

# The Political Theory of the Firm<sup>1</sup>

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## ***1. Introduction: Beyond the “Artificial Person”***

In the late nineteenth century, American courts accepted the counterintuitive proposition that corporations were, for certain legal purposes, persons (Lamoreaux 2004). They were therefore endowed with some inalienable rights, although not exactly the same rights as those to which “natural persons” (as we corporeal beings thus became known) were entitled by the U.S. Constitution. “Artificial persons” cannot vote in the U.S., but, among other things, they can and do “petition the government for a redress of grievances” and exercise freedom of speech, individual rights that are protected by the First Amendment. A tangled web of law tries to distinguish between the rights held by the two kinds of legal persons, but litigation over the exact boundaries is ongoing.

Scholars of business-government relations, too, typically treat firms as if they were persons. Like consumers in microeconomic theory, firms’ actions are assumed to manifest individual tastes and preferences. Like states in much of international relations theory, firms are taken to be unitary, rational decision-makers. As in law, the concept of corporate personhood can help social science to make sense of a complex reality. Yet, as the law also recognizes, this simplification, useful as it is, must sometimes be rejected, lest we misinterpret what we seek to explain and jeopardize values that we hold dear.

This essay argues for balancing corporate personhood – or, more precisely, the unitary rational actor political theory of the firm, which predominates in the social science literature – with two other theories of the firm that have not yet been as fully developed. These alternatives treat the firm as a complex nexus of contracts among individual rational actors or as a set of organizational routines enacted by individuals playing roles. Although the three theories sometimes yield conflicting hypotheses, they more often direct analytical attention to different phenomena. From this perspective, as I argue at the end of the essay, they are, at the broadest level, complementary, like the blind men who feel different parts of the elephant in the Indian folk tale.

Greater scholarly attention to the political theory of the firm is justifiable on both empirical and normative grounds. The empirical case rests on the ubiquity of firms in contemporary politics in the advanced industrial nations and, increasingly, in developing

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<sup>1</sup> This essay builds upon and draws from Hart (2004). Thanks to Lee Drutman for his advice.

countries as well. U.S. data compiled by Baumgartner and Leech (2001), for instance, show that individual firms spend more money on Washington lobbying than all other types of organizations combined, including business associations. Interest representation in Brussels, too, is dominated by business lobbyists, with individual firms playing an increasingly important role (Coen 2007, John & Schwarzer 2006).

If the empirical case is powerful, the normative case is profound. For contemporary capitalism to function, “artificial persons” must exercise substantial power over “natural persons” in their roles as workers and consumers. In their roles as citizens, however, the people ought to be able to exert a counterweight. (Lindblom 1977) If they are subject to unnecessary risks when they do their jobs or purchase the necessities of life, for instance, citizens should be able to “broaden the scope of conflict” beyond the private sphere (Schattschneider 1960) and invoke the power of the state to hold firms liable, regulate them, or otherwise mitigate the danger. If firms hold the reins of public power as well as private power, this recourse is lost and injustice prevails.

The political theory of the firm provides the conceptual framework for understanding what firms are doing and what it means for the politics in which they operate. This essay proceeds by explicating each of the three theories – unitary rational actor, nexus of contracts, and behavioral. Within each of these sections I offer a brief assessment of the empirical findings and opportunities associated with the theory at hand and of its limits. I conclude with the synthesis alluded to above.

## ***2. Unitary Rational Actor Theory***

The concept of corporate personhood is a legal one, but its manifestation in political science derives primarily from microeconomics. This approach treats the firm “as if” it is an individual and “as if” it is rational (Becker 1976). This individual knows what it wants from the political system, can calculate the cost of getting what it wants, and acts on the basis of these calculations. These “as if” assumptions may be demonstrably false, as advocates of the alternative theories like to point out, yet they nonetheless provide a starting point for empirical research that has yielded significant findings.

Each of the assumptions is worth spelling out in a bit more detail. “Natural persons” want to maximize utility in microeconomic theory, a concept that encompasses not just material pleasures but ethereal ones as well. What “artificial persons” want is less complicated and easier to measure: profits. Profits (and expectations of them) determine whether a firm grows or shrinks and, ultimately, survives or fails. Unlike the theory of the rational voter, in which the material payoffs from taking action are infinitesimal, there is no need in the unitary rational actor theory of the firm to invoke “psychic benefits” or “duty” (Ferejohn and Fiorina 1974) to explain behavior.

Another assumption of this theory is that a firm can assess the impact of political expenditures on its bottom line (Baron 1995). These calculations are comprised of two interlinked elements. First, a firm must determine the degree to which alternative

policies will benefit it. Second, it must predict how much each political activity that it might undertake will enhance the probability of the preferred policy being enacted. The information required to make these calculations is taken to be readily available in the political environment in combination with the firm's proprietary knowledge base.

Finally, the unitary rational actor theory of the firm assumes that there is no "slip twixt cup and lip," as the saying goes. If the expected benefit of a political expenditure is greater than the expected benefits of alternative investments that the firm might make, the cost is incurred. The firm thus operates on what might be called a "political possibility frontier" (analogous to the production possibility frontier in economics) in which its political resources are efficiently invested across policy areas, jurisdictions, and tactics. Innovation in political "technologies" (defined broadly) may shift the frontier out, allowing the firm to do more with the same resources, just as technological innovation in production technology shifts out the production possibility frontier.

Mancur Olson's *The Logic of Collective Action* (1965) is the *locus classicus* for the unitary rational actor theory. Olson's foray into political science was one of the first by an economist, and his analytical framework proved to be so attractive that the American Political Science Association now awards a dissertation prize in his honor in the field of political economy. Although Olson's *Logic* has been applied to phenomena as diverse as military alliances (Olson and Zeckhauser 1966), state formation (Levi 1988), and environmental policy (Ostrom 1990) (to name but a few), he initially intended that it explain the behavior of economic interests, including businesses.

Olson deduced that most firms, especially small firms, would choose not to undertake political activities, especially activities aimed at providing collective benefits for business as a whole. Such firms would instead free ride on the efforts of others or simply accept the consequences of inactivity, because the costs of political activity at the level of the individual firm outweighed the expected benefits at that level. This prediction has been confirmed by many studies, such as those showing that many U.S. firms do not make campaign contributions or lobby (Hansen, Mitchell & Drope 2004, Drope & Hansen 2006). Olson's work overturned the conventional wisdom in political science, exemplified in David Truman's 1951 *magnum opus*, *The Governmental Process*, that action would follow without complication whenever a political interest emerged.

Olson's *Logic* also challenged the view, widely held among left-leaning scholars, that a unified business class dominates politics in capitalist societies. (Miliband 1969, Mills 1956) Rational calculation by firms, according to Olson, should generally preclude the formation of a "power elite" or "executive committee of the bourgeoisie." Defections from such entities by individual benefit-seekers should be common when they do form. Research on pluralism and corporatism generally confirms this expectation; business unity is more likely to be sustained in smaller countries in which a few firms are able to make credible commitments to one another and in which the state has the authority to punish defectors (Goldthorpe 1984, Hall & Soskice 2001). In the U.S., on the other hand, a big country with a weak state in this respect, business unity is rare (Vogel 1989).

The unitary rational actor theory of the firm ought to direct attention away from peak business associations (Smith 2000) that seek collective benefits for all firms and toward “private goods” that benefit individual firms (Brasher & Lowery 2006). Godwin and Seldon (2002, 216) provide evidence that private goods dominate the agendas of large firms. “Airline lobbyists,” they write, “reported spending 75-95 percent of their time on issues affecting only their firm or their firm and one other.” The theory also supplies a lens for reinterpreting the activities of industry associations, coalitions, and the like. Individual firms may use nominally collective entities that they actually control to provide “cover” to pursue private goods without appearing to do so publicly. They may also use these entities to block similar efforts by rival firms.

Private goods that have a measurable effect on the corporate bottom line and those that can be divided easily among contending interests are the most likely targets of business political activity under the unitary rational actor theory of the firm. Government contracts are an obvious case in point. Substantial empirical research shows a strong association between dependence of a firm on government contracts and its political activity, such as lobbying and campaign contributions. (Lichtenberg 1989, Hansen & Mitchell 2000) Firm-specific regulatory issues similarly motivate political activity (deFigueiredo & Tiller 2001). Brady and his colleagues (2007), for instance, find that regulated broadcasters and energy firms are substantially overrepresented in U.S. lobbying reports.

Taxes and trade protection are easily measurable and divisible, too, and they have been the subjects of substantial research that rests on the unitary rational actor theory. A recent study, for instance, finds that the more a firm spends on lobbying in the U.S., the lower the effective tax rate it pays (Richter, Samphantharak, and Timmons 2008). Similar associations have been found in research on anti-dumping petitions lodged with U.S. trade authorities (Drope & Hansen 2004).<sup>2</sup>

Corporate government affairs managers vouch in interviews for the importance of expending effort on political activities that can be directly linked to the bottom line. Sometimes, the senior executives to whom these managers report (such as an executive vice-president with broad oversight responsibilities) only recognize the value of an activity if it is placed in the familiar terms of monetary return on investment (ROI). Indeed, firms in which the government affairs function is controlled by executives with this mindset may explicitly impose an ROI framework on the function when they allocate budgets and headcount each year.

Yet, the same interviews also suggest that such myopia is far from universal. Most firms with well-developed government affairs functions take the idea of “investment” seriously. They expect returns over a period of years and recognize that their political activities comprise a portfolio that will yield payoffs in aggregate, not individually. This approach is perfectly compatible with the unitary rational actor theory of the firm (Snyder

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<sup>2</sup> I should note, however, that many studies of taxes and trade protection take the industry, rather than the firm, as the unit of analysis, and, ironically, essentially assume away the collective action problem. Grossman and Helpman (1994) simply state “we do not at this point have a theory of lobby formation.”

1992); in fact, one would expect a sophisticated “person” with a potentially infinite lifespan to adopt a long time horizon and a probabilistic risk assessment. Too often, researchers working within this tradition have operationalized the unitary, rational actor theory of the firm in its most simplistic form.

However, as one’s model of rationality becomes more complex, the information requirements that the model places on the decision-making process become more demanding. Over a long time horizon, for instance, major national and world events, such as wars, economic panics, and electoral upsets, may overturn the political order. The probability of such events cannot be estimated in any rigorous way and must therefore be omitted from the model. Similarly, in a complex political environment – London, Paris, Tokyo, Washington, etc. – the range of tactical choices available to actors with substantial political resources is quite wide, and the choices of any individual firm interact with those of all the other players. The marginal effect of any particular choice is very hard to estimate. The behavioral theory of the firm (section 4 below) finds analytic purchase in this critique of information and how it is processed in the unitary rational actor theory.

The nexus of contracts theory, by contrast, largely accepts that rational choices are possible and instead targets the dominant theory’s assumption that the firm is unitary. Celebrity CEOs who use corporate resources to indulge a “taste” for politics (Ansolabehere, de Figueiredo, & Snyder 2003) in order to satisfy their personal utility functions, for instance, are commonly sighted at the World Economic Forum in Davos, Switzerland. Similarly, government affairs managers who catch “Potomac fever” and choose to pursue their personal political ambitions, rather than those of the firm for which they work, are hardly unheard of, as the existence of such slang suggests.

George Stigler, one of the great contributors to the development of the unitary rational actor theory, once offered the perplexing statement that it has become "essentially inconceivable (but not impossible) that the theory of utility-maximizing is wrong...Indeed there is no alternative hypothesis." (1975, p. 140) Stigler and his colleagues of the University of Chicago often emphasized that monopolies left unchallenged quickly become inefficient and reap undeserved rents. The unitary rational actor theory has achieved something of a monopoly on the political theory of the firm. The critiques offered in the preceding paragraphs, and the political theories of the firm to which they lead, are worth pursuing if for no other reason than to provide plausible alternative hypotheses against which to pit the unitary rational actor theory. As I argue below, however, I believe the alternatives have more to offer than this minimal contribution.

### *3. Nexus of Contracts Theory*

In reality, if not always in law or social science, firms are not people, but are rather composed of people. These people may be well-coordinated, responding to a common set of incentives and inspired by a shared framework of values – but, then again, they

may not. If a firm's employees are "looking out for number one," as the bestselling business book of a few years back put it, they may use corporate resources to advance their own agendas, instead of their employer's. The "new institutional economics" (Williamson 2000) which entered the disciplinary mainstream of economics in recent years and has begun to make its way into the study of business-government relations as well, takes this possibility very seriously.

The godfather of this approach is Ronald Coase, who argued in 1937 that firms exist because hierarchy is sometimes a more efficient way of organizing transactions than the market (Coase 1937). Workers agree to employment contracts, according to this line of thought, in part because it would be very costly to have to constantly re-establish the value of complex labor services through frequent bargaining, as a spot labor market would require.<sup>3</sup> Contracts reduce the cost of bargaining by making it infrequent, while also specifying mutually agreed-upon contingencies that might otherwise cause the deal to break down. Coase's insights were generalized and formalized by Jensen and Meckling (1976), among others, who conceived of the firm as a "nexus of contracting relationships."

Scholars in the Coasian tradition are alert to the possibility that the goals of the contracting parties may be different. To be sure, one function of any contract is to align these goals, for instance, by imposing penalties for failure to perform as the contract stipulates. But the theory also assumes that the parties will take full advantage of any opportunities that may arise within the framework of the contract and its enforcement mechanisms to advance their interests. If we imagine the government affairs function of the firm as a nexus of contracts engaging politically savvy individuals, the goals of those involved may include fame (as in the case of "Davos man"), election to public office ("Potomac fever"), enactment of policies of personal interest, and personal wealth, in addition to improving the collective fortunes embodied by the firm.

Opportunities to maximize individual self-interest, at the expense of the shared interests to which the contract is supposed to be directed, are more likely to arise in complex and uncertain environments. In such environments, according to the nexus of contracts theory, the information available to the contracting parties is often asymmetrical, and the party with better information may be able to use the asymmetry to her advantage. The political environment fits the bill; it is often complex and uncertain, and opportunism is therefore rife. Like elected officials who exploit their informational advantage over voters through unwarranted "credit claiming" and "blame avoidance" (Pierson 1996), the political agents of the firm are well-situated to favorably interpret (or even to misrepresent) their actions to the principals who are supposed to oversee them.

The nexus of contracts theory also points toward several "governance mechanisms" that could reduce opportunistic behavior of this sort. The most obvious is more elaborate

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<sup>3</sup> Of course, for relatively simple tasks as crop harvesting and construction clean-up, labor may be hired on a daily basis, rather than through longer term contracts. Markets may be preferred to hierarchies in such instances, according to the new institutional economics, because bargaining costs are low for homogeneous labor services.

contracting; more sophisticated criteria for the principal to assess the performance of the agent, for instance, could be incorporated into the contract terms. Another possibility is to provide for more active monitoring; site visits might reduce information asymmetry. A third option is more careful advance screening; knowledge of the agents' reputation on the part of the principal *ex ante* may limit opportunistic behavior. Finally, the organization could invest in team-building; shared norms may align goals more tightly. All of these mechanisms might be employed by a firm that seeks to keep a tighter leash on its interface with the government.

The nexus of contracts theory points to an agenda for empirical research that is both deeper and broader than the agenda inspired by the unitary rational actor theory. One might well see the unitary rational actor theory as a special case of the nexus of contracts theory, in which goals and incentives of all the political agents acting on the firm's behalf happen to be tightly aligned. More commonly, the nexus of contracts theory suggests, the internal processes of the firm will be worth scrutinizing, along with the environment in which the firm operates.

Recent empirical research has challenged one bit of conventional wisdom that is consistent with the unitary rational actor theory, but not necessarily with the nexus of contract theory: that corporate lobbyists are faithful agents of their employers (Heinz et al. 1993). As Dexter (1969, p. 143) noted nearly forty years ago, "lack of trust [between the lobbyist and her client] is partly justified." Kersh (2002) explored this issue by employing ethnographic methods to follow eleven lobbyists, including several corporate government affairs managers, around Washington. He concludes that his subjects had substantial autonomy to act on their own policy preferences, which were sometimes irrelevant to or even in tension with the stated preferences of their employers.

Like corporate lobbyists, CEOs may also be quite autonomous in their political activities, seeking to maximize immediate personal gains in the tax code, for instance, rather than looking out for the long-term interests of their firms (Englander & Kaufman 2004). In the corporate hierarchy, CEOs control so many resources that their subordinates are unlikely to object to such behavior. Corporate boards of directors, their nominal principals, may benefit personally from the CEO's activities or may not recognize any divergence between the interests of the CEO and those of the firm.<sup>4</sup>

Indeed, the nexus of contracts theory leads us to anticipate such failures. As Kersh writes of his lobbyists' superiors, "most clients know little of Washington activity and decisions, in part because of the ambiguous and complex nature of the policy process" (Kersh 2002, 236). Similar findings might be expected in other large national capitals and within large firms, which may themselves be complex political environments. (As one executive in a

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<sup>4</sup> The nexus of contracts theory of the firm helped to justify stock option-heavy compensation packages for many U.S. CEOs during the 1980s and 1990s, ostensibly to align managerial and investor interests. Ironically, these packages created incentives for CEOs to manipulate stock prices for their personal benefit during the boom of the late 1990s (with the complicity of board members who were supposed to represent investors), setting the stage for the ensuing stock market crash and recession, in which investors were pummeled.

large multinational company who had also served in senior positions in the U.S. government told me, politics at corporate headquarters is just as byzantine as that in Washington and "there's no *Washington Post* to tell you what's going on.") On the other hand, in smaller polities and within smaller firms, the theory suggests that the political environment will be less permissive of opportunism, because there are fewer players. (Lowery and Gray 1995)

We know relatively little about how and with what effect firms try to control their political agents through human resources practices (hiring, firing, and compensation), budgeting for the government affairs function, and other governance mechanisms. Among government affairs professionals, there has been a lively discourse about the performance metrics that ought to be applied to the function (Wartick & Rude 1986, Heath 1995). Goldstein (1999) notes that some firms now include participation in government affairs activities in their evaluation of key managers.

*Ex ante* screening of key hires is perhaps more important as a means of solving the principal/agent problem than *ex post* performance assessment in corporate government affairs. Large firms such as IBM (Hart 2007) used to transfer personnel from other corporate functions to their Washington offices, in part to assure their loyalty to the firm's goals. However, as the Washington environment became more complex in the 1980s and 1990s, they shifted to hiring former Congressional staff and other Washington insiders who come to their jobs with more inside-the-beltway savvy. This new breed of corporate government affairs manager may be less loyal to the firm than the "true blue" IBMer of old, but she may be more sensitive to her reputation for professional competence and responsiveness as perceived by potential employers the next time she wants to change jobs.

The effectiveness of such governance mechanisms is difficult to assess. My interview-based research (e.g. Hart 2002) exploring possible tensions within firms was often blocked by a wall of "spin," as all parties to the nexus of contracts sought to maintain the appearance of unity. Kersh's ethnographic method was more successful, but requires great skill to implement effectively; he evidently sustained the trust of subjects who have little to gain and might have much to lose from his study. We will need more creative and determined efforts along these lines if we are to be able to judge how often principals and agents diverge in this sensitive domain.

The contracting out of the firm's political activities, not surprisingly, constitutes another important area for developing and testing the nexus of contracts theory. Oliver Williamson (1971), one of Coase's most distinguished followers, focused attention on the "make or buy" decision of firms in general, and some of Williamson's students have extended his analysis to the political domain. De Figueiredo and Kim (2004), for instance, explore whether telecommunications firms represent themselves in the regulatory process or rely on outside entities, such as trade associations, to do their bidding. The decision hinges, in this analysis, on the potential for opportunism and information leakage to competitors with respect to particular issues under regulatory consideration.



The study of contracting out is also fraught with data collection challenges. Clients and consultants have even stronger incentives to “spin” a positive portrayal of their relationships with their business counterparts than do their in-house counterparts. Yet, the enormous growth of the “politics industry,” encompassing public relations, advertising, “grassroots” management, and many other specialized services, commends this subject to our research agenda nonetheless. Loomis & Struempf (2004) estimate that this “industry” at the federal level in the U.S. alone has \$8 billion annual turnover and employs about 100,000 people. Whether this represents a triumph of efficiency, as traditional Coasian logic might suggest, or a cancerous process that feeds on “fud” (fear, uncertainty, and doubt), as an alternative interpretation of the nexus of contracts theory might suppose, seems worth trying to discover.

By opening up the “black box” of the firm and directing attention to its “make or buy” decision, the nexus of contracts theory leads scholars to explore important issues that emerge when the unitary rational actor theory’s assumption that the firm is a unitary decision-maker is relaxed. The nexus of contracts theory also diverges from the unitary rational actor theory by assuming that rationality operates at the individual, rather than the firm, level. Yet, in the complex environment so ably identified by the nexus of contracts theory, individuals may well have difficulty managing all of the information available and calculating all of the factors that are relevant to their interests, as that theory requires. Rather than operating on the basis of rational calculation, these individuals may turn to short-cuts that permit them to reach decisions without overtaxing their cognitive abilities. The decisions that result from such short-cuts may not be optimal, either for the individual or for the firm. Instead, they may simply be good enough for the firm and the people who comprise it to carry on.

#### ***4. Behavioral Theory***

This premise – that informational short-cuts are required by environmental complexity and the limits of human cognition – points toward the third political theory of the firm reviewed here, in which the firm is viewed as a bundle of routines (Nelson & Winter 1982). These routines are enacted by individuals who fill roles within the organization (Meyer & Rowan 1977). Organizational routines tend to continue until environmental stimuli, such as threats to revenue, profits, or freedom to operate, signal the need for change. When such stimuli are perceived, the firm experiments with new routines, usually in an incremental fashion, until the threat is reduced to a tolerable level. This behavioral theory of the firm, as Cyert and March titled their path-breaking 1963 book, has led a nascent but fruitful research agenda in business-government relations that emphasizes institutional and historical analysis of firms and issues.

Cyert and March built upon earlier work by their Carnegie-Mellon University colleague Herbert Simon. Simon (1957), who helped to establish the discipline of computer science as well as make foundational contributions to the social sciences, argued that rationality is “bounded.” Humans are simply unable to perceive everything going on in

their environments that is relevant to their interests. Moreover, their ability to process the information that they do perceive is restricted by neurobiology and by mental habit. These limitations are compounded when such boundedly rational individuals must work together to achieve collective objectives in organizations. Organizational routines and the roles that enact them simplify the challenges of perception and processing by focusing attention and trimming decision trees.

The internal structure of the firm may be the most important determinant of the routines and roles that, in turn, influence which signals the firm receives from the political environment and how it reacts to them (Fligstein 1990, Schuler 1999). Firms that maintain specialized units devoted to sensing political threats and that employ experts who have sophisticated mental models of policy-making, for instance, are likely to behave differently than those that do not. The behavioral theory acknowledges that the organizational chart is not the only source of roles and routines; informal norms that constitute the firm's culture are also pertinent. Thus, the political behavior of a strongly hierarchical firm will tend to reflect the CEO's personal experiences and political ideology more than that of a firm in which decision-making is more collective and deliberative.

Inertia is a defining motif of the behavioral theory of the firm. Unlike the opportunists who populate the political world described by nexus of contracts theorists, the role-enactors of the behavioral theory are not looking for any edge they can find but rather to get through each day. If the routines that they carry out are not perceived by anyone in the firm to cause damage, these routines will usually be maintained (Harris 1997). Failure to "satisfice" – that is, to meet a minimum standard of adequacy – rather than failure to maximize personal utility or firm profits, as in the unitary rational actor and nexus of contract theories, is the threshold for change in the behavioral theory (Miles 1982).

Such failures occur relatively rarely. The political environment may be complex, but it is generally forgiving, in the view of the behavioral theory. A firm's inability to attain its electoral, legislative, or regulatory objectives only rarely threatens its existence or even makes a noticeable dent in its bottom line. In addition, lack of knowledge within the firm and the sheer opacity of policy-making make it difficult to link specific routines to specific outcomes. As a result, "the inefficiencies of history" (Cyert & March 1992) tend to cumulate, rather than being continually squeezed out by the struggle to survive (as would be the case in a harsher environment) or by optimizing behavior (as postulated by the other two theories).

When an environmental stimulus prompts a change in a firm's organizational routines, that change is typically incremental. The "search space" (McKelvey 1997) that defines the options is dominated by modest variations on existing routines. The firm may also seek to imitate the routines that are common within the "organizational field" (Dimaggio & Powell 1983) to which it regularly pays attention. The organizational field might be comprised of firms within its industry, firms of a similar size, or organizations of comparable power, any of which key decision-makers may look to as a model.

The empirical agenda flowing from the behavioral theory thus emphasizes history more than choice and continuity more than change. “Processes of information and communication,” (Bauer, Pool & Dexter 1972) both within firms and across their boundaries, are an important focus, particularly when they involve selective attention and interpretive flexibility. The research also inquires into the kinds of environmental turbulence that evoke a search for new routines and the ways that such searches get resolved.

Martin (2000), for instance, develops the concept of “corporate policy capacity,” a set of specialized roles and routines devoted to managing the firm’s interface with government and civil society. She argues that firms that have substantial policy capacity will take different policy positions and adopt different political strategies than those without such capacity. In the domain of U.S. health policy that she studied, such capacity derives in part from the experiences of human resource managers who must comply with the intricate regulations of government insurance programs and in part from health policy “issue managers” within the government affairs function. Martin argues that coalitions within the firm (March 1963) of these two types of policy experts can exert a powerful influence on its internal “conversation” about how to position itself politically. Corporate policy capacity is correlated with firm size, but “the way size matters” (Martin 2000, p. 126) here is not the same as the monopoly rents that are stressed in the Olsonian tradition.

Small firms, family-owned firms, and firms run by their founders, by contrast, are more likely to have idiosyncratic political routines in which the views of the CEO drive the political roles of subordinates. Epstein’s (1969) classic work on U.S. business politics supplies a number of examples of this type, including Henry Ford and his eponymous automobile company, which supported extremely conservative causes, far beyond the more pragmatic anti-statism (Vogel 1978) of most of his big business peers. William McGowan of MCI exemplifies a different type of CEO, the “corporate political entrepreneur” (Yoffie & Bergenstein 1985). McGowan was utterly pragmatic, adopting any available political tactic that would allow him to break the hold of AT&T over U.S. telecommunications policy, which MCI ultimately did, with spectacular consequences (Noam 2003).

Empirical phenomena that excite intense interest among scholars drawing on the unitary rational actor and nexus of contracts theories, such as organizations for collective action and campaign contributions, are imbued with different meanings in the behavioral tradition. Trade association membership is more a matter of habit than of calculation; its primary value lies in access to information about other members of the association and about the firm’s broader political environment (Bauer, Pool, & Dexter 1972), rather than the attainment of specific instrumental objectives. Campaign contributions may be interpreted as a means to create social and informational networks as well, rather than as a price for political favors; they are “gifts” in the anthropological sense, “not bribes” (Clawson, Neustadt & Weller 1998, 61, Milyo, Primo, & Groseclose 2000). Ansolabehere, de Figueiredo, and Snyder (2003, 127), who would prefer to find a rational choice explanation for their data, conclude to the contrary: there may be “so little money

in U.S. politics” simply because “executives and managers may value being part of the Washington establishment.”

Thomas Watson, Sr., the founder of IBM, and his son, namesake, and successor as IBM CEO illustrate some of these points. Both deeply enjoyed their associations with the global political elite, including a series of U.S. Presidents. To be sure, they pursued numerous policy objectives of great importance to the firm through these relationships, but they did so obliquely, at times imposing constraints on the firm’s political activities to avoid the appearance of influence-seeking. Watson, Jr., for instance, forbade IBM from giving corporate campaign 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 Jr.’s successors maintained this policy because IBM’s organizational routines, public reputation, and corporate culture made changing the policy hard for them to imagine and even harder to effect. (Hart 2007)

Inertia does not account for all firm political behavior. Suarez’s (2000) longitudinal case study of the pharmaceutical industry explores what happens when environmental stimuli prompt incremental change. Large firms in this industry made significant manufacturing investments in Puerto Rico over several decades in response to federal tax breaks that favored that location. This policy came under attack in Congress from time to time, and the industry mobilized to defend it. When these efforts failed, as they did on a couple of occasions, the firms adjusted their routines for cooperating with one another, in order to gain an edge in the next battle. The new routines were innovative only in the narrowest sense. Firms formed temporary coalitions or committed greater resources to industry associations than they had in the past.

The political history of Microsoft provides an instance of more dramatic change in organizational routines, in response to an existential threat to the firm. The threat was a 1998 government antitrust lawsuit; Department of Justice lawyers eventually proposed breaking up the firm. Prior antitrust enforcement efforts had not been taken seriously by Microsoft, which was perceived in Washington as a “wimp.” Microsoft CEO Bill Gates’s appearance before a Congressional antitrust committee in 1998 apparently broke through the firm’s organizational and cultural barriers to perceiving the threat. Soon, it was acting as a virtual full employment agency for the city’s lobbying industry. Ironically, this over-reaction failed to stem the threat and may even have exacerbated it. Only the election of a new Republican president, for which Microsoft could hardly claim credit, led to a resolution of the suit on favorable terms. (Hart 2003)

These cases bring out the limits of the behavioral theory of the firm as well as its strengths. Its stress on routines and inertia seems to preclude consideration of systematic learning across firms and within the community of policy practitioners and executives. Its emphasis on response to threat means that neither firms nor individuals within them are seen to seek out opportunities, much less create them. Agency, in short, is rarely observed in this depiction of the political realm, a realm that in most other accounts is replete with human creativity and foibles.

Scholars deploying the behavioral theory of the firm in empirical domains other than politics have sought with some success to address this weakness. More room can be made for agency relative to structure, and will relative to inertia, without undermining the theory's core concepts. Yet, those concepts do impose constraints; they must, in order to give definition to the research agenda. So, they must be questioned and challenged. A robust and constructive discourse among the political theories of the firm ought to complement efforts to perfect each of them individually.

### ***5. Conclusion: Of Blind Men and Elephants***

A single political theory of the firm cannot do justice to the complexity of the organizations involved, their interactions, and the environments in which they operate. Scholars of business-government relations have elaborated the three theories discussed above for good reasons. All serious theories entail simplifying assumptions; reality, for better or worse, often violates them. The varied circumstances of corporate political behavior demand a diversity of perspectives on it.

The unitary rational actor theory of the firm assumes the firm to be a profit-maximizing machine, in its relations with government as in its relations with competitors, workers, suppliers, and customers. Evidence that corroborates this assumption is widespread, across government procurement policy, economic regulation, taxation, and international trade, to name just a few of the most prominent areas. Yet, there is also plenty of evidence that firms are often confused, ignorant, or simply wrong about how to maximize profits through their political activities.

The nexus of contracts theory of the firm views the firm as the sum of many individual parts, each of which seeks to maximize his or her own utility function, however that function may be constructed. Although less effort has been expended compiling evidence consistent with this view (in part due to the difficulty of doing so), political agents of firms clearly exploit the informational advantages that they enjoy and the murkiness of the environment in which they operate from time to time. Whether they can do so consistently – or whether they would even want to try – is a matter for further inquiry.

The behavioral theory of the firm postulates satisficing as the governing rule of behavioral change, and limited attention as the human condition. Anyone who has participated in politics and policy-making, especially in the specialized domains that occupy the time of most corporate issue managers, will acknowledge that routine, inertia, accident, and drift explain much of what happens. But not all: entrepreneurial behavior and even radical change must be incorporated for many narratives of the policy process to be fully told.

I return then, to the folk tale of the blind men and elephant. We must first describe this large beast and then explain it. These three theories direct researchers' attention to different parts of the animal as well as prompt distinctive interpretations of their

observations. As a field, we should encourage all three (and there may be room for more<sup>5</sup>) without expecting any one of them to provide complete understanding.

Moreover, the beast is growing and changing and will keep doing so. The “globally integrated enterprise” (Palmisano 2007) faces different issues and mobilizes different capabilities than the multinational corporation that preceded it. Preference formation and decision-making within networks of specialty firms (Lamoreaux, Raff, & Temin 2003) differs from those of their vertically integrated forbears. In this dynamic context, limiting our vision to a single paradigm would be costly. And, as an ever-larger fraction of the world’s population is drawn into the global market economy and thus within the impact zone of business-government relations, the costs of misunderstanding corporate political behavior are rising, too.

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<sup>5</sup> An emerging “entrepreneurial theory of the firm,” which focuses on risk and uncertainty, for instance, might be adapted to the political arena (Alvarez & Barney 2007).

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