become politically active on specific issues or across time. By giving these individuals the incentive to contact political decision makers, firms hope to influence the policy process in their favor. However, encouraging a small number of

employees to contact political decision makers is not as effective as large numbers of contacts. The larger number also increases the likelihood of access to more legislative or parliamentary districts. Therefore, a larger employment base (or membership base in the case of collections of firms) increases a firm's ability to form constituency groups and the effectiveness of such groups in the political process. Although grassroots mobilization and political and economic education programs represent only a portion of the tactics included in a constituency-building strategy, and other tactics such as advocacy advertising or public relations are not highly dependent upon the number of employees, a larger number of employees or members, at the margin, increases the likelihood of firms choosing this strategy. This is especially relevant given that of a firm's major stakeholders, employees have a

large and important stake (Freeman, 1984). Thus, we assert the following:

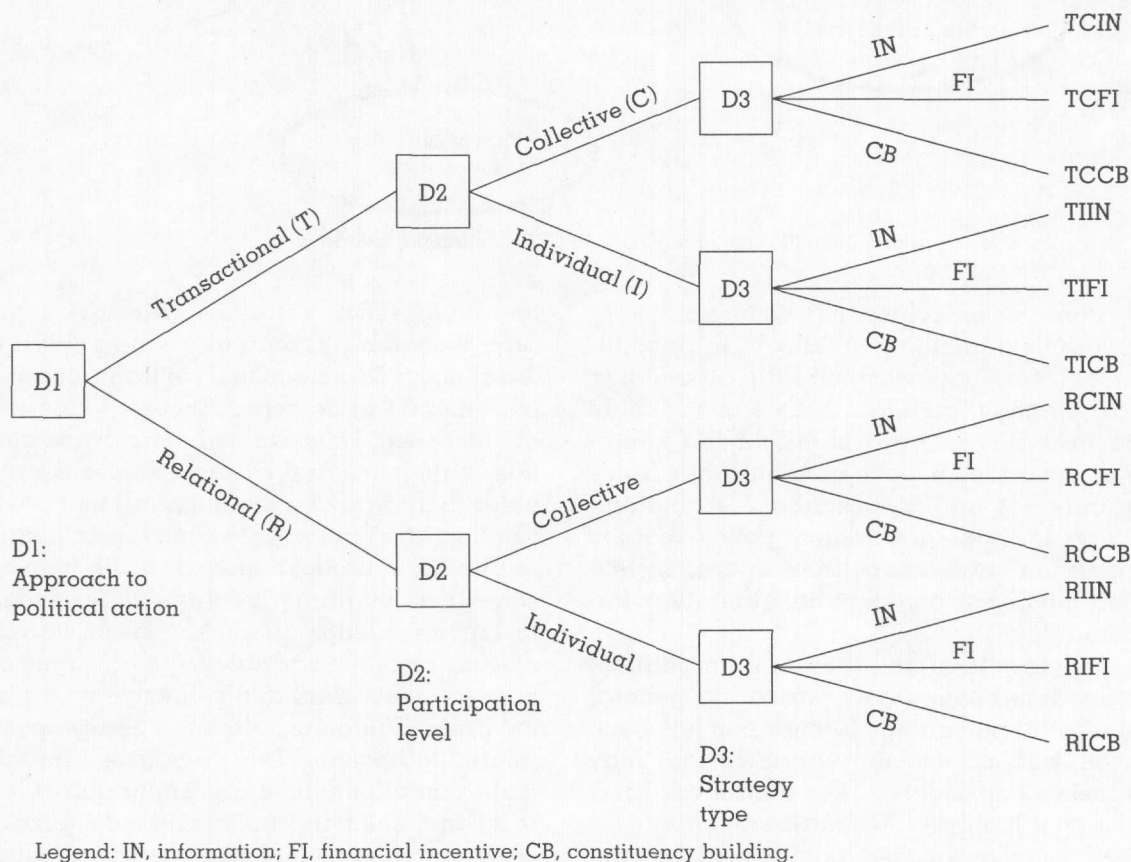
*Proposition 10: Firms or collectives with large employment/membership bases are more likely to use a constituency-building strategy if the firm or collective has chosen a relational approach to political action.*

Our decision-tree model depicting the three decisions of political strategy formulation, and each specific choice within, is presented in Figure 1. Figure 2 shows the level of variables proposed to affect each of the three decisions.

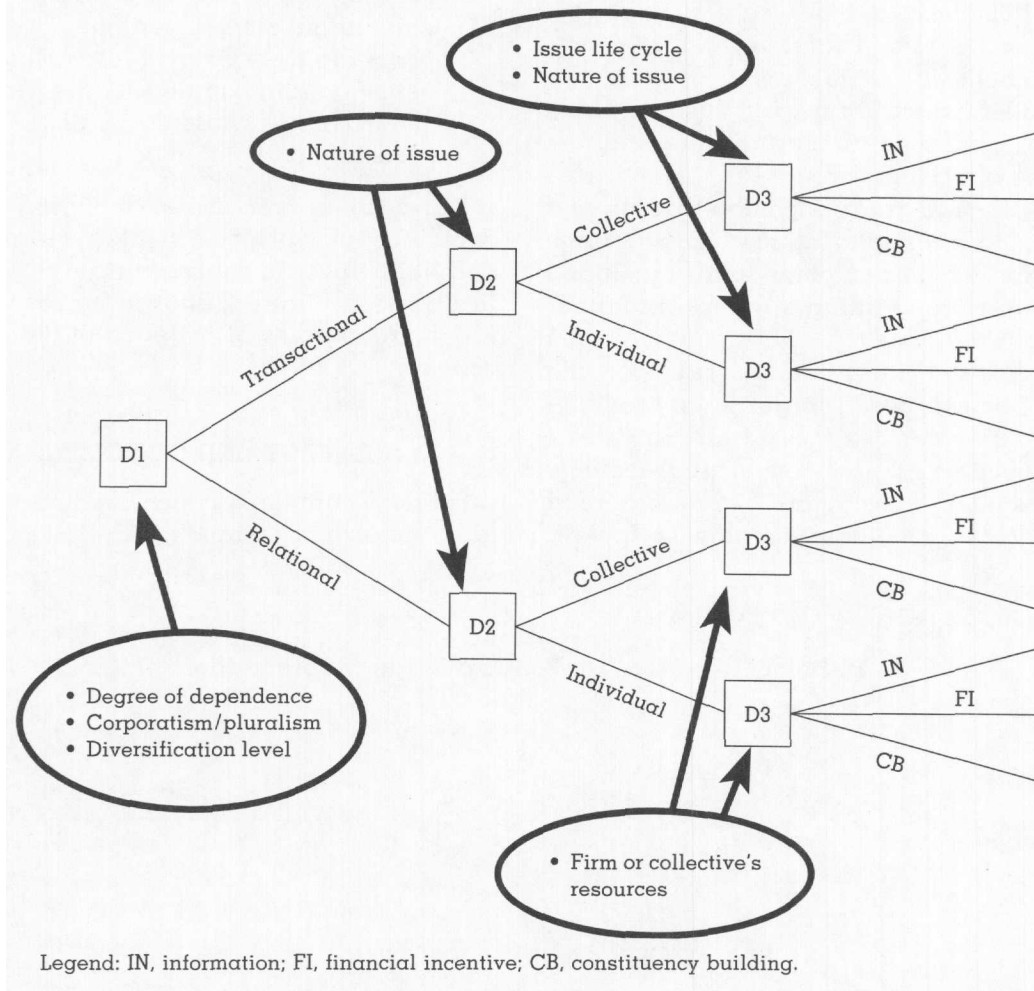
**SUMMARY AND CONCLUSIONS**

Political strategies, much like market strategies, involve a complex set of decisions for

**FIGURE 1**  
**Decision-Tree Model of Political Strategy Formulation**



**FIGURE 2**  
Variables Affecting Specific Decisions



firms. After a firm decides to become politically active, the next question is "How?" In prior literature scholars have devoted little attention to political strategy formulation. One goal of ours in this work has been to highlight the importance of government policy making to a firm's opportunity set and to describe the potential firms have to shape government policy, thereby shaping their own competitive space, by expanding the discussion of political strategy formulation.

Since its inception, the literature on political strategies has been widely varied, no general model of political strategy formulation has been proposed, and no specific variables that may affect these choices have been identified. Thus, our first goal has been to contribute to the field by developing and presenting the model and

identifying such variables. We have found no prior research containing discussion of the material in our Decision One, yet firms clearly have two distinct approaches (theory points to their distinctness). Thus, we add value by developing this first choice and by proposing a set of variables (both firm and institutional) that are likely to affect the choice between transactional and relational approach. Second, while Mancur Olson's theories firmly identify our Decision Two, to our knowledge there has been no explicit discussion of the variables that affect the choice between individual and collective participation for firms. Therefore, although the propositions related to Decision Two may have firm theoretical foundations, they are important to include in a comprehensive model and may serve as the basis for future empirical research. Third, we

add value by developing the taxonomy of political strategies that represents Decision Three. To our knowledge, no comprehensive taxonomy exists in the literature. In addition, we go beyond the taxonomy to again develop propositions regarding variables that are likely to affect this decision.

Future research opportunities abound. Although the general taxonomy of political strategies and the conceptual decision-tree model is grounded in theory, empirical confirmation of the distinctness of each of the levels of participation, approach, and strategy should be explored. Testing of the propositions presented herein is also a critical next step.

In addition, other variables may be examined that can affect the decisions regarding approach, participation, and strategy. Perhaps the likelihood that firms or collections of firms will use a multitude of strategies simultaneously should be explored. This work provides a conservative first step in identifying firm and institutional variables that affect political action choices. In addition, our discussion has focused on likelihood estimations to represent the general tendencies across firms. Work on competitive advantage, however, suggests that some firms choose a strategy not employed by most other competitors to gain a competitive advantage. Finally, the dynamics of political competition is a promising area for future study.

A related inquiry may be the likelihood of using specific tactics within one strategy versus others. Each of the three categories of strategies—information, financial incentive, and constituency building—represents a variety of tactics. Although the tactics are categorized based on their theoretical bases, in future studies researchers could examine the variation of tactics used within a strategy.

Further, as the model presented herein relates to strategy formulation, research is needed in the implementation and effectiveness of such choices. Certainly, the resource-based view of the firm and other models of firm heterogeneity suggest that firms making the same choices will implement them in heterogeneous ways. Thus, the importance of implementation of these strategies should not be disregarded.

A final area of future research is the examination of the relationship between the choice combinations represented by the decision-tree

model and competitive advantage in the political marketplace. Such an advantage should, in turn, contribute to competitive advantage for firms in product and service markets.

Ultimately, our goal with this work and in suggesting future research areas is to provide a basis from which managers can navigate the public policy process and the interaction between market and nonmarket environments. Practitioners have benefited from a wealth of research on competitive and cooperative market strategies, but the academic community has paid far less attention to political strategies. As more firms attempt to participate in and gain influence with local, state, national, and international governments, a thorough understanding of political strategies is necessary.

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**Amy J. Hillman** is an assistant professor at the Richard Ivey School of Business, University of Western Ontario. She received her Ph.D. from Texas A&M University. Her research interests include corporate governance, corporate political strategies, international strategy formulation, and firm/stakeholder linkages and financial performance.

**Michael A. Hitt** is a distinguished professor of management and holds the Paul M. and Rosalie Robertson Chair of Business Administration at Texas A&M University. He received his Ph.D. from the University of Colorado. His research interests include international strategy for large and entrepreneurial firms, resource-based and organizational-learning perspectives of alliance partner selection, corporate governance and innovation, and the new competitive landscape.