Business Is Not an Interest Group

(And, By the Way, There's No Such Thing as "Business"):

On The Study of Companies in American National Politics

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Abstract

Individual companies are neglected in American politics scholarship, despite their empirical and normative significance. Interest group theory does not provide an adequate framework for understanding them. Neoclassical microeconomic theory has begun to be developed for political analysis, but its assumptions restrict the scope of its utility. Cyert and March's "behavioral theory of the firm" provides a more promising foundation, one that dovetails with the historical and institutional tradition in political science. Research in this tradition has begun to analyze how the personal preferences of senior managers, institutional structures, cultural norms, and learning over time affect firm political positions and strategies.

Key words: corporations, lobbying, institutions, strategy, government affairs

Short title: Companies in American National Politics

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Introduction: The Business of Washington

The main business of Washington, D.C. is business. While dramatic issues of war, scandal, and injustice capture the headlines, the day-to-day efforts of Congressional staffers, Supreme Court clerks, and executive branch bureaucrats tend to be absorbed by mundane issues that affect cost, price, and market share. The emphasis on business in our nation's capital is even more pronounced outside of the halls of government. Organized non-governmental interests in Washington overwhelmingly consist of firms and their agents.

If the business of Washington is business, the business of American politics scholarship is anything but. Students of interest groups, in particular, tend to concentrate much more on organizations like the Christian Coalition and Common Cause than those like General Electric and General Motors, which are not "groups" at all. Even research on business in American politics centers on groups, especially encompassing business organizations, rather than individual firms. While important, these organizations are exceptional. As Mark Smith (2000) shows, issues that unite the bulk of American businesses under the banners of encompassing groups "occur only rarely." Most issues are particular to a few firms or even a single one. Such issues motivate firms to represent themselves in Washington and to provide resources for and exert substantial control over an array of other entities, including trade associations, coalitions, political consultants, lawyer-lobbyists, public relations specialists, and think tanks, that operate on their behalf.

The problem is qualitative as well as quantitative. There are too few studies of individual firms in American politics in part because the theoretical apparatus of the interest groups field does not fit them very well. Our theories tend to generate questions that lead us away from studying the most distinctive aspects of firms' political attitudes and behavior. The government affairs function of a large corporation has very different incentives and decision-making processes than those that characterize the ideal typical voluntary association of citizens that occupies the core of most theories of interest groups, Olson's (1965) above all.

Two nascent threads of research aim to redress this deficiency. One approach extends the Olsonian microeconomic tradition, treating firms as unitary rational actors. Although I welcome further efforts in this direction, this approach has important weaknesses and ought not be the only one employed by political scientists. A more promising but even less developed approach draws on historical and institutional scholarship in political science and sociology. It focuses on "processes of information and communication" (Bauer, Pool & Dexter 1972) both within firms and across their boundaries.

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

There's No Such Thing as "Business":

The Empirical Significance of Corporate Government Affairs

Democratic theory provides ample justification for studying firms, but the justification developed here is simpler and grounded in raw empiricism. Individual companies are represented in American national politics in large numbers. They are doing something, and we ought to learn what and why. We cannot do so merely by studying peak associations or even trade associations, much less "interest groups" in general.

Interest group scholars have long concurred that "business" has an "advantage" in the "pressure system." Baumgartner and Leech's (1998) survey of the field traces research supporting this view back to the 1920s. Like many analysts, they add the Washington representatives of individual companies to those of business associations to show that "business" comprises at least half and probably substantially more of all interest organizations active at the national level. They do not note in this context that companies usually outnumber associations in the studies they discuss, even in Schlozman and Tierney's (1986) weighted sample of interest organizations, in which one might expect companies to be under-represented. Some studies of interest groups, including Jack Walker's (1991) two major surveys, systematically exclude firms (and other institutions, like state governments and universities) from their sampling frames.

It seems likely that the balance between firms and business associations in the national interest organization population has changed over time. Several accounts (Harris 1989, Vogel 1989, Marcus & Irion 1987) identify the 1970s as a period of explosive growth in corporate government affairs organizations, and their growth seems to have continued at a more modest pace at least into the 1980s. Working in the 1940s and 1950s, Truman (1951) and Bauer, Pool, and Dexter (1972) could reasonably equate pressure groups with business associations, but that equation is obsolete. Data compiled by Baumgartner and Leech (2001) from reports made in 1996 under the Lobbying Disclosure Act clinch the point. Individual firms formed a substantial plurality of both interest organizations (41% of reports) and clients of lobbying firms (44%) in that year, and they reported more spending on lobbying than all other types of organizations combined (56%). It is likely that such measurements underestimate the involvement of companies and other institutions in public policy relative to other interest organizations, because the former typically have resources outside the capital that they draw upon and the latter often do not.

Of course, firms and associations are interconnected and may well work toward the same ends. Several scholarly traditions, in fact, view the profusion of business political organizations as little more than foam that obscures a sea of business unity. Some who take this position, both Marxists and non-Marxists, focus on the "instruments" (notably interlocking boards of directors) that allow business leaders to align their preferences and implement joint strategies (Domhoff 1996, Mills 1956). Another strand of thought (Lindblom 1977, Block 1987, Hacker & Pierson 2002) concentrates on "structural" power, particularly the threat of capital flight, which allows "business" to achieve its ends without having to resort to conventional political activity.

The business unity perspective, in any variant, provides useful insights into the broad outlines of American politics. The norms maintained by C. Wright Mills' "power elite" probably help to keep radical proposals off the policy agenda, even when the public mood might be receptive to them. Federal policy-makers surely do moderate their positions from time to time in order to avoid scaring investors. However, this perspective is often exaggerated and far from exhaustive. Business unity is more elusive than scholars in this tradition claim, and neither instrumental nor structural power is typically wielded with the force that they assert. Although "business" may "want" lower taxes, when real choices about who will pay how much get made, the united front tends to crumble. Most of the time, there simply is no such thing as "business" in American politics. (Vogel 1987)

The same argument applies to the literature on peak associations: it provides at best a partial understanding of the role of businesses in American politics. Even Mark Smith (2000), whose recent study of the U.S. Chamber of Commerce sets a high standard in this area, emphasizes that businesses are more likely to exercise power on narrow, obscure issues than the salient, conflictual issues upon which he concentrates. Polsby (1980) reaches a similar conclusion. Many issues related to taxation, regulation, trade, and appropriations, for instance, are simply too narrow to warrant the attention of peak associations.

Studies of other sorts of business political organizations, such as industry associations, could help to fill this gap. Such organizations often take up issues that pit one group of businesses against another or that are raised by state or societal actors but are of significance to only a fraction of all businesses. This genre, however, has gone out of style, with the occasional exception of studies of particular issues or processes, such as Derthick and Quirk (1985) and Bosso (1987), that contain chapters that explore relevant business associations.

Hart (2003) suggests that permanent business associations can be arranged along a continuum. At one pole are associations that are like citizen groups, composed of many members, each contributing a small amount, and are largely staff-driven. The other pole is characterized by associations comprised of a relatively small number of larger businesses, who use them to coordinate their activities on issues of common concern and to act on their behalf. No survey distinguishes among these types of associations. Olson (1965) claims that the latter predominate. Leech's 1995 sample of 221 trade associations, on the other hand, had a mean of over 5,000 members and a median of 240. (BL Leech, personal communication)

Yet, the policy activities of associations with large numbers of members may nonetheless be controlled by a small number of large companies. Although large firms may gain leverage by paying a disproportionate share of association dues, the relationship often goes well beyond mere check-writing. Government affairs executives usually view "association management" to be a major responsibility and allocate staff time to it. Firm representatives use associations as venues to create, shape, implement, and – not least -- block political strategies. One cannot understand the workings of many industry associations very well without understanding how large member firms operate.

We need to study individual firms, then, to understand their impact on collective activity. We also need to study them in order to understand how and why they pursue what Godwin and Seldon (2002) call "private goods." The benefits of private goods accrue exclusively to individual firms. Godwin and Seldon provide evidence that private goods dominate the agendas of at least some corporate Washington offices. "Airline lobbyists," they write, "reported spending 75-95 percent of their time on issues affecting only their firm or their firm and one other."

Godwin and Seldon focus on private goods that contribute directly to the bottom line, such as landing rights for airlines and government contracts. Some firms look beyond immediate material benefits and seek to establish reputations as "good citizens" or "serious players" that will pay off over the long-term. This sort of private good may be acquired by taking a leadership role in collective activity or through individual company efforts. Yoffie and Bergenstein (1985), for instance, describe how American Express "built political capital" by "developing an issue which had broad political appeal, and fit into the agendas of key politicians," even though that issue was not of great significance to AmEx's business.

As these examples (and others to be introduced later) illustrate, the set of political science researchers studying individual firms is not empty. It is, however, far smaller, than the subject merits, as reviews of research on interest groups have noted time and again. Reflecting on the dominance of companies in their 1996 lobbying report data set, Baumgartner and Leech (1999) write that "A complete understanding of the role of groups in politics must involve significant study of the role of individual corporations." Dahl (1959), Epstein (1980), Salisbury (1984) and Berry (1994) reach similar conclusions.

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

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

The fundamental mismatch between interest group theory and the study of businesses as political actors is implicit in the term "interest group." The ideal typical interest group is a voluntary association of citizens who seek to influence public policy. The ideal typical corporation is a hierarchy that seeks to maximize profits. Investment in political capabilities is simply one among many means for doing so, and not necessarily the most important. These differences in structure and goals between the two kinds of organizations are so fundamental that we must develop a political theory of the firm that is distinctive in many respects from interest group theory. (Salisbury 1984)

The need for such a theory is palpable in the study of mobilization, that is, the entry of interest organizations into the political sphere. Olson focused the attention of interest group researchers on mobilization in 1965, and much of the field's energy since then has been devoted to understanding how citizens surmount barriers to collective action. Some of this work is relevant to business associations, particularly those with large memberships. These organizations may well offer selective incentives, for instance, to their members and to the individuals who represent the members in association activities. However, as King and Walker (1992) show, these benefits are very different than those that accrue to citizens who join interest groups (or patrons who support them).

Olson himself (1965) notes that his "byproduct" theory is of limited applicability to associations with small memberships, in which strategic considerations complicate interactions. The same is true of mobilization by companies. Olson's framework is most useful in explaining why small firms rarely have any political capabilities. They usually free ride on the efforts of other actors, just as many citizens do. Business units within a large, diversified firm may also fall prey to the collective action problem when the corporate government affairs function is highly dependent upon diverse units of the firm for support. In such an instance, no single unit perceives that it would benefit enough from investing in government affairs to do so, even though the investment from the perspective of the firm as a whole might be worthwhile.

More typically, though, government affairs units report to corporate headquarters. Headquarters' control helps to assure that this function reflects the firm's general interests, rather than the parochial interests of its subsidiary units. Government affairs managers may even reflect the firm's expected general interests in the future if information from the firm's strategic planning process is incorporated into their work. Centralization of corporate government affairs limits coordination problems and reduces transaction costs, benefits of the sort that provide one major justification for the existence of corporate hierarchy in general. (Williamson 1981)

The autonomous individuals that are the key units in the theories of Olson (1965), Salisbury (1969) and others are absent in this context. In principle, the chief executive officer (CEO) determines when the interests of the firm warrant entry into or exit from the political process based on information flowing up from his subordinates. Subordinates, in turn, implement the decision. This process may be conceived of in a variety of ways and has many pathologies, some of which are discussed below, but it is different from the mobilization process as it is usually understood in the interest group literature.

Hierarchy also has important implications for preference formation, such as the establishment of issue priorities and positions. Interest group theory typically assumes that groups reflect the values of their members. Some groups have formal procedures for consulting their memberships, and most presumably keep tabs informally. The ultimate check on any group, though, is its ability to garner resources. A constant stream of communication from the leadership is required to attract and retain members and to win lump-sum patronage. Groups often rely on the media as well as direct communications to demonstrate that their priorities and positions remain aligned with those of members and patrons. Media coverage gives these resource providers an apparently independent source of evidence about group efficacy. If resources falter, groups may respond by changing their preferences. (Moe 1981, Coglianese 1996)

Corporate government affairs organizations do not express the values of a membership, whether conceived as the employees or the shareholders. As Salisbury (1984) puts it (speaking of institutions more broadly), "It is not member interests as such that are crucial, but the judgments of organizational leaders about the needs of the institution as a continuing organization." Regular communication within the hierarchy, both formal and informal, shapes these judgments and aligns the positions and priorities of government affairs with headquarters and other units. The corporate budget process and the hiring and firing of managers provide the ultimate checks in this system.

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

The political strategies and tactics of companies bear more resemblance to those of ideal typical groups, because both operate in the same external institutional environment. It seems reasonable, therefore, to lump groups and companies together in, for instance, theories about the selection of venues for legislative lobbying or issue framing. (Hojnacki & Kimball 1998; Baumgartner et al. 2000) However, in this area, too, important differences should be noted. The most obvious are the potential scale of corporate political resources and the potential speed with which they can be deployed. Government affairs functions receive only a tiny fraction of corporate revenues, but in a crisis, the hierarchy can divert funds to match virtually any challenge.

The scope of corporate political resources is also potentially broader than that of interest groups, and not merely because businesses have more money (although that helps). Business assets may be used to achieve policy goals in subtler ways than the heavy-handed capital strikes envisioned by structural power theorists. Prices may be altered temporarily to change the perceived need for political action, as research on the pharmaceutical industry has shown. (Ellison & Wolfram 2001) Product design may also manifest political intent, as in the case of "safer" cigarettes. (Miles 1982) Employees, suppliers, and others who are subject to the control of the hierarchy may be instructed to act on behalf of the firm's political objectives. (Baron 1995)

Companies are also constrained strategically in ways that interest groups are not. Most obviously, they operate within a different legal regime, for instance, in the areas of antitrust and campaign finance. Businesses are more likely to face public skepticism about their legitimacy and will tend therefore to use strategies and tactics that shield them from visibility. (Hula 1999, Mitchell, Hansen & Jepsen 1997) Whereas interest groups thrive on and may even require media coverage, businesses may well shy from it.

These observations about political mobilization, preference formation, and strategic and tactical choice illustrate my title's claim that businesses are not interest groups. They are specific sorts of institutions. (Salisbury 1984) Interest group theory must be qualified and amended and some aspects of it discarded if we are to get analytic purchase on them. An alternative starting point for the study of firms as political actors is the economic theory of the firm.

Beyond Olson: The Neoclassical Microeconomic Approach

The firm is a peculiar entity when viewed from the microeconomic perspective. If all the assumptions of neoclassical microeconomic theory are fully realized, the firm need not exist at all. Individuals operating with complete information and optimizing at the margins would contract with one another to carry out the economic activity that is ascribed to firms. Studies of firm behavior, however, tend to treat firms themselves as if they are rational individuals and to ignore what goes on inside of them.

The "as if" approach provides the standard assumptions for most economists who have delved into politics and for many political scientists as well. Stigler's (1975) theory of regulatory capture provides a good entry point into the neoclassical microeconomic approach to the politics of firms. Stigler assumes that businesses invest in political capabilities in order to maximize the rents that they receive through government policies that restrict competition. Stigler works backward from the results of government action to derive the parameters that determine firm behavior; "truly intended effects," he writes, "should be deduced from actual effects…"

This approach has been developed most fully by scholars of international trade under the rubric of "endogenous tariffs." The idea is similar to that put forward by Stigler: businesses invest in influencing trade policy in order to create barriers against foreign competitors. Endogenous tariff models imply that firms make political decisions, yet very often scholars in this literature take the industry, rather than the firm to be the unit of analysis. Grossman and Helpman (1994) simply state "we do not at this point have a theory of lobby formation."

More recent work has attempted to fill this void. Game-theoretic models have been developed to identify the conditions under which firms will choose to cooperate in seeking protection. Pecorino (2001), for instance, provides depth to Olson's concept of "intermediate" groups, exploring the relationship between the relative size of dominant and challenger firms and the propensity to cooperate. When the gap in size between these firms is relatively modest, they have difficulty maintaining cooperation. Pecorino points out that his model predicts a non-linear relationship between standard measures of industrial concentration and levels of collective action, contrary to the specifications commonly used to test Olson's theory.

Empirical work on endogenous tariffs has lagged behind modelling. By and large, researchers in this tradition use campaign contributions, particularly those of political action committees (PACs), to measure the political activity of companies. In doing so, they add to "a body of research infamous for its contradictory findings." (Baumgartner & Leech 1998) PAC contributions are just one of many tactics that firms or their representatives can employ in their attempts to exert political influence, and they have the potentially significant disadvantage of being highly visible. (Lowery & Gray 1997) They are made for a wide range of purposes, of which influencing trade policy in conjunction with the efforts of other firms is but one. Reliance on PAC data exemplifies the "streetlamp problem" (Godwin & Seldon 2002, Milyo, Primo & Groseclose 2000): looking only where the data are most easily available. The disappointing results of these tests (Rodrik 1995) are not surprising.

Lobbying disclosure reports, which have been filed since 1996, should improve measurement of corporate political activity. Schuler (1999), Hansen and Mitchell (2000), and Ansolabehere, Snyder and Tripathi (2001) use multiple indicators. Better measures will test the neoclassical microeconomic theory of the firm more convincingly, not only in trade policy, but also in taxation (Quinn & Shapiro 1991) and other policy areas that have not yet drawn as much attention. Such empirical work will ultimately feed back to the model-builders and advance the whole enterprise.

Some of the disappointment alluded to above, however, reflects more fundamental difficulties. The "as if" assumptions are simply too heroic to stand as a complete basis for our understanding of such an important subject. The weakest links in the chain have to do with information. In order to invest rationally in political capabilities, a firm has to "know" (at least probabilitistically) what policies will result from its investments and how those policies will affect its bottom line. The last element in this calculus may be feasible in areas like trade and tax policy, in which the costs and benefits of short-run outcomes are quantifiable and relatively predictable. A specific percentage change in the cost of a competitor's doing business, as in the case of a new tariff, can be estimated fairly precisely. Over the longer term, though, such calculations become much more complex. Foreign firms may, for instance, make new investments in the domestic market in order to jump trade barriers, as Japanese auto manufacturers did in the U.S. during the 1980s and 1990s. Other sorts of policy outcomes have even more ambiguous effects, even in the short-term. The costs of regulatory compliance or the benefits of government-funded R&D, especially relative to one's competitors, for instance, can be hard to guess.

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

Large firms face additional complexity in making these decisions. A large firm typically must decide how to allocate its political resources across a wide range of issues, each of which poses the informational challenges noted above. It may face tradeoffs because the same policy outcome has different effects on different products that it makes (or on current compared to future products). It may attempt to place a value on its political reputation, to estimate what it is worth to the "brand" to become known as a good citizen.

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

The fact that such conflicts occur points to a second major line of criticism of the neoclassical microeconomic theory of the firm: the firm is not unitary. Even if particular people within the firm possess all the information required to make rational decisions, such decisions may not necessarily get made. Indeed, if all the employees of the firm are acting rationally individually, it is quite possible that a decision that is suboptimal from the organization's perspective will be made. Government affairs representatives might take advantage of their superior knowledge of the political landscape to advance their personal preferences, rather than those of the firm, for example. (Dexter 1969, Kersh 2002) CEOs, similarly, may get involved in Washington in order to indulge a “taste” for national politics and enhance their celebrity. Suspicions about such behavior are common enough to have generated slang terms like “going native” and “Potomac fever.”

This objection might be addressed by the application of principal-agent models. These models are regularly employed by economists who study investment and vertical and horizontal integration. They view the firm as a “nexus of contracting relationships.” (Jensen & Meckling 1976) Contracting, within this frame of reference, is an institutional innovation that helps to solve agency problems. This approach, of course, has been imported into political science under the label “the new economics of organization.” Corporate political behavior, sitting on the boundary between the two disciplines, is a ripe target for it. (De Figueiredo & Tiller 2001)

By maintaining the assumption of rational maximization even as it relaxes the assumption of unitary decision-making, the "nexus of contracts” theory of the firm multiplies the informational challenges described above. These challenges are particularly great for the firm's senior executives, its key decision-makers. These people are likely to have little time and attention for political matters, and they may lack critical background knowledge to understand political processes. Yet, only these people have a grasp of the future direction of the firm, its overall strategy. These decision-makers are likely to turn to informational short-cuts and may well be vulnerable to political pressures within the firm. Under such circumstances, what Cyert and March (1992) call "the inefficiencies of history" tend to cumulate, rather than being continually squeezed out by optimizing behavior.

These criticisms provide a starting point for an alternative political theory of the firm. I do not mean to dismiss the neoclassical and "nexus of contracts" theories of the firm. Their advocates will certainly continue to produce results worthy of attention. The danger is that, as Stigler once put it, it becomes "essentially inconceivable (but not impossible) that the theory of utility-maximizing is wrong." In this situation, it is possible to demonstrate the quality of one's understanding, as Grier, Munger, and Roberts (1994) do, by modeling the campaign contributions of the cigarette industry without making any reference to controversies about smoking and health.

Alternative Foundations: The Historical and Institutional Approach

Should the neoclassical microeconomic approach attain monopoly power in this area of research, responsibility will lie less with the exertions of its champions than with neglect by potential advocates of alternatives. Cyert and March's "behavioral theory of the firm" serves as the foundation of a rich minority tradition within economics and management. (Cyert & March 1992, Foss 1997) The core assumptions of this theory (and its numerous contemporary variants) diverge dramatically from the conventional approach. They provide a compelling point of departure for the study of firms in politics.

One assumption is that rationality is bounded. Politics is usually so complex and uncertain that neither firms nor individuals within them are able to act as rational maximizers. In order to make decisions about a company's political agendas, positions, and strategies, executives rely on an array of devices to simplify calculations and resolve uncertainties.

Another assumption is that the internal organization of the firm affects its political attitudes and activities. March (1962) borrowed from pluralist political science to characterize "the business firm as a political coalition." What people in the firm know and what they care about depends in large part on their location and responsibilities within the organization. Rufus Miles put it this way: “where you stand depends on where you sit.” (NW Polsby, personal communication)

The final key assumption of the alternative approach is that the environment is not so constraining that it allows firms no real choices. “Imperfect environmental matching,” as Cyert and March (1992) refer to this assumption, means that firms (and units and processes within them) typically survive even when they make suboptimal choices. Two businesses may thus react to the same political stimulus in different ways. Absent a crisis, these interpretations variations may be self-reinforcing; small initial differences can thus produce large divergences over time.

The assumptions that underpin the alternative theory of the firm dovetail nicely with those that underpin the historical and institutional approach to political science, expressed in American politics mainly by the subfield of American political development. Although the primary focus of this scholarly community has been the development of the welfare state, a number of authors have applied this approach to businesses.

Simplifying Devices: Ideology, Instinct, and Abdication

If individuals and organizations are only boundedly rational, they must rely on informational shortcuts to understand their environments and make decisions. Scholars have identified at least three such simplifying devices that businesses use in the political sphere. Ideology serves as a set of cognitive filters and predispositions that reduces the inherent uncertainty of politics. Businesses may also simplify decision-making by deferring to the views of an individual, usually at the top of the hierarchy, but sometimes at the bottom.

Vogel (1978) characterizes the ideology of American corporate executives as "hostility, distrust, and not infrequently, contempt" toward government. This ideology contrasts with those of executives abroad whose close linkages with the state give them greater confidence in its efficacy and greater acceptance of its legitimacy. Although Vogel's assessment of its historical sources has not held up well (Gerring 1998, Hawley 1974), anti-statism has grown significantly in strength in managerial circles since the 1970s. Plotke (1992) identifies a "discursive project" among conservative scholars and policy activists that enhanced the credibility and social legitimacy of antistatism by providing a convincing interpretation of the economic troubles of that decade.

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

The importance of ideology depends on the circumstances. The stylized fact that Americans in general are ideologically conservative but operationally liberal has its counterpart among American business executives. General disdain for government is frequently overridden in pursuit of specific benefits. Companies run by "corporate political entrepreneurs" anchor the pragmatic end of the spectrum. Yoffie and Bergenstein (1985) coined this phrase to describe a

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

Yoffie's archetype corporate political entrepreneur is William McGowan of MCI. MCI's success would have been impossible without deregulation of the telecommunications industry, particularly the end of AT&T's monopoly on the provision of long-distance telephone service. The political task was daunting; AT&T was one of the world's largest businesses, its stock widely held by widows and orphans, its clout, legendary. McGowan, among other things, moved MCI's headquarters to Washington, D.C., in order to move the deregulatory process along, which it ultimately did with spectacular consequences. As Noam (2003) puts it, McGowan and his allies "did not so much bust a trust as split a policy coalition."

The concept of the corporate political entrepreneur has not been much developed beyond Yoffie's sketch. While they are surely exceptional among their peers, these CEOs may be particularly valuable to study because of their substantive and symbolic impact. Henry Kaiser catalyzed changes in public policy and business in areas as diverse as construction, defense, and health care. (Adams 1997) More recently, Kenneth Lay of Enron seems to fit the description of a corporate political entrepreneur, with consequences that are not yet clear. It seems likely that the growth of the Federal government over the past century produced an increasing number of such people and businesses at the national level, although as the MCI and Enron examples suggest, deregulation may provide promising entrepreneurial opportunities as well.

Many CEOs have neither strong ideological views nor strong political instincts. Some, in fact, abdicate responsibility for the political activities of the firm altogether. Such a manager may well lead a business that has no such activities at all. However, he may also delegate political responsibility to an agent who has sufficient autonomy that her own preferences may then be equated with those of the business. Kersh's (2002) direct observation of eleven business lobbyists, some of whom are Washington representatives of companies, leads him to conclude that that this situation is not rare. "[M]ost clients know little of Washington activity and decisions, in part because of the ambiguous and complex nature of the policy process." Washington representatives are therefore able to do what they please most of the time, keeping the "big bosses" in the dark or persuading them that the lobbyists know what's best for the business.

Kersh's findings pose a challenge to the conventional wisdom in the interest group literature that lobbyists are faithful agents of their employers. (Heinz et al. 1993) Whether they can be generalized beyond the lobbyists whom he has followed around remains an open question. Establishing credible claims about autonomy is complicated by the paucity of the written record and the interests of all parties in providing accounts that conform to the expectation of faithfulness. It seems likely, though, that abdication by the CEO is not the only prerequisite for lobbyist autonomy; the institutional processes of the firm must also permit it.

Institutional Processes: Specialization, Compensation, and Cultural Norms

The political agendas, positions, and strategies of large American businesses are not usually determined exclusively by the CEO (whether ideologue or entrepreneur) nor by a gone-native Washington representative, but rather through a "conversation" (a word one hears frequently in discussions with practitioners) within the firm. The shape of this conversation – the voices heard, the terms of the argument, the way it is resolved into a decision, and so on – is determined primarily by institutional processes, that is, formal and informal patterns of interaction and behavior that are taken for granted within the company. The larger the business, the more diverse its products, and the more widespread its facilities, the more complex its conversations are likely to be. As one executive in a large multinational company who had also served in senior positions in the U.S. government put it, politics at corporate headquarters was just as byzantine as that in Washington and "there's no *Washington Post* to tell you what's going on."

Martin (2000) reports a systematic investigation of intrafirm "conversations." One of her central findings is that firms possessing significant "corporate policy capacity" tend to adopt positions that deviate from the dominant conservative ideology in the realm of social policy. Corporate policy capacity arises in part as a byproduct of day-to-day work that engages businesses with government. Many of the human resource managers whom Martin interviewed, for instance, had become familiar with the intricacies of health insurance regulations and job training programs by dint of such experience. Another source of corporate policy capacity is the government affairs function. In large government affairs organizations, "issue managers" are responsible for monitoring and advising the hierarchy with respect to specific areas of policy.

Martin argues that coalitions of these two types of policy experts within the firm can exert a powerful influence on a company's "conversation."

Persuasion may account for much of this influence. Experts, to state the obvious, know things that others do not. Martin finds, for instance, that firms that employ policy experts are able to make better estimates of the expected impact of proposed policy changes and of the likelihood that proposals will be enacted. Experts also derive authority and legitimacy from their standing within external professional communities. Parson's (2003) research on the stratospheric ozone convention, for instance, focuses on the deliberations of inter-company groups of manufacturing experts. These groups, Parson argues, produced substantially larger estimates of potential reductions in the use of ozone-depleting chemicals than their employers had expected, validating tough policy positions. Moreover, they helped their employers realize and even exceed these estimates in practice by becoming internal champions of the new policy.

In addition to altering what is talked about, corporate policy capacity affects who talks to whom. Formal reporting relationships are one indicator. When the government affairs function reports directly to the CEO, for example, policy expertise is more likely to be considered in the decision-making process than when there is no such function or when it reports through an intermediary, such as the general counsel. A subtler form of influence may be exerted when, as is often the case, a policy expert is assigned to manage the conversation within the firm. By determining who gets a say and in what context, she may shape the allocation of attention and the alliances that form around particular positions.

The degree to which firms are willing to invest in and use policy expertise is correlated with firm size. Corporate policy capacity is a fixed cost that does not obviously contribute to the bottom line. Larger firms are more likely to be able to amass the overhead to cover this cost than smaller firms. As Martin (2000) puts it, "the story of decision-making presented here offers insights into the way size matters" in determining preferences. It is not the absolute size of the rents that may accrue to large firms that make their preferences different from those of smaller firms, as the Olsonian tradition suggests, but rather variations in their institutional processes that stem from organizational differences and functional specialization.

Hiring and compensation practices comprise another set of institutional processes that can have significant consequences for businesses as political actors. Firms that reward the acquisition of policy-relevant knowledge and skills and the investment of time in political activities among non-experts act differently than those that do not. CEOs are sometimes hired, for instance, in part because of their political capabilities. (Holland 1994) These capabilities may well be valued for private reasons, such as the need to manage global strategic alliances and engage in other forms of "corporate diplomacy." In many cases, though, public policy is a key element in the firm's strategic environment, and the CEO is hired with this fact in mind. “The biggest single change in management during my career,” Pfizer CEO Edmund T. Pratt, Jr., told Santoro (1995), “has been the increase in time that managers spend dealing with government.”

Regardless of the reason why his skills are valued, a CEO who is good at politics will tend to orchestrate sophisticated conversations about policy. In addition to participating in the formulation of his firm's political strategy, such a CEO is likely to be a valued asset in its implementation, particularly in lobbying. The diffusion of the “CEO club” model of business association, beginning with the formation of the Business Roundtable in 1972 and extending to narrower groups like the Semiconductor Industry Association, illustrates the increasing use of CEOs as political spokesmen.

A less prominent but potentially more important facet of hiring and compensation pertains to lower-level managers. If these employees share the political interests of the firm and are willing to act on them, they may be deployed in "grassroots" campaigns. Such campaigns are not new, but they are "being used in different, more sophisticated, and potentially more powerful ways." (Goldstein 1999) Businesses, especially those with widely dispersed workforces, have made greater use of grassroots mobilization techniques in recent years. They gain access and credibility when they are able to deliver a common message through different voices in different jurisdictions or legislative districts. Goldstein (1999) notes that some businesses now include participation in government affairs activities in their evaluation of key employees, such as plant managers. These local elites or "grass-tops" are the linchpins of lobbying strategies that may also extend to the rank-and-file workforce. When employees are unavailable or unsupportive, suppliers or customers may serve just as well. Baron (1995) advises managers to consider their entire "rent chain" as a potential source of political advantage.

As Goldstein describes, new technologies have made it easier to identify and mobilize the grass-tops and grassroots. However, he does not fully explore the differences between businesses and other interest organizations that use these tactics. Control over the paycheck (or accounts payable) is the biggest of these differences. Businesses also have the advantage of having dedicated electronic communication infrastructures in place, which are regularly in use for non-political purposes. The employee who logs into the company intranet is likely to be a more reliable messenger than the citizen who gets an email at home from a group to which he belongs. The employee may also be more motivated, particularly if the issue under consideration poses a threat to her livelihood.

Of course, employees and their employers do not necessarily see eye to eye on political matters. Practices that are perceived to provide policy-relevant information and incentives to take action on issues in one organizational context may be seen as high-handed intimidation in another. Such differing perceptions reflect differing cultural norms that prevail within firms. Fones-Wolf (1994) chronicles employer efforts to shape such norms during the 1940s and 1950s. Quaker Oats' IGHAT ("I'm Gonna Holler About Taxes") postcard and petition drive among its employees is a vivid illustration. In that period, unions aggressively sought to establish counter-norms and to mobilize employees for their own political purposes. With the decline in union density over the past half century, this important influence on corporate political culture has diminished substantially.

On the other hand, the workforce is more educated than it used to be, and "knowledge workers" may be more likely to question the company line than their parents or grandparents would have been in the absence of independent unions. In the high-technology industry, for instance, many in the rank-and-file hold libertarian and anti-authoritarian views. Efforts to mobilize them for relatively narrow corporate purposes may lower morale or even provoke a backlash. At least one high-technology business that I have studied refrains from conducting grassroots campaigns for these reasons.

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

Imperfect Environmental Matching: Learning, Path Dependence, and Crisis

Cyert and March's (1992) claim that the environment in which firms operate typically falls far short of constraining their choices is perhaps the most controversial aspect of their critique of the neoclassical microeconomic theory of the firm. If (as the latter theory holds) similarly positioned firms imperil their survival by failing to follow similar courses of action in response to similar environmental conditions, institutional and other differences between them become irrelevant. Either these differences are eliminated by choice or by bankruptcy, or they become equally good and equally unimportant means to the same end. Either way, it is "as if" they were fully-informed, unitary, rational decision-makers. If, on the other hand, the environment permits such firms to vary, then one must open the organizational "black box" to understand why.

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

One might characterize this process as “learning.” Suarez (2000), for example, studied how large pharmaceutical firms responded to success and failure in securing tax breaks for facilities located in Puerto Rico over multiple legislative episodes across a couple of decades. In some episodes, these firms worked together as political allies; in others, they did not. Suarez argues that a poor policy outcome in one episode prompted a change in strategy during the next one and that a good outcome led to maintenance of the same strategy. Learning in this account is little more than “an automatic response guided by prior experiences.” Suarez finds that firms do not consider whether something other than their strategies led to the initial outcome nor whether the political environment has changed significantly between episodes. Nor are lessons derived that span issues or transcend firm boundaries.

Martin (2000) advances a more nuanced vision of corporate political development. She identifies a range of "policy legacies" that systematically shape perceptions and actions over time. The most interesting form of policy legacy is institutional change within the firm. Employer-provided health insurance constitutes such a legacy, according to Martin. The repeated failure of reformers to establish national health insurance induced employers (often under union pressure) to offer health insurance as a "fringe benefit." The corporate human resources bureaucracies that arose to administer these benefits became, as we have seen, a major element of corporate policy capacity. More important, the pattern of costs imposed by the private provision of benefits and the associated pattern of behavior powerfully influenced the preferences of firms, so much so that they ultimately hardened into norms. (Hacker 1998)

Imperfect environmental matching may allow not only for durable variation in firm responses to external stimuli, but also for the endurance of internal idiosyncracies. The quirks of company founders, for instance, are often perpetuated by their successors, and these may have important political consequences. IBM CEO Thomas Watson, Jr. adopted a code of conduct banning corporate political contributions in the 1970s; in 2000, IBM was one of only 9 firms in the *Fortune* 100 that had neither formed a PAC nor contributed soft money. Watson's early successors maintained his policy out of shared beliefs and loyalty. His later successors were constrained by both internal and external perceptions that IBM's political style precluded such giving; being such a large and long-standing non-contributor gave the firm a certain cachet that counter-balanced the costs of opting out of the money game. (Hart 2001)

"Path-dependent institutional development" is a broader, more neutral, and more accurate description of these kinds of historical processes than "learning." Once networks, organizational structures, and norms are set in place – whether as a result of careful, conscious reflection or by automatic reflex – they may well become self-reinforcing. In a relatively peripheral function of the firm, in the confusing domain of politics and policy, "timing and sequence" as Pierson (2000) puts it, matter even more than they do in the economic sphere. This vision of firms having distinctive political competencies derived from historical choices and accidents accords nicely with the emerging "resource-based" theory of the firm, which posits an analogous process in the development and execution of corporate strategies. (Miles 1982, Foss 1997)

The "inefficiencies of history," to invoke Cyert and March's phrase again, though, may not cumulate forever. Moments of crisis tend to shake things up. Microsoft, for instance, quite deliberately eschewed significant investments in its political capabilities during the 1990s, even as it grew to be the most powerful company in one of the country's most important industries. The Department of Justice's 1998 lawsuit, which threatened to break the firm up, finally prompted the firm to engage intensively with Washington and to become more like its brethren in the Fortune 500 in this regard. (Hart 2002)

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

This hypothesis suggests that the predictions of the neoclassical and institutional theories of the firm may converge during crises, whereas Pierson's argument suggests that the rational choice and path dependence theories of politics diverge in these periods. When firms are competing with one another (as Microsoft and its adversaries are), convergence makes sense. The competitors must quickly determine what works or go under. After the crisis passes, they 7can drift onto distinctive paths. When a group of firms faces a crisis together, on the other hand, collective, monopolistic institutions like those that Pierson has in mind may well emerge. A self-regulatory code, for instance, may bind these firms to particular strategies and practices that long outlive the crisis that precipitated the code's imposition.

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

Conclusion: Looking Forward

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

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

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

I have justified the need for more political science research on individual companies on crass, empirical grounds. There is a gaping hole in what we know about Washington. In doing so, I am being expedient. That hole in our knowledge, though, has a normative significance that is worth emphasizing in conclusion. The Internet "revolution" notwithstanding, large companies remain, as Drucker (1964) observed, the leading institutions in American society. They exercise substantial power over people in their roles as workers and consumers. As citizens, however, the people are meant to have a check on this power. We need not presume that companies act malevolently when they take part in politics, nor even that their pursuit of their interests will necessarily redound to the detriment of the general interest. But we ought to find out what it is that they are doing, so that we can make informed judgments about them and, perhaps, to reform the political system in response.

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