

THE EVOLUTION OF CORPORATE POLITICAL ACTION:  
A FRAMEWORK FOR PROCESSUAL ANALYSIS

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***The Evolution of Corporate Political Action:***

***A Framework for Processual Analysis***

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## ***The Evolution of Corporate Political Action: A Framework for Processual Analysis***

### **Abstract**

Variance theories have dominated corporate political action (CPA) research since the pioneering works in the 1970s and 1980s. Process theories offer an entirely new perspective on CPA research, as they are able to explain processes across a number of levels of analysis and link actions to contexts. We add to the existing CPA literature by offering a process model that can be useful especially in historical and evolutionary analysis. Our model depicts CPA as a complex system in which a firm's actions are affected by various factors across organizational, industry and institutional levels of analysis. As political actions also influence these factors, the process is in essence systemic and path-dependent. Our model supplements existing research by offering the possibility to explain the long-term consequences of CPA vis-a-vis wider societal changes and by promoting longitudinal research strategies. In addition to the theoretical model, we provide a historical analysis of the evolution of the Finnish paper and pulp industry to illustrate the applicability of the framework.

Keywords: corporate political action; process theory; historical analysis; strategic management; paper and pulp industry; industry evolution.

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Although variance theories and related cross-sectional research methods still dominate organization and management research in general, different processual perspectives have gained ground since the 1980s (Langley, 1999; Nelson & Winter, 1982; Van de Ven & Huber, 1990). Mohr (1982) defined variance theories as dealing with variables and causal relations between them. Moreover, in variance theories, time ordering among the independent variables is immaterial to the outcome. On the contrary, process theories deal with discrete states and events and causal mechanisms. Most importantly, time ordering among the contributing events is critical for the outcome. Accordingly, Van de Ven (1992) has defined process as a sequence of events and actions unfolding in context over time. Process theories typically explain processes across a number of levels of analysis. They are able to link actions with context, and lead to holistic rather than linear explanations (Pettigrew et al., 2001). Moreover, as Barnett & Burgelman (1996) have noted, evolutionary and processual strategy research should be “path dependent and dynamic” in contrast to static models.

At the same time as processual strategy research has emerged (Pettigrew, 1985; Van de Ven, 1992), research focusing on corporate political action (CPA) has become institutionalized as a relatively narrow but important segment in organization and management research (e.g., Boddewyn & Brewer, 1994; Getz, 1997; Hillman & Keim, 1995; Keim & Zeithaml, 1986; Lenway & Rehbein, 1991; Mahon & McGowan, 1998; Rehbein & Schuler, 1999; Schuler & Rehbein, 1997; Shaffer, 1995; Yoffie, 1987). However, despite the growing importance of processual perspectives in theory-building in organization and management research (Langley, 1999), it is surprising that CPA research has paid practically no attention to these perspectives. Also, the existing models of CPA can hardly be defined as “dynamic and path-dependent” being regularly devoted to the creation and testing of variance theories. In contrast, our paper provides a

framework to analyze the antecedents and processes of CPA. We outline a theory that helps to explain the interactions between different analytical levels, and how these interactions change over time. Our theory is argued to be useful especially in historical analysis, in international comparisons, and generally in evolutionary studies that analyze the emergence and development of behavioral patterns in corporate political action. Thus, we aim to fill the gap in the historical perspective of CPA research that has been suggested recently by several scholars (Getz, 1997; Rehbein & Schuler, 1999; Windsor, 2002). More precisely, we suggest that the different institutional environments (in terms of public goods and informal rule settings) and different historical trajectories of business organizations will both influence and be influenced by their political activities.

In building our theoretical framework, we first outline our research aim and review the recent CPA discussion. We next present the research framework and its components. As earlier literature indicates, the amount of corporate political action differs across firms, industries and countries (e.g., Hillman, 2003; Lenway & Rehbein, 1991; Rehbein & Schuler, 1999). In our framework, the hypothetical research object is a large-scale firm which operates primarily from a domestic home base. An historical illustration of the framework is provided, followed by a summary of our conclusions.

### *EARLIER RESEARCH*

The study of business political action started to increase in the 1960s when a variety of social science researchers devoted more attention to the issue (Buchanan & Tullock, 1962; Dahl, 1959; Epstein, 1969; Olson, 1965). The focus of this pioneering research was on the relationship between business and public policy, emphasizing the policy outcomes and power distribution

among different interest groups within societies. As the political action of firms expanded and obtained new forms in the United States during the 1970s (for example lobbying through political action committees, or PACs), it also received more attention in management literature (Griffin et al., 2001a; Griffin et al., 2001b). In essence, management scholars shifted the perspective of analysis from government policies to the corporation and its management. Similarly, instead of focusing on adaptive corporate behavior, scholars started to consider corporations as anticipatory and proactive actors in the political market (Preston, 1986).

In addition, management literature has focused on three topics, namely public affairs management, issues management, and corporate political action (Schuler, 2002). Whereas public affairs and issues management research has examined a wide range of issues relating to the interconnections between business and society at large, the study of corporate political action has concentrated on relationships between business and government, especially on firm-specific political strategies (Getz, 1997; Shaffer, 1995).

Initially, the emerging management literature on corporate political activity provided an extension to mainstream strategic management research, which emphasized the importance of the market environment for a firm's survival. At the moment, it is widely accepted that firm-level influence in the public policy process is one of the means to shape and control a firm's competitive environment (Boddeyn & Brewer, 1994; Hillman & Keim, 1995; Hillman et al., 1999; Mahon & McGowan, 1998; Shaffer et al., 2000). As specific research topics, scholars have analyzed the firm-specific characteristics and means of corporate political action (Lenway & Rehbein, 1991; Mahon & McGowan, 1998; Rehbein & Schuler, 1999), as well as the effectiveness of various strategies targeted to influence governmental decision-making (Keim & Zeithaml, 1986; Lord, 2000; Rehbein & Lenway, 1994; Shaffer et al., 2000; Yoffie, 1988; Yoffie

& Bergenstein, 1985). In addition, researchers have categorized different political strategies that firms can adopt according to external and internal conditions (Aplin & Hegarty, 1980; Hillman & Hitt, 1999; Keim & Zeithaml, 1986; Oberman, 1993).

One of the predominant research approaches has been to construct a deductive model to assess which intra-firm (organizational slack, issue salience, past experience), inter-firm (industry conditions), and inter-industry level factors (institutional constraints and opportunities) explain corporate political activity. These studies have been either purely conceptual (Boddeyn & Brewer, 1994; Hillman & Hitt, 1999; Schuler & Rehbein, 1997) or based on an empirical testing of existing theories (Boies, 1989; Lenway et al., 1996; Lenway & Rehbein, 1991; Rehbein & Schuler, 1999; Schuler, 1996). In Table 1 we have listed a selection of these studies according to the focus, level of analysis, research design, and theory type of the models.

< INSERT TABLE 1 AROUND HERE >

Table 1 illustrates that a majority of the models identify only the antecedents for political activity. The exceptions are Boddeyn and Brewer (1994), Hillman & Hitt (1999), and Mahon & McGowan (1998), who theorized on both the processes and antecedents of corporate political activity. The level of analysis varies, but most often both firm and industry levels are included in the models. However, Boddeyn & Brewer (1994), Rehbein & Schuler (1999), and Schuler & Rehbein (1997) employed a multi-level approach, which simultaneously analyzed firm, industry, political environment, and macro-economic factors.

The most obvious commonality of the models, however, is their dependence on variance theories. The only exception in this respect is the work of Hillman & Hitt (1999), which focuses on the process of strategy formulation. Thus, there is a clear lack of theories that could explain

corporate political action as a sequence of events unfolding over time, and that would address the system-like nature of the process. In the following sections, our aim is to address this research gap, while still recognizing the limitations of our own approach.

## *RESEARCH FRAMEWORK*

In the literature as well as in this paper, corporate political action refers to organizations' activities in non-competitive arenas. CPA is defined "as any deliberate firm action intended to influence governmental policy or process" (Getz, 1997), not including any normative assessment. According to Baron (1995, 1997), both competitive and political strategies are structurally similar, each representing "a concerted pattern of actions taken in the market or non-market environment to create value by improving economic performance."

In earlier research, CPA as a dependent variable has been measured by using proxies such as the amount of campaign funding (Boies, 1989; Mizruchi, 1989; Grier et al., 1994; Mitchell et al., 1997; Rehbein & Schuler, 1999; Hansen & Mitchell, 2001; Schuler et al., 2002), the formation of campaign funding committee (Andres, 1985; Masters & Keim, 1985; Mitchell et al., 1997), the number of petitions to policy makers (Lenway & Rehbein, 1991; Lenway et al., 1996; Schuler, 1996; Marsh, 1998; Rehbein & Schuler, 1999; deFigueriredo & Tiller, 2001; Morck et al., 2001), the number of contacts to politicians (Alt et al., 1999), testimony before congressional committees (Lenway et al., 1996; Schuler, 1996; Rehbein & Schuler, 1999; Hansen & Mitchell, 2001; Morck et al., 2001), membership on governmental committees (Rehbein & Schuler, 1999), personal service in governmental posts (Hillman et al., 1999), the existence of a lobbying office (Hansen & Mitchell, 2001), and the hiring of outside lobbyists (Schuler et al., 2002). In our model, the hypothetical dependent variable can be defined as the function of the quantity and

quality of political actions. Following Chen, Smith and Grimm (1992: 2), we define actions as those “...specific, concrete, and detectable” actions that firms undertake when competing in the [political] marketplace. Consequently, the *quantity* of political actions is the totality of actions that are focused to influence governmental decision-making. On the contrary, the *quality* of political actions can be measured by analyzing the different forms of activities (lobbying, petitions, campaign funding etc.). In empirical analysis, this would mean that we are interested in determining whether there was a change in the political activities of a firm vis-à-vis its historical CPA path. After defining the hypothetical dependent variable, we outline next the theoretical basis and the components of the model.

### *Path Dependence*

In the context of strategic management, path dependence most often means that a firm’s previous investments and its repertoire of routines (its “history“) constrain its future behavior (Teece et al., 1997). More precisely, Puffert (2002) has defined path dependence as the dependence of outcomes on the path of previous outcomes, rather than simply on current conditions. Thus, it is seen that choices made on the basis of transitory conditions persist long after those conditions change (Puffert, 2003). Following David (1997), the negative definition of path dependence resembles the concept of inertia, stating that processes are unable to shake free of their history. On the contrary, the positive definition – positing that a path dependent stochastic process is one whose asymptotic distribution evolves as a consequence of the processes’ own history – offers the needed ‘dynamic’ (Barnett & Burgelman, 1996) perspective to the study of strategic management in general and CPA in particular.

The existing literature in the context of evolutionary economics and economic history (Puffert, 2002; David, 1997; Arthur, 1989, Nelson & Winter, 1982) has found four types of conditions that give rise to path dependence: sunk costs, technical interrelatedness, increasing returns and dynamic increasing returns to adoption. First, as Puffert (2003) has noted, the most “trivial form” of path dependence is based on the *durability of capital equipment* (cf. Hannan & Freeman, 1984). In the context of CPA, this means, for example, that firms with established lobbying organizations (such as a government affairs office) through which they receive and provide political information, are shown to be more active in political markets than other firms (Lenway & Rehbein, 1991; Rehbein & Schuler, 1999).

Second, the *technical interrelatedness* means that rarely are whole systems – whether technical or organizational – replaced at once. In the context of our inquiry, this means that firms change their focus of CPA only incrementally. A concrete example is that prior corporate PAC contributions have been shown to relate positively with subsequent election-funding activity (Masters & Keim, 1985; Morck et al., 2001). Another example is the wide network of personnel who are parts of the CPA system of a firm. If the regeneration ratio of the firm remains low, it seems likely that the quantity, and especially quality of political actions tend to derive from earlier experiences.

Third, *increasing returns* in the context of CPA mean that firms can benefit from maintaining the level and quality of the political activities. Moreover, new firms can receive equal benefits by adopting similar institutionalized procedures as incumbent firms, although some hypothetical new means could offer larger but riskier pay-offs. From the perspective of the strategic apex of the firms, the adoption of new kinds of political activities would also mean

rising coordination and physical costs, whereas the continuation ‘doing the same’ reduces these costs.

Finally, the *dynamic increasing returns to adoption* (Arthur, 1989) means that small (random) events, even historical accidents, lead to early fluctuations in the importance of competing procedures and techniques. Eventually, one of the action modes receives a position that offers more pay-off than the competing modes and is finally ‘locked-in.’ Arthur emphasizes the learning effects that can occur during the process. Consequently, path dependence in CPA also means a reduction in possible strategic choices through the learning and locking-in of cognitive models on CPA. In political arenas, for example, a close relationship between a political party and a group of politicians might create a trajectory for future political moves, i.e. the firm links itself to a certain ideology and group of political decision-makers. Also, it is suggested that a firm that has an abundant stock of political knowledge is more likely to further request and obtain benefits from political action, as the involved actors have cognitively constructed models of how the political system works (Getz, 1997; Morck et al., 2001). It can even be argued that these models create the matrix of action requirements and alternatives.

*Proposition 1: Corporate political activity is dependent on its past behavior in political markets.*

*Proposition 1a: The more experience a firm has from political markets, the more active it will be politically*

*Proposition 1b: The more a firm is able to fulfill its needs and achieve its goals with the political actions, the more active it will be politically.*

### *Organizational Slack*

Management literature has used the term “organizational slack” to denote a cushion of actual or potential resources which allow a firm to adapt successfully to both internal and external

pressures (Bourgeois, 1981). The slack concept binds together both tangible and intangible assets, including for example capital, machines, resources, routines, and capabilities (Barney, 2001). The interdependence between slack resources and firm performance has not yet been resolved among scholars. In management literature, abundant organizational slack has generally been denoted as a critical factor for firm survival and strategic maneuvering (Bourgeois, 1981; Chakravarthy, 1986; Hambrick & D'Aveni, 1988). There are, however, opposing indications which suggests that low levels of slack would promote an organization to search for new methods, which might increase slack (Cyert & March, 1963). This discrepancy is also reflected in studies of corporate political action. Some researchers argue that firms with high levels of slack resources are more likely to engage in costly political activities (Lenway & Rehbein, 1991; Yoffie, 1987), while others propose that firms with scarce slack resources might also be motivated to enter political markets (McKeown, 1994; Rehbein & Schuler, 1999; Schuler & Rehbein, 1997). In addition, Salomon & Siegfried (1977) even noted that firms earning higher than average profits might refrain from political action to prevent negative public attention.

The divergent proxies that have been used to measure organizational slack may offer an explanation for the ambiguous results. Studies that have used firm size as a measure for slack indicate unequivocally the positive relationship between slack and CPA (Masters & Keim, 1985; Schuler, 1996; Schuler et al., 2002). Conversely, studies that have used firm profitability as a measure for slack have noted that firms which are less profitable are the most politically active (Lenway et al., 1996; Morck et al., 2001). Moreover, the Anglo-American campaign-funding-centered CPA system is prone to emphasize the need for tangible assets in political maneuvers. This view explains why some researchers have seen such assets as necessary for CPA. For research in a multi-party system, the emphasis on tangible assets does not necessarily offer a

valid starting point. There are two reasons for this. First, the cost-benefit ratio of campaign funding is likely to be lower when the investment is diluted to divergent parties and coalitions (Buchanan & Tullock, 1962; Downs, 1957), thus decreasing the rationality of such investments. Second, in political systems which are based on local representative democracy, advertising and other mass-marketing channels of communication are of only marginal importance because of the locality of election campaigning. In such a context, the personal networking of managers and other direct influencing strategies are at least as important as campaign funding, thus raising the importance of the organization's intangible assets. Thus, we propose that a firm must have a high level of either tangible or intangible resources (but not necessarily both) in order to become politically active.

*Proposition 2:* The higher the level of either tangible or intangible resources, the more a firm will be politically active.

### *Competitive Environment*

The premises of collective action theory (Olson, 1965) have frequently been employed to explain the reasons for CPA. In general, firms can pursue either individual or collective political action, and the choice between these approaches is dependent on the industry's competitive structure. Thus, in a case where a firm has several competitors, it has little incentive to engage in political action, because the political objectives (e.g. an import tariff) often exhibit the characteristics of a public good (Getz, 1997). However, when an industry is highly concentrated, firms are more likely to be able to overcome the free rider problem in order to implement political action (cf. Lenway & Rehbein, 1991; Masters & Keim, 1986; Salomon & Siegfried, 1977). In the case of collective action an actor's probability of pursuing opportunities in the political markets is conditioned by the relative strength of the group that it seeks to join or

become active in. For example, some industries have established a central position over time in certain national economies (such as with the forest industry in Sweden and Finland, the chemical industry in Germany, and the steel industry in the U.S.), and the statements of these industries are likely to receive more attention from politicians than the less important sectors of an economy. Thus, firms tend to favor collective involvement in political markets as long as their representative group possesses enough resources and bargaining power in its relations with the state. On the aggregate, the political action of a firm on its own would tend to be more costly, thereby reducing the probability of political action.

Moreover, Baron (1995) pointed out that not all regulatory legislation has the characteristic of a pure public good (e.g. government contracts, monopoly rights). Thus, the pursuit of exclusive benefits from the government is the most effective political strategy, because it provides a competitive advantage against industry rivals (Shaffer et al., 2000). Firms favor either broad-based interest groups with ample resources and a significant political market share via its members, or small, homogenous groups — in the sense argued by Olson (1965) — with clearly defined goals that make them attractive to specific industries. Additionally, the stronger the selective incentives offered by the prospective group and the higher its efficiency in acting as a club in excluding the benefits arising from public goods provision, the more likely it is that a firm would engage in political action via this particular group.

*Proposition 3:* The stronger the bargaining power of the industry, the more a firm will be politically active.

*Proposition 4:* The higher the degree of excludability in public goods, the more a firm will be politically active.

### *Institutional opportunities and constraints*

Whereas organizational attributes and factors relating to the competitive environment focus on why organizations in certain competitive situations become interested in political action, the characteristics of the institutional environment explain the targets for CPA. Institutions, whether formal (e.g., legislation) or informal (e.g., codes of conduct) comprise the set of rules by which a particular game is played (North, 1990). Organizations are comprised of groups of individuals who are bound by a common purpose to achieve specific objectives. Institutions represent constraints on the options that these individuals (and the collective organizations) are likely to exercise. As such, institutions do not, however, wholly determine the course of human actions. In fact, through choice and action, individuals and organizations can deliberately modify, and even eliminate, institutions. Thus, instead of being externally determined stable constructs, institutional constraints are open to modification over time (Barley & Tolbert, 1997; North, 1990).

From the perspective of a firm, most legislation has the character of a public good in the sense that it is susceptible to “spillins” (the contributions of others) and externalities. The basic assumption for a firm in studies with the public goods perspective is that the actors complement their commercial activities with political activities if the expected pay-off will exceed the estimated costs (Buchanan & Tullock, 1962; Downs, 1967). Drawing on this research stream, management literature has depicted political markets in which governments supply and business organizations demand public goods – either individually or collectively (Boddewyn & Brewer, 1994; Hillman & Keim, 1995; Pfeffer & Salancik, 1978, 203).

It is widely accepted among scholars that a nation’s social and political institutions form the context in which managerial practices develop (Sorge, 1991; Sorge & Maurice, 1990), meaning that different nations form different institutional contexts (Calori et al., 1997; DiMaggio

& Powell, 1983). Accordingly, companies tend to have country-specific political strategies depending on their institutional opportunities. In other words, strategies are tailored to the specific issues, institutions and interests that prevail in a country (Baron, 1995, 1997; Hillman & Keim, 1995; Murtha & Lenway, 1994). For example, interest groups in Great Britain have typically focused their primary lobbying efforts on regulatory agencies, whereas lobbies in the U.S. have paid more attention to the legislative level of public decision-making (Hillman & Keim, 1995; Salisbury, 1975). In addition, the identity of the decision maker(s) is an important factor in influencing the incentives of a firm to demand public goods — the decision-maker can be an oligarchy, a bureaucrat, a median voter, an interest group, or a combination of these (Cornes & Sandler, 1996; Drazen, 2000).

Also, the level of governmental decision-making on public goods is highly influenced by country-specific factors. These are characterized by the competition based on an assessment of the costs involved and the probability that different interest groups will succeed in obtaining a larger share of the supplied public goods (Brock et al., 1989; Olson, 1965). In other words, the extent of domestic provision of this public good is constrained by the formal and informal institutional framework (Buchanan, 1968; North, 1990). For example, in a corporatist country in which business organizations has strong, formalized position in the political decision-making process, the capabilities and incentives of a firm to control the supply of public goods is far better than in a pluralist country in which several interest groups compete for the provision of public goods. Accordingly, as public intervention in transactions increases, so does the dependency of business organizations on government policies (Lodge, 1990; Murtha, 1993; Murtha & Lenway, 1994). Thus, the more resources are controlled and regulated by the government, the more incentive a firm has to become politically active.

*Proposition 5:* The higher the level of public good provision by the government, the more a firm will be politically active.

The emergence and evolution of institutional constraints and opportunities is highly dependent on the prevailing historical context. As noted by Hall (1986), “the genesis of the institutions can be traced to the events of a particular series of historical conjunctures, some contingent, others systematically tied to the distribution of power among social groups.” The influence of national context in the case of CPA is related to shared historical contingencies on legitimate ways to influence government decision making and informal codes of conduct in business-government relations. Accordingly, governmental policies are also prone to lock-in mechanisms that have long-term effects on business. For example, Goldstein (1989) has argued that U.S. policy decisions of the 1930s to subsidize agricultural products and liberalize the trade of manufactured products continued to structure U.S. trade policy for decades.

This, however, is likely to be conditioned by the stability of the economy and the political system. Thus, we argue that clearly defined formal rules of the game and the enforcement of individual property rights reduce the willingness of actors to resort to political action, especially if the formal rules are in close agreement with the informal rules. Conversely, constantly changing formal rules of the game and a lack of enforcement will increase the instability of a society and thus induce an environment conducive for CPA. In terms of the possible gap between the formal and informal rules, dictatorships and other authoritarian regimes often do not represent the “encompassing interest” of a society. Rather, they are geared towards maximizing redistribution to the ruling elite (McGuire & Olson, 1996; Olson, 1993). Therefore, the formal rules do not correspond with either the majority’s interests or informal economic practices, thus

creating incentives for CPA. The resulting CPA would be, as indicated already, conditioned by the credibility of the rules and their enforcement in the said autocracy (Harrison, 2001; Mbaku, 1991). In addition, short-term shocks to the system, such as both World Wars, the oil crises of the 1970s, and the terrorist attacks on the World Trade Center in New York on September 11, 2001, may provide sudden institutional opportunities in the political markets. As Goldstein (1989) notes, “periods of crisis supply opportunities for new political coalitions to influence the direction of policy.”

*Proposition 6:* The more instable the rules of the game are in a society, the more a firm will be politically active.

*Proposition 7:* Sudden institutional changes and shocks will result in increasing corporate political activity.

### *The Model*

To summarize, the components of our model are path dependence (P1), a firm’s tangible and intangible resources (P2), its competitive reference group (P3; P4) and the factors related to its institutional environment (P5; P6; P7). The process model illustrated in Figure 1 presents dynamic relationships between corporate political actions, the results gained from these actions, and the interrelated forces that drive a firm to engage in further political action.

--- insert figure 1 about here ---

The factors that affect CPA form a positive feedback loop that results from the path dependence of the firm’s political action (P1a). Propositions 1b and 1c form negative feedback loops that control corporate political activity according to results gained from such activity. An

increase in a firm's resources (P2) enhances political activity. However, resources alone do not determine whether a firm will engage in political activities. The dynamic nature of resource accumulation on corporate political activity is depicted in the model by the negative and positive feedback loops that result from Proposition 1. Our model shows a network of dialectic forces internal to a firm that can both inhibit and prohibit firms from becoming politically active.

The model also presents a dynamic relationship between industry-level and corporate-level political action. Proposition 3 presents a positive force that results from industry-level bargaining power. As the industry-level bargaining power increases, so does the level of corporate political activity. Proposition 4 presents a positive force that is not directly dependent on the actors of an industry. The excludability of public goods encourages a firm to engage in political activity. Finally, propositions regarding the institutional environment (P5, P6, P7) further extend the dynamic network of interwoven forces which affect a firm's corporate political activity. The institutional environment has a direct effect on the level of CPA. Proposition 5 states that an increase in public good provisioning increases the level of corporate political action. Further, Proposition 6 outlines the effect of rule-stability on the dynamics of corporate political activity. The less stability in the institutional environment, the more politically active a firm is. Proposition 7 outlines the effect of an unstable institutional environment on corporate political activity.

## ***HISTORICAL ILLUSTRATION***

### *The Case of the Finnish Paper and Pulp Industry from 1880 to 1995*

As the theoretical framework of this paper and the variety of earlier research both suggest, CPA takes different forms depending on the institutional context in which firms are operating, as

well as various firm-specific factors. In the following, we present a historical illustration of how Finnish paper and pulp industry companies acted politically from the late 19<sup>th</sup> century to the end of the 20<sup>th</sup> century. The case is theoretically significant, as the period includes several “punctuated“ institutional changes, most notably Finland’s independence in 1917, the Second World War, and Finland’s integration into the European Union in 1995. Moreover, Finland’s corporatist political system helps to illuminate some methodological problems that occur when one attempts to analyze political action that is very difficult to observe (Schuler, 2002), and which may take different forms than previously described in the CPA literature. The references for the historical illustration are listed in the Appendix.

Finland’s paper and pulp industry was founded during the 1870s and 1880s when some key technological innovations made possible the production of pulp and paper using wood fiber as the primary raw material. Since Finland had rich sources of both spruce and pine for fiber production, as well as ample running water for hydro-electricity and for the chemical manufacturing processes, the industry started to flourish at the end of the 19<sup>th</sup> century. During this period, dozens of new paper plants were established. Before the First World War, the pulp and paper industry had established its position among the most important industrial branches. Most of the paper production was exported to Russian markets. Since Finland was an autonomous part of Russia in 1809–1917, foreign trade policy and other crucial political decisions were made by the Russian Czar instead of Finnish authorities. Although the Finnish companies organized several special interest groups during the last decades of the autonomy period, the level of political activity remained relatively low. Moreover, such actions were targeted primarily at defending the interests of Finnish producers against their Russian competitors.

During the First World War, Finland participated in Russian war efforts primarily in economic terms. The position of the pulp and paper industry was very difficult, as it lost practically all its Western European markets. Even Russian demand went down during the last years of the war. In 1917, Finnish companies were in a serious crisis due to the market situation. When Finland announced its independence in December 1917, the leaders of the pulp and paper industry were not enthusiastic, as they feared the loss of the Russian markets and doubted if Finnish products would gain access to Western markets.

The Civil War in spring 1918 between the leftist “reds“ and conservative “whites“ determined the pulp and paper industry’s future position in Finland’s socio-economic system. Practically the whole industrial elite joined the white army, in which they governed the rationing and foreign trade administration, thus controlling their own businesses as well. A few months later, after the red army had collapsed and surrendered, this elite received the responsibility to *de facto* build Finnish foreign trade policy from scratch. Since paper and pulp were the only Finnish products that interested Western European customers, the industry received a “flagship“ position in the Finnish economic-political system. A key strategy in the post-war re-building of the export trade was the creation of sales associations, which were *de facto* cartels. In this question, industry leaders and the Finnish government had similar interests, as both parties saw cartels as an efficient solution to handle relations with foreign customers, and to tighten the foreign trade policy.

After the initial years of independence (1918–1921), the pulp and paper industry became the predominant export industry, with almost an 80% share of Finnish exports. In the political system, industry interests were channeled through a collective trade association, the Central Association of the Wood Processing Industry, established in 1918; and through several sales

cartels, such as Finnpap, that marketed, sold and distributed the majority of Finnish paper exports until the late 1980s. During the 1920s and 1930s, the political actions of the firms began to follow certain procedures. First, the leaders of the largest companies participated in all the major trade agreements and other salient corporatist bodies in which the representatives of political and economic organizations prepared policies and agreements. Second, each firm funded rightist parties in parliamentary elections. Third, the managerial elite of the forest industry companies was so closely integrated to the political and social system of the country that the line between government and business in fact blurred away in such segments of political decision-making as the trade agreement policy.

The blurriness of the boundaries between the “public“ and “private“ interests further increased during the Second World War, when the managerial elite again took responsibility for the wartime rationing system. At the same time, particular companies focused on supporting the nation’s war efforts. However, the economic-political system started to change remarkably during the war years, as labor representatives were also involved in the corporatist bodies. This radically changed the institutional environment by giving more power to the unions and their supporters in leftist parties.

During the post-war period, the forest industry’s flagship position was institutionalized, especially in foreign trade and research and development policies. In essence, the primary target in all trade agreement negotiations, including the EFTA and EEC agreements in 1960 and 1973, respectively, was to secure a competitive position in the main export markets for forest industry products. However, the interests of the particular companies, which had been rather homogenous after independence, started to diverge in the 1960s. For the largest companies, it was increasingly important to get governmental support, especially in research and development and in the

financial policy, whereas smaller and less-powerful firms preferred a stable situation in which all firms would have the same public support. In short, as a result of consolidations and organic growth, the largest firms were able to organize their own political maneuvers whereas the smaller ones still needed the co-operative interest group system.

The goals of corporate political activity varied as well. First, all firms had their own special interests, for example in local environmental or transport questions. Moreover, when firms faced unprofitable periods, they regularly demanded a devaluation of the Finnish currency. Consequently, between 1949 and 1995, there were 14 devaluations, each temporarily improving the firms' competitive position. The demand for devaluation was typically made at both the industry and company levels. Second, the industry-level policies were targeted to secure the industry's position in education, investment support or even the stabilization of the society. These policies included a longer time-horizon than, for example, questions of financial policies; they reflected the traditional patriarchal attitude of the industrial elite. Finland's integration into the European Union in 1995 can be seen as a culmination of these forest industry society-level strategies, as it both secured the industry's ability to operate in its main market and strengthened Finland's general position in international politics.

During the last few decades before EU membership, especially in the 1980s, the segregation of political behavior in Finnish forest industry firms continued. The largest firms, such as Enso-Gutzeit (Stora-Enso) and UPM-Kymmene, became increasingly interested in political action at the EU level instead of solely domestic activities. Smaller firms, on the other hand, continued to favor the cartel system and traditional domestic policies. Eventually, after the twenty-plus Finnish paper and pulp industry firms of the 1980s had been consolidated into the

three large and two specialized firms of the late 1990s, the role of formal interest groups and homogenous political strategies became marginalized.

### *Analysis*

In the following, we investigate the match between the framework and the empirical illustration by scrutinizing each proposition in the context of the historical illustration.

*Path dependence.* The assumption that firms' political actions are dependent on their past behavior in political markets easily turns into a "history matters" truism (Teece et al., 1997). However, in the case of the Finnish forest industry firms, the path-dependency argument clearly stands for several reasons. It is indicative that Finnish corporations created long-lasting trajectories for their political actions during the early years of Finland's independence. The decision to establish formal interest groups (i.e., to choose collective action instead of private) and to become involved in the political decision-making system created a dominant CPA model that lasted for the whole century. Only integration into the European Union changed this paradigm.

Thus, the very first political moves created the trajectory for the long-term behavioral pattern. The efficiency of these first political "moves" not only created the trajectory in terms of the political system but also in terms of the level and type of activities. In this sense, the "path dependence" resembles the "history dependency" argument in organizational behavior theory (March & Simon, 1963), thus emphasizing the effect of learning in corporate political action. The fulfillment of needs in the political market during the early phases of industry evolution was followed by very active political action throughout the studied period.

The analysis of path dependencies has its weaknesses and strengths. On the one hand, the path dependence hypothesis is problematic, as it describes not only the evolution of behavioral patterns in particular firms but also at the level of the political system, in which the firms are only one component. On the other hand, this complexity supports our basic assumption that the process point of view for CPA is essentially systemic.

*Slack.* In the case of the Finnish forest industry, the boundary between the resources of the firm and those of the industry was rather vague. This was due to the widespread cartel system and collective pressure activities that resulted in the homogenous culture of the industrial elite. In many instances, industry leaders of the resource-rich companies had both business-driven and more “generic” political ambitions. This did not prevent companies with lesser resources from benefiting the CPA of the collective organizations. However, it is evident that the managerial elite of the largest and often most profitable firms gained the most influential and visible positions in Finnish politics. Thus, the resources seem to be an important antecedent not only for political action but also for the efficiency of the actions. Supporting some earlier results (Boddeyn & Brewer, 1994; Grier et al., 1994; Lenway et al., 1996), recurrent unprofitable periods motivated firms repeatedly to raise their activity level, especially in financial policy. One further remark is the accumulation of resources. Following Peteraf (1993) and Teece et al. (1997), the path dependence explains not only the pattern of political actions but also the development of the resource base in the organizations, as previous success in political activity motivated firms to further their maneuvers in the political market.

*Bargaining power of the industry.* The flagship position of the industry makes it relatively difficult to estimate its effect on corporate political action. In fact, the question was not about opportunities but rather about how firms used their power. This was especially apparent during the 1920s and 1930s, when the largest forest industry firms obtained a *de facto* veto right in trade agreement policy, although the strengthening of the labor unions balanced the situation to a certain degree after the Second World War. However, the largest forest industry firms maintained their high level of political activity throughout the 20<sup>th</sup> century. It is evident that during the last decades of the 20<sup>th</sup> century the political role of the companies was no longer dependent solely on the concrete bargaining power of either industry or firm resources.

*Degree of excludability in public goods.* At the firm level, the supplied public goods could only rarely be defined as exclusive. The most essential public goods for forest industry firms, such as trade agreement or transport tariffs, were not exclusive vis-à-vis other companies. However, this was rather natural in a situation in which the firms were cooperating even at the functional level, for example in marketing. In research and development policy, the Finnish government created mechanisms that benefited all forest industry firms by offering them equal treatment and advantages. In any case, the special position of paper and pulp industry firms in the Finnish national economy and political system created a situation in which they received various privileges from the government, whereas other industries were in a much weaker position.

*The level of public good provision.* The level of public good provision refers to the relative number and nature of the offered goods. Thus, it is difficult to estimate if the current level of public good provision is “high” or “low” without a comparison to other societies or

historical fluctuations. In our case, the stable development of the political system makes such comparisons rather useless. The only exceptions were the 1918 Civil War and the Second World War, which temporarily raised the level of public good provision. In terms of political involvement, Finnish firms did raise their activity level during the wartime periods, but it is difficult to estimate if this occurred because of the supply of public goods or because of cultural and institutional embedded motivations to serve “the best interests of the nation.” However, as mentioned, the level of public good production was not as important as the fact that the paper and pulp industry firms received virtually all the governmental support that was realistic to request.

*Rules of the game.* Even more than the fifth and seventh propositions, the level of stability in the societal rule setting is linked to the cognitive understanding of the organizational actors (e.g. Child, 1997) rather than to the *de facto* level of stability. In other words, if the actors perceive the rules of the game as being unstable, they will usually act accordingly. The question of the optimal level of stability as such is interesting, as neither a “too unstable” (chaotic) nor a “too stable” (planned) economy offer a fruitful environment for long-range business operations (North, 1981). In the Finnish case, the level of stability was rather constant; thus, it did not affect the direction or nature of political actions.

*Sudden institutional changes and shocks.* As mentioned earlier, the most noteworthy formal institutional changes during the period were the two world wars and the integration into the European Union. The impact of these events was crucial for the development of the business-government relationship in the Finnish forest industry. The Civil War and its aftermath resulted in the beginning of a century-long relationship between the forest industry companies and the

Finnish government. European integration motivated firms to focus more closely on the political system of the European Union at the expense of domestic interest group actions. What is interesting is that the two war periods strengthened the “blurriness” of the system to a point where one cannot separate public and private interest, since industry leaders were temporarily transformed into public servants. In other words, extreme institutional shocks can not only raise the probability of political action, but they can also temporarily dissipate the traditional setting for political action.

## *CONCLUSIONS*

CPA has received increasing interest in organization and management research during the last few decades. In comparison to other research (e.g. the new political economy, sociology, stakeholder management), which focuses on business and society relations, CPA literature explicitly scrutinizes the business-government relationship from the perspective of the firm and its goals. Earlier CPA literature has analyzed which firms are active politically and why they are so, what the effect of different institutional environments on political strategies has been, what the means of political action have been, and how political and competitive strategies have complemented each other (Getz, 1997). Outside the described “ruling“ paradigm, researchers have studied influencing strategies in the European Union (Bennett, 1999; Hadjikhani, 2000; Koepfel, 2001), national regulation effects and processes (Alt et al., 1999; Berrefjord & Heum, 1993; Maijor & van Witteloostuijn, 1996; Paterson, 1991; Rugman & Verbeke, 2000), and the evolution of national pressure organizations (Lamberg, 1998; Mitchell, 1990; van Waarden, 1992). Yet the discussion has become diluted among the various disciplines and publication

channels, thereby preventing such progressive theoretical development as has occurred among the network of CPA studies in management literature (Skippari et al., 2003).

In this paper, we have created a process theory that attempts to explain the functioning of the whole system as it is related to the activities of a firm in the political arena. Earlier, public choice theorists have focused on similar multi-level phenomena, but from the perspective of the society and/or the system of public good production and distribution instead of the perspective of the firm. Our framework anticipates both the antecedents and processes of corporate political action, with a focus on factors that can explain why and how some firms are intimately linked to governmental decision-making and why others are not. Both the matrix of alternatives and requirements and the intra-firm resource base influence corporate political actions and their evolution over time. For example, an environment with a high level of public good provision should motivate firms to participate in political decision-making, especially when they have either the tangible or intangible resources to do so. Moreover, the model attempts to capture the dynamics of business-government relations by stating that the conditions for political strategy decision-making evolve over time, and that these processes are path-dependent. Changes in conditions can appear either at a societal, industry, or firm level. We suggested that a firm confronts a constantly changing environment across its own history, which in turn affects the opportunities and ways of a firm to become politically active.

Despite the growing interest in process theories in organization and management research in general, such an approach has been rare in CPA research, the work of Hillman & Hitt (1999) being the only exception to our knowledge. Thus, we add to the CPA literature by offering an alternative perspective for research. In the literature, processual research has been seen as important because it facilitates multi-level analysis, the interpretation of dynamic issues, and an

analysis of phenomena that are embedded in complex contexts (Pettigrew, 1997). We feel that our theory fulfills these requirements. It could be especially useful in longitudinal studies, which employ historical methods, and in qualitative studies by offering a “language” for interpretation. Moreover, a systemic model of CPA is important because process researchers have been criticized for their tendency to focus on thick descriptions and non-theoretical narratives. This underlines the need for more refined conceptual frameworks for the development of process research (Woiceshyn, 1997).

One further motivation to support processual research is the different time scope vis-a-vis variance theories. As noted by Daneke (1985), a firm that seeks short-term profit maximization through government regulation may gradually convert into “a sociopathic organization” which is constantly struggling for its protected position rather than trying to adapt its business operations to free competition. This may enhance organizational decline in the long run (Nelson & Winter, 1982, 403). In CPA literature, a large part of the existing research has linked itself with explicit instrumentalism that in fact promotes “sociopathic” practices. Yoffie and Bergenstein (1985) already argued “... that companies develop political strategies to be effective in politics” and “... that the goal of the political entrepreneur is ... to influence policy, and enhance the profitability of business operations.” Taking into consideration the recent wave of corporate scandals, it is somewhat surprising that researchers have not taken into account the possible negative effects of CPA. We contend that the lack of criticism in CPA research is a logical consequence of the dominance of variance theories that apparently overemphasize the short-run effects of CPA. Thus, although variance theories are important in CPA research, and have helped us in our theory building, a processual perspective is clearly needed. Such a perspective would supplement

existing knowledge by linking the actions and performance of corporations with the changes in their political and institutional environments and in the societal welfare.

As with all conceptual papers, ours contains several limitations. First, as the setting is multi-level, processual, and contextual, it might be difficult to operationalize in empirical studies. Second, we have not systematically scrutinized the interrelationships between different independent variables. For example, it seems obvious that path dependence has a causal relation with a variety of other factors (most importantly institutional “shock” and resource accumulation). Although our case illustration already illuminated the most obvious relations between, for example, resources and path dependence, there remains an urgent need for historical studies that could help to identify the true causal mechanisms driving CPA processes. Third, it is obvious that we could add more factors and levels to the framework, as in its present form it concentrates on only a few key variables. Fourth, the framework’s usability can be questioned when analyzing the political action of smaller and less-mature firms. However, these limitations are common in most research settings and also offer starting points for further research. Although our theory can be tested by employing event study and time series analysis, it would be even more useful in historical analyses which focus on the entire life-cycle of political systems and firm development. By utilizing historical analysis, researchers are also able to focus on other factors influencing CPA, and to explicate the long-term consequences of political actions. Moreover, historical analysis helps one observe political behavior that would otherwise be difficult if not impossible to scrutinize. Finally, from the managerial point of view, the framework offers several opportunities. First, it can improve a firm’s scenario building by offering a systematic perspective to evaluate trends in the political environment. Second, it can be useful when analyzing the behavior of competitors in political markets. It might also help

managers become aware of the constraints and possible negative long-term outcomes of CPA, and thus affect the long-term competitive performance of firms.

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## APPENDIX 1: REFERENCES FOR THE HISTORICAL ILLUSTRATION

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Table 1. A selection of different models of corporate political activity

<b>MODEL</b>	<b>FOCUS</b>	<b>LEVEL OF ANALYSIS</b>	<b>THEORY TYPE</b>	<b>DESIGN</b>
Masters & Keim (1985)	Factors influencing the probability of corporate political activity	Firm Industry	Variance	Empirical test Descriptive
Keim & Zeithaml (1986)	Contingencies in selecting effective corporate political strategies	Firm Voters Issue	Variance	Theoretical Prescriptive
Lenway & Rehbein (1988)	Factors explaining the differences in corporate political involvement	Firm Industry	Variance	Empirical test Descriptive
Mizruchi (1989)	Degree of similarity in corporate political behavior	Firm Industry	Variance	Empirical test Descriptive
Boies (1989)	Factors influencing the level of corporate political activity	Firm Industry	Variance	Empirical test Descriptive
Lenway & Rehbein (1991)	Factors influencing the probability of corporate political activity	Firm Industry	Variance	Empirical test Descriptive
Boddeyn & Brewer (1994)	Antecedents and precedents of corporate political activity	Firm Industry Nonmarket environment	Variance	Theoretical Descriptive
Grier et al. (1994)	Factors influencing the probability of corporate political activity	Firm Industry	Variance	Empirical test Descriptive
Rehbein & Schuler (1995, 1997)	Factors influencing the probability of corporate political activity	Firm Industry Political environment Macro-economic environment	Variance	Theoretical Descriptive
Meznar & Nigh (1995)	Factors explaining different types of corporate public affairs activities	Firm Social and political environment	Variance	Empirical test Descriptive
Lenway et al. (1996)	Factors explaining corporate political activity	Firm	Variance	Empirical test Descriptive
Schuler (1996)	Factors explaining the probability of corporate political involvement	Firm Macro-economic	Variance	Empirical test Descriptive
Mitchell et al. (1997)	Factors explaining the probability of corporate political activity	Firm Industry	Variance	Empirical test Descriptive
Mahon & McGowan (1998)	Dynamics of industry political forces	Industry	Variance	Empirical illustration Prescriptive
Hillman & Hitt (1999)	Factors influencing CPS formulation	Firm Institutional (country)	Process	Theoretical Descriptive
Schuler et al. (2002)	Factors explaining the probability of corporate political activity	Firm Industry	Variance	Empirical test Descriptive

Figure 1: Process Model of Corporate Political Action

