Journal of Public Affairs
J. Publ. Aff. **5**: 150–175 (2005)
Published online in Wiley InterScience (www.interscience.wiley.com). DOI: 10.1002/pa.17

Building the firm's political (lobbying) strategy

Aidan R. Vining,[1] Daniel M. Shapiro[1]* and Bernhard Borges[2]
[1] *Simon Fraser University, Canada*
[2] *IBM, USA*

- *In this paper, we present a framework for building a firm's issue-specific lobbying strategy. We argue that there are five critical elements of a lobbying strategy and that the major choices concerning political lobbying strategy relate to these elements. The five elements, and the primary strategic choices concerning these elements are: (1) the choice of the level and type of* inclusiveness *of the strategy; (2) the choice of the form, or forms, of* argument *to be used in persuading relevant target constituencies; (3) the choice of* jurisdictional venue *to be addressed; (4) the choice of* organizational target *that will be engaged and (5) the choice of* delivery mode*—that is, whether political strategies should be implemented directly by firm managers or outsourced to professional suppliers of these services. We explain these elements in detail. However, in order to engage in a lobbying strategy on a specific issue, the firm must first be able to identify relevant government actions and understand their profitability impact. We show how the strategic logic can be generated by an augmented version of Porter's 'five forces' (5F) model (Porter, 1980) that explicitly recognizes the role of government—'six forces' analysis.*

Copyright © 2005 John Wiley & Sons, Ltd.

Introduction

Government actions affect the competitive advantage of firms and industries, and can therefore increase or decrease profitability.[1] To the extent that government actions or proposed actions are totally exogenous, they are *strategically* unimportant from the firm's perspective. However, government policies, whether in place or proposed, are rarely completely exogenous (Boddewyn and Brewer, 1994). Thus, political (or non-market) strategy, either by individual firms or larger coalitions, may influence or shape the final form of governmental actions, thereby enhancing firm profitability (Stigler, 1971; Olson, 1994; Schuler, 1996; Bailey, 1997; Shaffer *et al.*, 2000; McWilliams *et al.*, 2002).

Political strategic analysis is inevitably firm specific, even if. as a result of an analysis, the firm decides to engage in collective political strategy or, indeed, in no political activity (Boddewyn and Brewer, 1994). At the limit, each government action or threat of action

*Correspondence to: Dr. Daniel M. Shapiro, Dennis Culver EMBA Alumni Professor, Faculty of Business Administration, Simon Fraser University, 515 West Hastings Street, Vancouver, B. C., Canada, V6B 5K3. Tel: (604) 291 5155, Fax: (604) 291-5122.
E-mail: dshapiro@sfu.ca

[1]While it is often difficult to isolate the profitability impacts on firms and industries of government policies, the finance literature has examined the impact of proposed public policies on firm and industry share prices in a wide number of contexts (MacAvoy, 1992; Ries, 1993; Thompson, 1993; Hufbauer and Elliott, 1994; Boardman *et al.*, 1997; Besanko *et al.*, 2001). The event study research shows that stock market participants believe that government actions can have a major profitability impact.

in each policy arena can be the impetus for a distinct firm political strategy analysis. Additionally, even when government is not considering action that would be relevant to the firm, a firm may wish to try and induce it. This form of political strategy is about actively convincing relevant political decision makers to take actions that specifically benefit the firm (Godwin and Seldon, 2002). Baron (1995) argues that political strategy can be a source of firm-specific competitive advantage.

Recognition of both the endogeneity of much public policy and the firm-specific nature of political strategy has been the catalyst for an explosion of academic interest in many aspects of political strategy. Nevertheless, '*. . . the teaching of political strategy is not as well developed as the more conventional "business" strategy; indeed, it is often downplayed or even omitted in strategic management textbooks*' (Mahon *et al.*, 1994). Even in the more developed field of competitive strategy, Hambrick and Frederickson (2001) argue:

> *We now have . . . a host of . . . helpful, often powerful, analytic tools. Missing, however, has been any guidance as to what the product of these tools should be — or what actually constitutes a strategy.*

This conclusion is even more relevant for the more embryonic field of political strategy. For example, Baron's (1995) encyclopaedic — and often brilliant — textbook on political strategy does not present an explicit political strategy framework. Similarly, a recent survey of the theoretical literature (Getz, 2002) focuses on two common threads: why firms engage in political activity, and the methods by which they do so. However, there has been little attention to the question of *what* a political strategy consists of. Hillman *et al.* (2004), in a recent review of the corporate political activity field, call for a research agenda that includes research on how firms should organize to implement it.

In this paper, we attempt to address this deficiency by presenting a theoretically grounded framework for building a firm's issue-specific lobbying strategy. Lobbying is, of course, only a part of a comprehensive political strategy that may include other activities, such as political contributions. A fully articulated political strategy therefore requires that firms not only choose which activities to engage in, but also select the appropriate weight to give to each activity (Mahon, 1993). Hillman and Hitt (1999) and Schuler *et al.* (2002) also address the choice among political strategy activities. However, they posit quite different political strategy taxonomies. Hillman and Hitt (1999) propose an integrative taxonomy that considers how firms engage in political behaviour. They suggest three generic kinds of political strategies: information, financial incentive and constituency building. Information and financial incentive strategies target politicians directly by various means, including lobbying and financial contributions (see also Austen-Smith, 1993, and Hrebenar, 1997, on financial contributions). Constituency building targets political decision makers indirectly, through grassroots activities and media-directed activities (see also Baysinger *et al.*, 1985). Schuler *et al.* (2002) distinguish between lobbying and political contributions, and divide the former into staff lobbying and outside (contracted out) lobbying. Lobbying may be the most important form of political strategy: '*There is an emerging literature that looks at information as a more influential instrument in affecting policy outcomes than campaign contributions*' (De Figueiredo, 2002).

We focus here on lobbying strategy alone and concentrate on addressing the question of what constitutes a comprehensive lobbying strategy. We define lobbying broadly — including all attempts to communicate information to political actors (De Figueiredo, 2002). This definition, therefore, encompasses decisions regarding staff lobbying and contracted-out lobbying, as well as more indirect lobbying through the media or through coalitions with groups that use indirect tactics.

The specific elements of lobbying strategy analysis we bring together draw upon numerous strands of existing research. The purpose of this synthesis is to provide a guide to the most important aspect of a firm's overall political

Copyright © 2005 John Wiley & Sons, Ltd.

strategy. Indeed, for many firms, lobbying is the dominant form of political strategy because they do not make political contributions (IBM, for example) and may only engage sporadically in constituency building. Although not our primary focus, we do suggest below how this analysis is also relevant to the other forms of political strategy (such as political contributions).

We argue that there are five critical elements of a political lobbying strategy and that the major choices concerning political lobbying strategy relate to these elements. The five elements, and the primary strategic choices concerning these elements, are: (1) the choice of the level and type of *inclusiveness* of the strategy; (2) the choice of the form, or forms, of *argument* to be used in persuading the relevant constituencies; (3) the choice of *jurisdictional venue*, or venues, to be addressed; (4) the choice of *organizational target*, or targets, that will be engaged and (5) the choice of *delivery mode*—that is, whether political strategies should be implemented directly by firm managers or outsourced to professional suppliers of these services. While, in a given issue context, one or two of these choices may be straightforward, usually most are not.

Because we believe that these elements have not been laid out comprehensively, the primary purpose is to do so in a systematic way. However, we also argue that the full articulation of a strategy requires a clear statement of its underlying logic. Like any strategy, political strategy is crafted around specific issues or problems. Firms have little stimulus to engage in political strategy if they cannot forecast, at least approximately, the direction and magnitude of profitability impacts. In order to engage in political strategy, the firm must first be able to identify relevant government actions and understand their profitability impact. In some circumstances, the firm, *ex ante*, may not be able to predict even the direction of the impact (Hart, 2004). The strategic logic can be generated by an augmented version of Porter's 'five forces' (5F) model (Porter, 1980) that explicitly recognizes the role of government—'six forces' analysis.

A 5F analysis (or other comprehensive industry analysis) that includes the impact of a government-proposed or implemented action is therefore a necessary precursor to firm political strategy because it provides a framework for *identifying* those government actions that affect, or will affect, the firm. Typically, it is comparatively easy for firms intuitively to assess when an action will directly affect rivalry, even without systematic industry analysis. But without systematic analysis, it is more likely that the firm will overlook actions that can indirectly affect profitability through their impact on supplier power, potential entrants, substitutes, etc. Comprehensive industry analysis reduces the potential that the firm will simply let the issue 'fly under its radar', or that it will misjudge the impact of any policy.

There appear to be many cases of profitability misperceptions relating to government policies. For example, many airlines in the 1970s appeared to misjudge the future profitability impact of proposed regulatory changes on their firms. Some airlines believed that they were being protected by the extant regulations, while subsequent events suggest that they were probably being hurt by them. Other airlines believed they would be hurt, while subsequent events suggest that they were helped (El-Gazzar and Sannella, 1996). Similarly, Krueger (1996) documents how some segments of the US sugar industry supported policies for many years that were almost certainly antithetical to their interests.

The explicit addition of government to the Porter framework makes it clear that government actions do not necessarily have an impact on all industry members in the same way, although, of course, some do. Examples of government policies that raise profitability for all (domestic) firms in an industry include import restrictions (Hufbauer and Elliott, 1994) and industry-wide tax expenditures (Timmer, 1986; Mucciaroni, 1995). Many other policies, however, affect industry participants differentially: '*...regulations are distributional, with some firms gaining profits and other firms losing*' (Hughes *et al*., 1986). Given the potential for intra-industry impacts in some

Copyright © 2005 John Wiley & Sons, Ltd.

cases, it is strategically dangerous for any given firm to regard political strategy as either not part of its strategic process or as exclusively a collective, or industry, issue.

For related reasons, an initial industry analysis is essential because it affects choices relating to the elements of political lobbying strategy — it provides a preliminary screen regarding the alternatives for each strategy component. This latter use can be illustrated by considering rivalry. It is almost always critical to know whether a specific action will affect only the firm performing the analysis (the target firm), a strategic group within the industry or all firms within the industry. If, for example, the analysis suggests that a government action affects only the target firm, the opportunities to engage other firms in a political response will be difficult or impossible. When only the target firm is affected, the firm will have to engage in either a firm-specific or vertical chain response, rather than in a strategic group or industry-wide response. Similarly, an industry analysis can help to shape decisions about the viability of different kinds of normative argument. If only the target firm will be affected negatively by an action, a fairness (or equity) argument is usually more credible.

The paper is divided into two major parts. We first summarize an augmented five forces model that provides strategic logic and context. Secondly, we describe the five proposed elements of a political lobbying strategy.

Government as an additional industry force

Michael Porter (1980) introduced the 5F model as a way to assess the major *market* factors that affect industry profitability. 5F analysis has proved to be a very useful way of analysing the various market forces that influence an industry. 5F can also be used to assess variability in the forces that lead to differential impacts on particular firms within an industry. However, '. . . *the framework does not explicitly account for the role of government, except when the government is a supplier or buyer*' (Besanko *et al*., 2000).[2] However, many scholars have argued that in many strategic contexts the impact of government actions can dominate other competitive forces. Oster (1994) and others have explicitly introduced government as a 'sixth force'.[3] These scholars also emphasize that, while many types of government action directly affect rivalry, others affect profitability through their impact on entrants, substitutes, suppliers and buyers. A rationale for not including the government as a primary force in *all* strategic analyses is that when considering competitive (market) strategies, it can be treated as being exogenous — the firm is considering competitive responses that must be manifested by interactions with standard Porterian forces, such as competitors, buyers and suppliers. The fact that a competitor may have gained a competitive advantage through government action is largely irrelevant because the standard competitive toolkit does not, and cannot, respond to it. When considering a political strategy, however, ignoring the causal government action *cannot* work.

In order to help to scan for important potential impacts of government, **Figure 1** summarizes some of the major public policy arenas through which government can act as an independent force. The role of governments as an independent additional force focuses on them as *policy framers* rather than as buyers, suppliers or competitors, which are already analytically captured in the standard 5F model. 'Policy' is interpreted broadly, so as to include *all* government actions, including regulations, which affect the performance and profitability of firms.[4] This broad policy focus, therefore, includes arenas such as taxation policy, trade

[2]Subsequently, Porter has emphasized the centrality of government policies for competitive strategy, although without formally adapting the 5F model (Porter, 1990).
[3]However, Oster does not do so in great detail (similarly, see Besanko *et al*., 2000). Grove (1996) uses the term 'sixth force' to refer to complementors. Given that Oster and others previously used the term to refer to government, we also do so.
[4]However, here we do not focus on the government role of framework provider and enforcer, although this role is also important to long-term viability and profitability.

Copyright © 2005 John Wiley & Sons, Ltd.

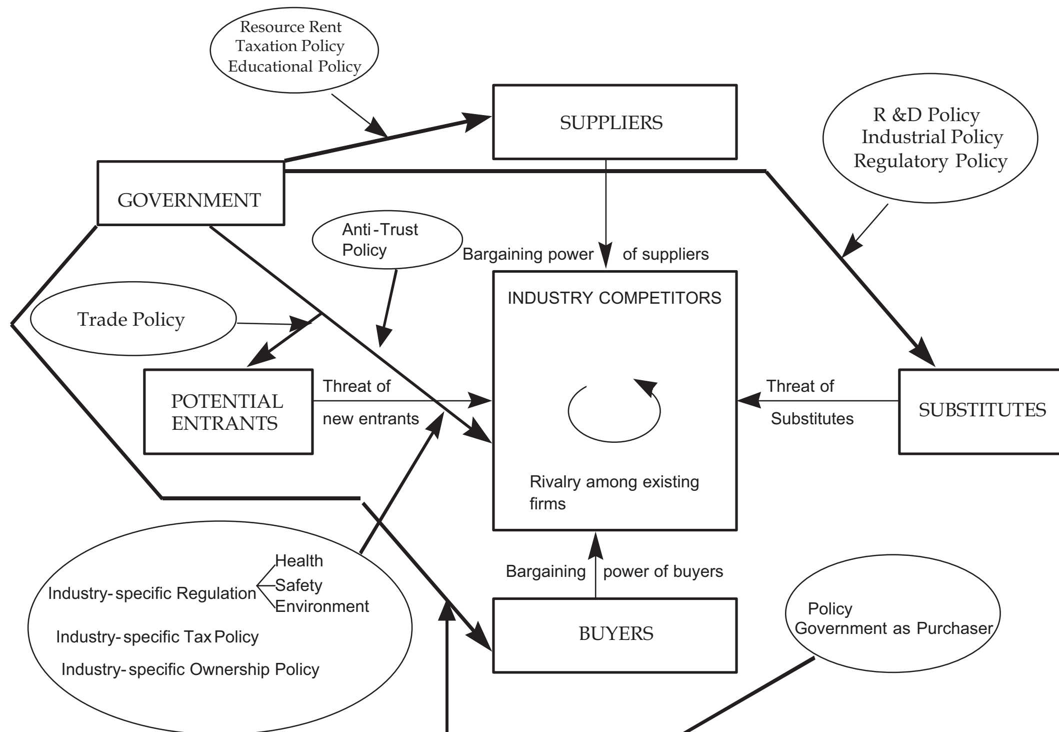

Figure 1. Adding the sixth force to Porter's five forces of competition model.

policy and industrial policy, which are sometimes not included in definitions of government 'regulation'.

We first review and discuss some of the prominent impacts of government as policy maker on each of the standard components of 5F—rivalry, entry, substitutes, suppliers and buyers. The intent here is simply to synthesize some of the findings of the extant literatures as to how the sixth force can affect profitability as a necessary precursor to the formulation of political strategy. In the next section, we link them explicitly to choices relating to the elements of political strategy.

Rivalry and government policy

From a political strategy perspective, it is most critical to distinguish between government actions that threaten profits for all incumbent firms in the industry from those that threaten only some firms (usually because of the heterogeneity in firm resources and capabilities). Industry-specific tax policy, for example, usually falls into the former category. Such tax policies are common in industries that extract or process natural resources; governments want to share in the scarcity rents through various forms of output taxes or, increasingly, by imposing competitive bidding for access to the resource (Conrad and Hool, 1980; McMillan, 1994). These policies typically pose a significant threat to industry profitability.

Specific government actions can directly affect either firm revenues or costs. On the revenue side, the most straightforward way to raise industry revenue is to give it money. Many governments set price floors on agricultural products, as exemplified in the USA by the 1996 Federal Agricultural Improvement and Reform Act. *Direct* US support for agricultural products averages at $10–11 billion per year (Friedman, 1999). Government can also affect the degree of rivalry by altering relative costs or revenues among firms, or by changing the number and size composition of firms. The major sources of impact include industry-specific regulation, industry-specific tax and industrial policy, trade policy, industry-specific ownership policies and anti-trust policy.

Copyright © 2005 John Wiley & Sons, Ltd.

Many industries are subject to industry-specific regulation because of the particular health and safety risks associated with industry production or consumption, or because of environmental impacts resulting from industry production. Industry-specific environmental, health and safety regulations are normally conceived as being cost-raising and, therefore, profit lowering (Hahn and Hird, 1991; Hopkins, 1996). However, as Leone and Koch (1979), McWilliams *et al.* (2002) and others have shown, even this form of regulation can be profit enhancing for some firms in an industry, because of the heterogeneity of firm resources—in this case, because of differential costs of compliance. A regulatory change alters the relative competitiveness of incumbents if some firms can comply at a lower unit cost or more quickly. Each of the major laws that expanded federal regulation of the US pharmaceutical industry were lobbied for by firms that believed that they would be able to meet the proposed standards more easily than their competitors (Weimer, 1982). Similarly, Thomas (1990) shows that smaller US pharmaceutical firms suffered serious reductions in research productivity because of Food and Drug Administration regulations, while the largest firms gained substantially in sales.

Other common causes of industry-specific tax regulation are consumption-negative externalities. Almost all governments tax cigarettes, alcohol and gambling at higher rates and many place restrictions on the marketing and sales of these products. These cases suggest that industry profitability is not always threatened by taxation; these industries have generally been highly profitable (Katz and Summers, 1989). There are a number of reasons for this outcome. For one thing, potential entrants may avoid unpopular or risky industries. Additionally, governments are constrained in setting tax rates because taxes set at too high a level reduce legal consumption and encourage evasion and smuggling, which lowers total tax receipts.

Although most regulation is still national in scope, increasingly firms are engaged in multinational activity. Therefore, when nation-specific environmental regulations or labour laws raise the costs for domestic firms, they confer competitive advantage on firms importing into that market that are subject to less stringent regulations (Harrison, 1995).[5] For example, the UK steel industry has lobbied extensively against a proposed domestic climate tax that would raise their relative costs (Anonymous, 2000).

Inevitably, taxation policies overlap with industrial policies because the latter are frequently implemented through the former. Examples include direct subsidies to corporations as well as tax credits, tax exemptions, investment credits and depreciation write-offs. Tax expenditures are generally less visible than direct subsidies, but can be more important. In the USA, a large percentage of all tax expenditures go to businesses (Witte, 1985), and '... *tax expenditures account for the bulk of the federal efforts to promote business*' (CBO, 1995). Tax benefits can be firm specific. Transition tax expenditures provisions of the US 1986 tax reform law (worth about $10 billion) were written so narrowly that they benefited a single firm within an industry (Uehling and Thomas, 1986).

Anti-trust policy has relatively obvious effects on rivalry. To the extent that there are strong legal impediments to collusion or abuse of a dominant position or horizontal mergers, the competitive position of smaller market-share rivals is enhanced. Indeed, the dominant firm may find it strategically expedient to assist such firms. The application of competition policy is more likely in some industries than in others. For example, there is evidence that collusion is more likely to be detected in industries that have fewer firms, are slower growing and produce homogeneous products (Scherer and Ross, 1990). Moreover, the impact of competition policy may be firm- or segment specific, rather than industry-wide. The evidence suggests that anti-trust policy is

[5]Porter (1990) argues that even cost-raising government actions, including environmental regulation, can enhance firm competitiveness. This argument remains controversial.

Copyright © 2005 John Wiley & Sons, Ltd.

frequently profit raising for many incumbent firms because it protects them from having to face larger, more powerful rivals' extra-industry (Stillman, 1983; Eckbo, 1983; Eckbo and Weir, 1985).

Entry barriers and government policy

Government policy often restricts industry entry or exit. Generally, formal entry restrictions allow incumbents to raise prices and improve profitability (Weiss, 1989). Historically, most countries applied direct entry restrictions to a wide range of industries with natural monopoly or network characteristics, including telecommunications, power and transportation (Crandell, 1992). Exit barriers are created through subsidies that prevent bankruptcy and asset liquidation. However, entry restrictions are being reduced in these industries in many countries (Primo Braga, 1997). The removal of these regulatory entry barriers has certainly threatened incumbent profitability, although frequently not *ex post* industry profitability.

Entry may also be restricted through barriers to international trade and investment. Restricting imports through tariffs, quotas or non-tariff barriers can be essentially equivalent to restricting firm entry (Clark *et al.*, 1990). Indeed, trade policy remains one of the few arenas where there can be explicit use of arguments that favour limiting competition (Rowley *et al.*, 1995).

Tariffs are profit raising for domestic incumbents in an industry, at least in the short run (Hufbauer and Elliott, 1994). However, because of the 'shadow' of world trade agreements, especially the World Trade Organization (WTO), there has been a shift over the past decade in most developed countries to managed trade and voluntary agreements which can have very ambiguous strategic implications for individual firms (Harris, 1985; Krishna, 1989). WTO rules and WTO admission policies are now a major focus of domestic lobbying in most countries (e.g. Gottlieb, 2000).

Other methods of restricting industry entry include trade policies that limit or ban foreign-owned corporations (as opposed to goods) from entry and industrial policies that restrict firm share concentration or the level of foreign ownership. In banking, restrictions on foreign firm entry are pervasive (e.g. Stulz and Wasserfallen, 1995; Lam, 1997). The impact of such restrictions on firm profitability is not clear: while they dampen competition they also reduce access to lower-cost foreign capital (Stulz and Wasserfallen, 1995). Share-concentration restrictions are also complex and often, therefore, ambiguous.

In many countries, industrial policy discourages entry by foreign firms.[6] Direct restrictions on foreign direct investment obviously limit foreign entrants. However, indirect policies that raise the fixed costs of entry to an industry by requiring potential entrants to locate plants in specific regions of a country or maintain minimum levels of local employment may be equally effective in restricting entry (Globerman and Shapiro, 1999).

Finally, environmental regulations can also have entry-deterring characteristics — for example, by requiring operating permits, by raising the capital requirements of foreign entrants or by providing direct or indirect subsidies to domestic firms (Cansier and Krumm, 1997). Different forms of environmental regulation generate differential barriers. Buchanan and Tullock (1975) show that incumbents prefer 'command and control' mechanisms to taxes because the former can be more easily manipulated (see also Stavins, 1998). More recently, evidence suggests that industry incumbents support emissions-trading systems because they are typically grandfathered, while entrants have to buy-in (Joskow and Schmalensee, 1998; Svendsen, 1999). These barriers may partially, or completely, offset the profit-lowering impacts on rivalry described above. These barriers are usually a serious strategic disadvantage for potential small-firm entrants, unless, as sometimes happens, they are exempt from the requirements. In this case,

[6] For example, the US Federal Government has wide latitude under the Omnibus Trade and Competitiveness Act of 1988 to restrict foreign investment (Kang, 1997).

Copyright © 2005 John Wiley & Sons, Ltd.

it may become a strategic advantage (Brock and Evans, 1985). After an examination of 306 US manufacturing industries, Dean and Brown (1995) conclude that: '*Environmental regulations have a net deterrent effect on new firm entry*'.

Substitutes and government policy

From a competitive perspective, there is often a greater long-run threat to incumbents from substitute products than from 'conventional' new entrants (Henderson and Clark, 1990; Utterback, 1996; Howells, 2002). Governments influence the competitiveness of substitute technologies and products through research and development (R&D) policy, industrial policy, taxation policy, tariff policy and general regulatory policy (e.g. White, 2001; Walsh and Kirchhof, 2002).

Government decisions on R&D financing often directly affect the rate at which substitutes can penetrate an industry. Aggressive government support of disruptive R&D can effectively lead to the dissolution of an existing 'industry' (Christensen, 1997). For example, government R&D support of laser technology was an important factor in the displacement of vinyl records from the recording market place. By contrast, government subsidies to large firms in mature industries are often a major deterrent to new investment in potential substitutes because potential investors capitalize on the knowledge that incumbent firms will not exit these markets, as they might have in the absence of such subsidies.

Industrial policy can be a significant determinant of the success of substitute products, or at least of cross-industry competition for the same market (Nelson, 1995). Banking, defined broadly, is an industry or set of industries where in most countries there are numerous constraints on competitive activity by firms in closely related industries (Saunders and Walter, 1994; Benston, 1994). Substitution is therefore limited by legislation.

Taxation policies, by contrast, frequently spur the penetration of substitutes and dampen incumbents' profitability. Products or industries that are subject to high rates of taxation are usually vulnerable to such competition, especially if substitutes are defined as including contraband or illegal products (undeclared 'cross-border' shopping falls into this category). 'Roll-your-own' cigarettes, 'U-brew' beer and wine outlets and 'duty-free' shops are substitutes whose competitive viability, at least initially, are largely determined by taxation policies.

Tariffs on substitute products protect domestic incumbents and are therefore similar in effect to tariffs as entry barriers. To take one example, the high fructose corn syrup producers are strong supporters of US sugar supports and sugar quotas (a close substitute for corn syrup in many applications), although at one time they were opponents of such price supports to their competitors. They came to recognize that the resulting high sugar prices improved their own relative price competitiveness (Krueger, 1996).

Safety, health and environmental policies often raise barriers to substitutes. Substitute products frequently involve new technologies that have unknown health and safety impacts. The European Union views genetically modified foods as substitute foods, and it restricts their use, a policy which US firms oppose. The complexity, speed and efficiency of government testing of product efficacy alter the speed with which substitutes can become viable competitors. The market success of herbal remedies and homeopathic medicines, for example, is dependent on whether governments decide to subject them to conventional randomized, double-blind medical trials, in the same way as for pharmaceuticals, or to treat them as foodstuffs. The Canadian Government, for example, recently withdrew plans to classify herbal remedies as drugs (Jimenez, 1997).

Finally, intellectual property rights can affect the emergence of substitutes. Weak property rights may inhibit innovative activity and the discovery of substitute products. Patent policy may also affect substitution in more direct ways. For example, Canada's experiment with compulsory licensing of pharmaceutical drugs created generic substitutes (Shapiro and Switzer, 1993).

Copyright © 2005 John Wiley & Sons, Ltd.

Suppliers and government policy

Government policies can affect industry profitability and rivalry via policies that have an impact on industry suppliers. Since supplying industries can themselves be placed at the centre of a 'six forces' analysis, all of the other government factors discussed here can affect rivalry and profitability in these industries, and consequently the costs of their products that are sold downstream. For example, to the extent that suppliers provide primary resources or raw minerals, both resource rent taxation policy and tariff policy are relevant.

However, there are additional government policies that can affect the power of suppliers. Government educational policies can significantly alter the quantity, quality and price of human capital, which in turn influences industry productivity (Bound and Johnson, 1996; Black and Lynch, 1996). Additionally, taxation policies can significantly alter the returns to human capital investments, both of education and job training (McPherson, 1993; Dupor *et al.*, 1996).

Buyers and government policy

Government can most directly alter the bargaining power of buyers through consumer protection legislation, including product disclosure requirements, cooling-off periods, advertising regulations, product testing for safety and health effects, and price controls. These actions can lower profitability; Peltzman (1981) found that firms whose advertising was challenged by the Federal Trade Commission were less able to attract first-time buyers and their brand names were seriously eroded. However, government restrictions can also present strategic opportunities for certain firms or industries. For example, requirements regarding the healthfulness of products have created opportunities for new entrants (Clancy, 1988; Caswell and Johnson, 1991).

Government as 'a force'

This section has emphasized the centrality of government actions as a separate and independent force that shapes the competitive landscape, both directly through their impact on the firm and its competitors (rivalry), as well as indirectly through their impact on suppliers, buyers, substitutes and entrants. Understanding the institutional source of a given action and its aggregate industry impact is a necessary ingredient to meaningful choices regarding the elements of political lobbying strategy, which we elucidate in the next section.

The elements of political (lobbying) strategy

Lobbying is the central feature of most political strategy. The number of firms with Washington lobbying offices has grown dramatically (McWilliams *et al.*, 2002), and the same is true in Europe (Coen, 1999). Evidence regarding its effectiveness is somewhat limited. Although Lord (2000) casts some doubt on the efficacy of lobbying, a number of specific studies have shown its effectiveness. For example, De Figueiredo and Silverman (2002) estimate positive and, at times, substantial returns to lobbying activity by US universities.

Although we do not include political financial contributions in this analysis, we recognize their importance, particularly in the USA, where corporate political financial contributions have risen dramatically since their legalization in the 1970s (Humphries, 1991; Wilson, 1991). A large number of studies have analysed the effects of political contributions, almost all of which have been carried out in the USA. Some of this evidence suggests that political contributions (mostly in the form of Political Action Committee contributions) are effective (e.g. Stratman, 1991). Other empirical evidence finds little effect (e.g. Wright, 1990; Bronors and Lott, 1997). While the evidence on the impact of contributions to legislators is somewhat mixed, this and other empirical evidence does suggest that contributions do 'buy access' (Hall and Wayman, 1990; Grier and Munger, 1991). This, in turn, suggests that lobbying and financial contributions are complementary. Empirical studies confirm that many firms engage in *both* lobbying and

Copyright © 2005 John Wiley & Sons, Ltd.

political contributions (Mahon, 1993; Grant, 1993; Schuler *et al*., 2002). However, it is certainly possible to engage in lobbying without making political financial contributions. In fact, many firms make no political financial contributions (Grier *et al*., 1994), some as a matter of principle (Sabato, 1984). For the most part, it is difficult, and possibly strategically unwise, to engage in financial contributions without also lobbying.

A political lobbying strategy can be represented as a set of choices regarding five strategic elements which determine the appropriate lobbying strategy. The five strategic elements are: (1) the level and type of inclusiveness; (2) the form, or forms, of argument to be used in persuading the relevant constituencies; (3) the location of venue, or venues; (4) the specific organizational target, or targets, that will be engaged and (5) whether political strategies should be implemented directly by the firm's managers or contracted out. These five elements are summarized in **Figure 2.**

Although the model focuses on lobbying activities, the elements are relevant to financial contributions, except for form of argument and delivery mode. Extension of the approach to encompass broader strategies is therefore possible.

The level and type of inclusivity

Inclusivity refers to the levels of participation that firms may choose when formulating their political strategies. There are six major generic alternative levels of inclusiveness: (1) a firm-specific strategy; (2) an industry segment or strategic group strategy (e.g. small firms in the industry or industry firms in a specific geographical region); (3) an industry-wide strategy; (4) a 'vertical chain' strategy that includes suppliers and buyers; (5) a multiple-industry strategy and (6) an 'advocacy coalition' strategy (Sabatier, 1988; Sabatier and Jenkins-Smith, 1993). Such a coalition can be based on common locality, common inputs or common competitors. Usually, however, the most effective 'glue' to hold such a group together is common beliefs or ideology (Sabatier, 1988).

In general, the joint presence of high fixed costs (leading to economies of scale) and collective good characteristics raises the net benefits of more inclusive strategies and raises the per-firm costs of less inclusive strategies

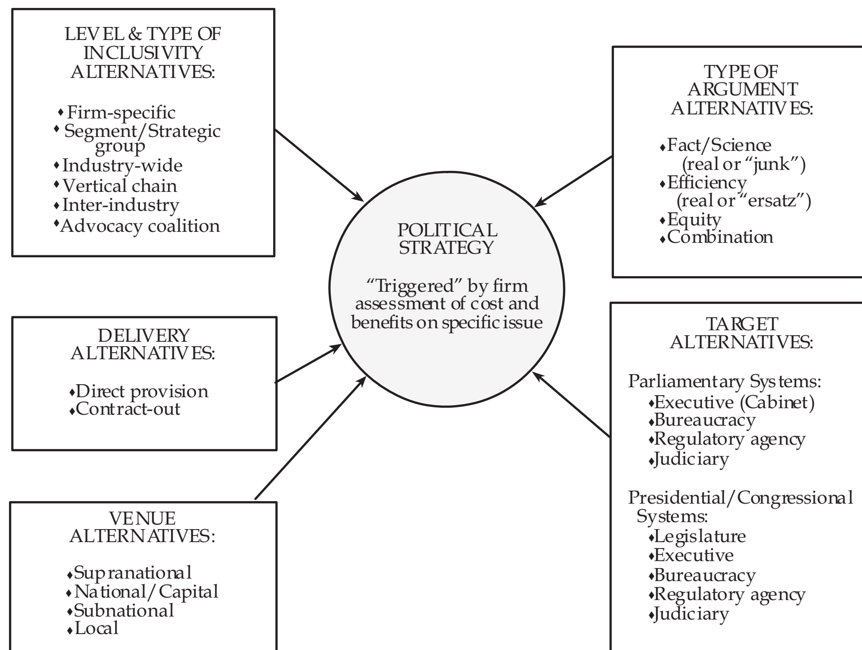

Figure 2. Elements of political strategy.

Copyright © 2005 John Wiley & Sons, Ltd.

(Olson, 1965; Grier *et al.*, 1994).[7] Collective goods are characterized by non-rivalry in consumption (although valuation of benefits can vary) and non-excludability (Schuler, 1996). Firms that do not contribute to lobbying for collective goods still benefit. Favourable tax depreciation for certain types of capital investment, for example, will normally benefit all firms in an industry, irrespective of whether or not they contribute.[8] Economies of scale may arise when effective lobbying requires offices and lobbyists in both federal and state venues. In jurisdictions with weak party discipline, where winning coalitions have to be built on each issue, a large number of legislators must be lobbied (Baron, 1995).

There is therefore a trade-off between increasing inclusivity and increasing free riding when the output action is a collective good. More inclusive strategies involve a larger number of potential participants, increasing the tendency to free-ride, especially for smaller potential participants (Schuler, 1996). Additionally, as the number of potential participants increases, there is likely to be greater variability of strategic preferences *vis-à-vis* the political strategy. It is difficult to distinguish between these problems — free-riders are likely to claim divergence of interest as the reason for their non-participation in any coalition.

Firm-specific strategy

Firm-specific strategies may be active or passive. A passive political strategy free-rides on the activities of other firms. This may be the most rational strategy, especially for small firms. However, engaging in a rational passive strategy requires analysis of the desirability of an active strategy. An active, firm-specific political strategy does not expend resources on forming a coalition. All resources can be directly allocated to pursuing a firm-specific political strategy. By contrast, the choice of any other inclusivity level requires resources to be devoted to coalition building and monitoring. A firm-specific approach unambiguously makes sense where fixed costs are low and the output is a private good. Politicians are usually reluctant to provide such private goods, except in exceptional circumstances, such as a large firm crisis that threatens many jobs.

Not surprisingly, the evidence suggests that large firms engage in firm-specific political strategy more frequently than do small firms (Schuler, 1996; Gawande, 1998; Hart, 2001). Large firms are more able to bear large fixed costs and to push through the provision of policies that provide them with a private good. Even if the output is a collective good, they capture a high absolute share of the benefits. The disadvantages of a firm-specific strategy are threefold: the high cost associated with almost all lobbying, the potential for net negative competitive impacts if the good is collective and the fact that there is some evidence that more inclusive strategies carry more weight, independent of resources expended (Grier *et al.*, 1994).

Strategic group strategy

The narrowest form of a more inclusive strategy is to recruit other firms on the basis of a common industry strategic group (Hatten *et al.*, 1978; Porter, 1979). Oster (1994) demonstrates how the pharmaceutical industry is divided into two major groups — the large, brand name, patent-oriented firms and the generic drug makers — with generally opposing regulatory interests. Similarly, power-producing industries have tended to segment along regional lines when acid rain legislation has been at issue (Meyer and Yandle, 1987; Alm, 1993). Organizing on a strategic group basis is consistent with

[7]There is, however, one important exception. If a firm expects to suffer competitive disadvantage if other firms also receive the benefits of the policy action, they usually should not engage in inclusive strategies. If other firms are prepared to engage in an inclusive strategy, the firm must trade-off decreasing costs (which decrease as other firms share the fixed cost) and decreasing net benefit. If other firms will not share, it must compare the fixed cost to net benefit.

[8]If the good is private, there can be no free riding. High fixed costs with private good output therefore require high expected benefits for the firm. Thus, there are many cases of rational 'non-lobbying', when the benefits of the private good would be high if provided, but are exceeded by the costs.

Copyright © 2005 John Wiley & Sons, Ltd.

the evidence cited earlier that different groups within an industry can be affected differentially by government actions.

Industry-wide strategy

Industry-wide coalitions have the advantages of low per-participant costs, greater legitimacy and the fact that 'industry' is a natural focal point for political activity. Thus, industry associations are the most common and most temporally stable vehicles for political activity. Given the potential problem of free-riding, it is not surprising that the empirical evidence suggests that more concentrated and more regulated industries are more politically active (Estey and Caves, 1983; Grier *et al*., 1994). However, industry-wide groups usually lobby for policies that keep the median firm happy. If firms have heterogeneous goals, industry-wide associations are unlikely to be effective vehicles for producing goods of high value (there is a single public good but highly differentiated demand). Not surprisingly, Grier *et al*. (1994) find that industries with more heterogeneous products make considerably fewer financial contributions.

Industry groups have achieved enormous clout in many countries, especially in centralized, corporatist nations. Indeed, often they are encouraged and subsidized by government (Bennett, 1997). By contrast: '*American corporations seem to place more value on their individual efforts, for example, through their Washington offices or contacts with legislators than on working through trade associations or umbrella groups*' (Wilson, 1991). Industry-wide lobbying is most useful on the following kinds of issues: industry 'motherhood' issues, where legitimacy is central and where there are potentially strong inter-industry (i.e. substitute) effects. On some issues, industry groups are the only mechanism whereby firms can influence policy, as the government institutionally utilizes industry advisory groups (Barke, 1993). However, an industry-wide strategy is prone to free-riding, threats of defection to induce changes of strategy, and splinter groups.

Vertical chain strategy

One alternative to an industry coalition is based on the supply (vertical) chain around the firm, consisting of the firm, its suppliers and buyers (Salhofer *et al*., 2000; Ellison and Wolfram, 2001). The automobile industry, for example, frequently mobilizes both its suppliers and dealers in lobbying for import restrictions. The major advantage of such a strategy is that the coalition is with firms that are not competitive rivals, which both reduces the probability of opportunistic behaviour and 'privatizes' the policy output. Another advantage is that it typically increases the number of legislative districts that can be effectively pressured (Weingast *et al*., 1981). Such a strategy is more feasible when both suppliers and buyers are concentrated (i.e. when the firm is an intermediate good supplier), and thus is less likely to be viable when buyers are individual consumers.

Multiple industries strategy

A firm may try to put together a multiple industry coalition based on common locations, common use of inputs, or common markets. These groups face many of the same problems that industry groups face, but writ larger. Such coalitions only work for issues of extremely high saliency to all participants and are usually temporary. For example, a large number of industries have formed an organization to fight the possibility of removing dams from the Columbia River to facilitate salmon rejuvenation. Similarly, US industries that bought steel united to fight the imposition of tariffs on imported steel.

Advocacy coalitions

Many analysts believe that, for a variety of reasons, previously stable 'iron triangles' have weakened or dissolved (Browne, 1990). A broader range of interest groups play a part in policy formulation in arenas that were once thought of as purely the preserve of 'business and government' (Marin and Mayntz, 1991; Heinz *et al*., 1993). One strategy is to become

Copyright © 2005 John Wiley & Sons, Ltd.

part of such a coalition; there is evidence that corporations provide at least some funds to such interest groups (Walker, 1983). One obvious nexus for business entities in general are policy think tanks that generally espouse the virtues of markets and stress the costs of regulation.

Form of argument

A critical political strategy choice is how to frame the policy argument. '*Proponents who have a stake in the outcome must make an argument to convince people who do not have a stake, or have a different one... the argument must persuade*' (Wilson, 1980). Arguments have to be constructed within a complex institutional environment because '...*public deliberation has been carefully institutionalized in all modern democracies*' (Majone, 1989). At the same time, in many arenas, there is still considerable latitude as to the nature of the argument because '...*in newer areas of debate such as nuclear safety, technology assessment, and environmental and health regulation appropriate procedures and standards of argument are still lacking*' (Majone, 1989).

There are three major categories of argument: fact/science arguments, efficiency arguments and equity (distributional) arguments. These arguments can, and usually are, aggregated to produce combination or 'trans-scientific' arguments (Weinberg, 1972). Each of the three can be effectively used in a particular political situation because they can be couched in terms of meeting the needs of the public interest, rather than those of private interests (Schattschneider, 1960).

Fact/science arguments

Fact-based or science-based arguments involve making, or rebutting, arguments either in response to similar arguments by opposing groups or in response to the government's position. Scientific and factual evidence frequently set the agenda for policy debate and government action (Kingdon, 1984; Harrison and Hoberg, 1991). In cases where science can demonstrate strong causal links between economic activity and harmful effects, such as ozone depletion, there is often a relatively rapid public policy response (Ungar, 1992). Such arguments traditionally have high legitimacy, in spite of the fact that there is evidence of some public disillusionment with scientific expertise (Prince-Embryo and Gooney, 1995). The willingness to use information may be greatest at sub-national governmental levels where politicians do not have access to their own sources of technical expertise (Guston *et al*., 1997).

Fact/science arguments are frequently crucial in health and environmental issues, because the impact of chemicals, pesticides and other commercial products on human health is a key determinant of policy making. Yet, it is often difficult to draw conclusions without sophisticated human epidemiological studies, given the long latencies and inherently low probability of serious illness or death that most hazards pose. Even then, each study typically involves different locations, populations, and type and exposure duration, all of which make interpretation difficult. Furthermore, scientists themselves may be just as ideologically driven as other actors (Lindzen, 1996; Maney and Plutzer, 1996). Perhaps most importantly, political actors may choose to interpret scientific evidence selectively, as might be argued is the case with genetically modified foods.

These factors encourage firms or industries to challenge regulations that inherently rely on such arguments in court. A typical example was the court challenge to the ban on the use of urea-formaldehyde introduced by the Consumer Product Safety Commission in 1981 (Ashford *et al*., 1983). Likewise, firms and industries will be encouraged to lobby more intensively when scientific evidence is in dispute, or when interpretation of existing evidence is subject to political goals.

Because of its high legitimacy, the sponsorship of scientific research is obviously an attractive strategy for larger firms or for more inclusive groups such as industry associations. Inclusive groups are more likely to adopt such a

Copyright © 2005 John Wiley & Sons, Ltd.

research sponsorship strategy because the research itself tends to have collective good characteristics (dissemination of the information means that non-contributors benefit as much as contributors). Additionally, not only is the research expensive, but monitoring and interpreting the results for policy purposes is also costly. Perhaps the most infamous example of industry scientific research in the USA is the Council for Tobacco Research, established by the tobacco industry. Perhaps a more unusual example was Exxon's sponsorship of research by leading economists into the conceptual foundations of contingent valuation surveys, after such surveys were used by plaintiffs to estimate very high environmental damage from the Exxon Valdez oil spill (Hausman, 1993).

Costs of not rebutting unflattering scientific argument can be extremely high for an industry. Scientific knowledge, and changes in the public's perceptions because of that knowledge, can have a dramatic impact on the sales of an industry. Bosso (1987), for example, documents how scientific information concerning the deleterious effects of pesticides negatively affected the regulatory environment of the chemical industry.

Although sponsored scientific research often has greater initial legitimacy than other forms of political action, it is not without risks. Scientific research sponsored by clients with an interest in any given outcome risks sliding into 'junk' science. While other kinds of arguments and evidence are difficult to refute absolutely, incorrect scientific claims will be refuted in time — at least to most people's satisfaction. Furthermore, scientific claims can focus and stimulate rebutting governmental or opposing interest group research. Additionally, providing scientific information does not necessarily reduce anxiety among the public — indeed, it may increase it (Jenkins-Smith and Basset, 1994).

Efficiency arguments

Increasingly, over the past decade, scholars have stressed the important role that the 'politics of ideas' and the policy networks associated with them, play in the policy formation process (Quirk, 1988; Goldstein, 1989; Regan, 1993; Klyza and Mlyn, 1995; Marsh and Smith, 2000). One important idea is allocative efficiency (Landy and Levin, 1996). The importance of efficiency arguments has increased steadily in traditional regulatory arenas. Executive Order 12291, signed by President Reagan in 1981, requires that a 'regulatory impact analysis' (essentially, cost-benefit analysis, but also including some distributional assessment) accompany all major regulatory initiatives (Portney, 1984). A large number of states have also begun to mandate various forms of regulatory analysis that include an efficiency criterion, with some requiring a 'strict' cost-benefit standard for the adoption of new regulations (Whisnant and DeWitt Cherry, 1996). A similar increase in the importance of such criteria has been observed in Europe (Coen, 1997). The existence of many international organizations such as the WTO (see below), as well as their operating decisions, is based on efficiency criteria. Such mandates raise the importance of understanding and utilizing efficiency arguments.

Efficiency arguments can be attractive to firms because, holding other things equal, they have high legitimacy. Convincing efficiency arguments can reduce the suspicion that firm or industry arguments are self-serving. However, allocative efficiency as a concept is widely misunderstood, even within the business community.

Economic efficiency focuses on the idea of maximizing social surplus, the net benefits that accrue to all members of society (consumers, producers and third parties) from transactions. Given the highly technical nature of this definition, it is not surprising that there is confusion over the meaning of efficiency. There are a number of economic 'myths' that, nevertheless, have strong political appeal (Miller *et al.*, 1993). For example, a widely held perception is that free trade is bad for a domestic economy because it allows foreign firms with low-cost labour to undercut domestic firms and threaten domestic jobs (similar arguments have appeared concerning

Copyright © 2005 John Wiley & Sons, Ltd.

international outsourcing). Efficiency studies of protectionism, however, tend to find high net losses in social surplus (e.g. Feenstra, 1992). Firms must decide whether to adopt efficiency (in the sense used here) arguments, or adopt 'ersatz' efficiency arguments that may be more closely aligned with public sentiment.

There are reasons for firms to consider adopting efficiency arguments, or at least not adopting ersatz efficiency arguments, even though it may not appear to be in their short-term interest. Firstly, as one moves closer to the centre of political power the calibre of economic advice that decision makers receive usually increases. Most central government departments have cadres of economic and policy analysts who can call upon a vast array of economics research, and who routinely consider efficiency arguments. Holding other factors constant, this expertise can overwhelm argumentation not based on efficiency criteria (Quirk, 1988). Secondly, on other salient issues the firm may need to oppose arguments that are antithetical to efficiency. Switching back and forth can create cognitive dissonance if the target audience deals with more than one of the issues.

Of course, on occasion, firms will find that an efficiency argument produces an unprofitable answer. For example, firms and industries can benefit from tariff protection that makes domestic consumers worse off and reduces aggregate domestic welfare. However, frequently, firms are in a position to engage strategically in rational efficiency argumentation and social cost-benefit analysis. This requires combining science/fact research with an efficiency argument (Portney and Harrington, 1995).

Equity arguments

Distributional, equity and fairness arguments have strong appeal, particularly when they can be framed in terms of losses. Proposed policy changes that are expected to lower profitability can frequently be attacked more vigorously because they can often be framed as being unfair. As Knetsch (1995) puts it: '*...survey and experimental studies have found that actions that impose losses on particular parties or groups are widely regarded as more unfair than ones that result in forgoing gains*'. Of course, fairness arguments are often difficult for the corporate sector to make because firms are viewed as being both powerful and only motivated by their own profits (Kempton *et al.*, 1995). Firms can also be perceived as being 'greedy' in the policy arena (Salamon and Siegfried, 1977; Schuler, 1996).

Corporations are usually most successful in using equity arguments when they can be couched in terms of unfairness to small firms, unfairness to local or domestic firms *vis-à-vis* non-local or foreign firms ('fair trade' versus 'free trade') or as unfairness to the employees of firms. Perhaps no US industry has combined these variations of the fairness argument more successfully than the agriculture industry, with its image of the family farm beset by competition from subsidized foreigners (Mucciaroni, 1995). But larger industries and firms have successfully used fairness arguments, especially when the policy output is a private good (the more unique the issue, the easier it is to specify it as a fairness issue). Harley-Davidson, for example, was successful in using fairness arguments in its fight for projectionist measures against Japanese motorcycle imports (Shughart *et al.*, 1994).

Choice of venue

On some issues, firms face a single venue for their political activities because a single government has monopoly over the policy domain. In these circumstances, there is no choice. However, increasingly, especially for multinational firms, there are multiple venues (Boddewyn and Brewer, 1994). The hierarchical level of venue and the number of venues that must be addressed depend primarily on the issue-specific distribution of political and bureaucratic power. Specifically, five generic venues are potentially relevant to firms: supranational venues, capitol-national venues, regional venues, local venues and multiple venues.

Copyright © 2005 John Wiley & Sons, Ltd.

Supranational venues

Supranational venues have increased in importance over the past decade as a result of three interrelated developments: the globalization of many business-related issues (especially those relating to the environment and health), the growth of global and regional trade regimes (the WTO, North American Free Trade Agreement, Asia-Pacific Economic Cooperation, European Union, etc.) and the growth of multinational firms. All of these have stimulated the growth of supranational venues. For example, the creation of the European Union has led many firms to realign their political strategy, placing much greater emphasis on Brussels (Coen, 1997; Koeppl, 2001). In addition to ongoing venues, *ad hoc* supranational venues associated with global environmental issues can be of tremendous significance for specific industries, or clusters of industries. Two of the most significant are the Kyoto global warming meeting (1997) and the meeting on chlorofluorocarbons (Montreal Protocol to Protect the Stratospheric Ozone Layer, 1987). Multi-nation industry-specific meetings and agreements can also have major impacts on global industries. The 1988 Basle Accord, for example, which brought together central bankers from the major industrialized nations, had a significant impact on the profitability of major banks (Eyssell and Arshardi, 1990; Wagster *et al.*, 1996).

Most firms and industries have difficulty in effectively accessing supranational venues, in spite of their increased importance. These difficulties are both technical and political. At the technical level, these venues may be on a different continent, conducted in a foreign language and subject to unfamiliar procedural rules. The political difficulties are typically even more severe. The political clout of even a major domestic industry is reduced at supranational venues — many of the decision makers have an equivalent domestic industry with opposing interests to consider. Additionally, it is usually more difficult to construct international coalitions than domestic coalitions; interests are more diverse, there is less history that induces trust and the topic may be one that involves only a temporary commonality of interest. There is, therefore, less scope for inter-issue logrolling.

Nevertheless, the existence of supranational venues does create an opportunity for firms to negate the power of competing domestic lobbyists. For example, under the Canada–USA Autopact, imported cars from outside North America were not subject to tariffs if produced by signatories to the Pact. The signatories, the 'Big Three' US producers (GM, Ford and Chrysler), were therefore advantaged relative to Japanese firms (and some European firms). The Japanese car manufacturers lobbied unsuccessfully within North America to have this provision removed, but were only successful when they took the case to the WTO.

National-capital venues

It may seem self-evident that the most important venue for most political strategy is the national capital. However, this is an over-simplification in federal countries such as the USA, Brazil, Canada, Australia and Switzerland. Of course, the extent and nature of sub-national government power varies considerably. Canadian provinces have the power to impose taxation, regulate business and administer justice. While Germany is also a federal state, the German constitution bestows much less power on the Lander. Federal systems, in almost all cases, require multiple-venue strategies. In turn, this requires comprehensive intelligence systems that, again, have significant fixed costs. Because these kinds of intelligence gathering have both low variance in their value to firms and high fixed costs, industry associations often perform them.

Unitary constitutional systems, such as France, however, typically have much less formal devolution of power to lower levels of government. Most European countries follow a unitary model, often with extremely high degrees of centralization of political power. There is, however, some move towards decentralization, as exemplified by the recent

Copyright © 2005 John Wiley & Sons, Ltd.

referenda approving Scottish and Welsh legislative bodies. In unitary systems, political strategies can be almost exclusively confined to the capital and to a relatively small number of target decision makers.

National capitals increasingly tend to be characterized by sophisticated policy communities and networks (Keim and Baysinger, 1988). Opposing interest groups are normally numerous, well organized and well financed (Berry, 1997). Given this, sophisticated combination arguments are almost always required, even if the primary strategic weapons are financial contributions.

Regional (state, province) venues

In a federal system, the actions of sub-national political actors may be as important, or more important, than the actions of political actors at the national venue. There is considerable evidence, for example, that US states do not copy policies blindly, but rather tend to innovate (Rogers, 1995; Hays, 1996). Because constitutional divisions of powers are idiosyncratic between countries, issue-specific analysis is required to clarify the appropriate balance of venues. However, federal systems often require the development of 'bifurcated' strategies operating on both the capitol-national and the regional (e.g. state or province) level. Strictly sub-national venue issues often provide strategic opportunities to firms. At sub-national venues, the ability of a firm or a regional group of firms to 'play-off' jurisdictions against each other increases, *unless* there is extensive asset specificity (e.g. *in situ* natural resources, such as mines, forests, fish, etc.).

Local venues

Most firms have to deal with more than one local jurisdiction. The primary issues that normally require attention to local venues are (property) taxation and zoning. But even municipalities in the USA have begun to engage in trade sanction activity that can have substantial impacts (Mahoney, 1997).

Choice of target

There are a variety of target audiences for political strategies. The target choices are: the chief executive and members of the Cabinet; political appointees heading bureaucracies; senior members of the permanent bureaucracy; individual members, or groups of members, of the legislature; members of independent regulatory bodies; the judiciary; or some combination of these. In addition, the media is also frequently a target because, although they have no direct role in the policy-making process, they can strongly influence the other targets already listed, especially politicians.

The relevance of particular targets is primarily determined by constitutional structure: '*Strategies pursued by coalitions are substantially different in alternative constitutional structures*' (Schlager, 1995). Political culture, however, can also play an important role. The most important constitutional dimension is whether there is a parliamentary or presidential/congressional system (Moe, 1990).[9] In general, because of the diffusion of powers in presidential systems there are a larger number of targets at any given venue that shape a policy. The corollary of this is that the expected value of getting any particular target on side is lower. Obviously, presidential/constitutional systems and federal structures can generate a large set of venues and targets.

A non-exhaustive list of relevant targets in a presidential system includes the executive branch, agency bureaucracies, committee heads and individual legislators (typically, presidential systems have much weaker party discipline, and therefore higher benefits to individual lobbying), and independent regulatory agencies. In parliamentary systems, the important targets are considerably more restricted: Ministers, senior bureaucrats, independent regulatory agencies and the judiciary.

[9]This dichotomy abstracts from 'hybrid' systems and ignores non-democratic structures.

Copyright © 2005 John Wiley & Sons, Ltd.

Bureaucrats

Career managers of government agencies are important in shaping the profitability consequences of government policies. Because most government legislative mandates are broad and relatively unspecified, senior managers play a major role in the level and form of implementation, primarily through their powers to write rules and regulations. (Bryner, 1987; McGarity, 1991; Kerwin, 1994). Bureaucracies everywhere, but especially in the USA, appear to have become more permeable and susceptible to influence over time (Moe, 1990), partly as a result of the (externally mandated) importance of efficiency and cost–benefit analysis, but also because of the increase in the number of political appointees (West, 1988). Bureaucrats are the most important targets on technical interpretation and implementation issues.

Members of the legislature

Individual members of the legislature in presidential/congressional systems are much more important than their counterparts in parliamentary systems because of weak party discipline (Baron, 1995; Hojnacki and Kimball, 1998). Additionally, since procedural reforms in the 1970s, the power of key House committee chairs has been weakened, ensuring that congressional influence is more 'widely shared' (Browne, 1995). In turn, this has increased the importance of legislative staff analysts and constituents, and has made individual legislators the targets of financial contributions.

Chief executive/cabinet

In presidential/congressional systems: '... *policy arenas that are centered in the executive branch, feature greater bureaucratic autonomy, come under the jurisdiction of non constituency-oriented committees in Congress and are also less advantageous for producer interests than those that are otherwise*' (Mucciaroni, 1995). In Parliamentary systems, the Prime Minister and Cabinet ministers are the most important targets. Indeed, a Prime Minister is a relatively and absolutely more important target than a President.

Regulatory agencies

In most countries, there is a wide range of agencies that have a degree of legal separation from both departmental bureaucracies and legislators. Typically, such agencies have a mix of administrative and quasi-judicial functions. Some of the most important regulatory agencies in the USA include the Federal Communications Commission, the Securities and Exchange Commission and the International Trade Commission. While there is an extensive theoretical literature on what drives the decision making of such agencies (e.g. Stigler, 1971; Peltzman, 1976; Becker, 1983; Weingast, 1984; McCubbins and Schwartz, 1984), it has not turned out to be easy to verify empirically many of the predictions of the various theories. If all decisions were, or could be, made on the basis of 'pure' interpretation of statutes, such agencies would not make very interesting direct, or indirect, targets. However, as Hansen and Prusa (1997) emphasize with reference to the International Trade Commission: '*The outcomes of cases are not determined in a political vacuum; administered protection may have more to do with "who you know," timing, and surrounding circumstances than with the strength of the case under statutes*'. However, the same authors find no simple pattern of industry influence on the Commission (similarly, see Finger *et al*., 1982; Anderson, 1993; Baldwin and Steagall, 1994). Nevertheless, the overall evidence suggests that such agencies often have enormous power over specific firms, industries or clusters of industries.

Judiciary

The judiciary is an important target, especially in the USA, but also in any country with significant constitutionally protected individual and group rights and clearly defined property rights (Smith, 1993). Firms can often use legal strategies most effectively in the anti-trust and

Copyright © 2005 John Wiley & Sons, Ltd.

intellectual property rights arenas. The judiciary may also be an indirect target. Freight rail companies, for example, have vigorously lobbied Congress to limit the amount of damages they incur when they are sued for negligence (Lewis, 1997).

Media

The media cannot directly determine government actions, but in many policy arenas they strongly influence the final shape, and implementation, of policies. Media attention is largely driven by its perception of audience interest (Baron, 1995). When engaging in a political strategy where the general public interest is initially low, the corporate actor must decide whether to involve the media explicitly. Of course, media involvement may be activated by the target or by opposing interest groups. Most senior politicians and government agencies have media access. In most developed countries, all the organs of central government have extensive mechanisms to activate and influence the media. The Environmental Protection Agency, for example, has separate media offices dealing with air and radiation, pesticides and toxic substances, solid waste management and water (Furlong, 1995).

Direct provision versus outsourcing

An important decision for a firm is whether to engage directly in political action or to outsource it. Most of the strategic issues are similar to other outsourcing decisions (Vining and Globerman, 1999). Broadly speaking, the relative transaction costs should determine the most appropriate mode. A firm-specific political strategy requires a major fixed, 'sunk' investment. Employees are usually easier to monitor and motivate than contractees (Johnson, 1996), but generally are only worth investing in if a firm is pursuing outputs that are high-value private goods or when the firm lobbies on a large number of issues (thus, allowing it to achieve minimum efficient scale through scope).

Discussion and conclusions

The increasing importance of government has not gone unrecognized by business leaders and academics. In many circumstances, political strategy can be as important as competitive (market) strategy and is often required to complement it. This study proposes a set of generic elements that define a political lobbying strategy. It attempts to add the 'what is strategy?' question to the evolving literature on political business strategies. We also argue that a fully comprehensive strategy cannot be articulated without a clear demonstration of its underlying purpose and logic, and that this can be accomplished through the use of an augmented version of Porter's 5F model. Because the framework that we propose is new, it opens up many avenues for improvement, and for future research.

The five elements of lobbying strategy can undoubtedly be augmented. For example, one may wish to consider the number of issues considered by the firm, and the relationship among them (scale and scope), as an additional element. Additions can also be considered within each element. As one example, a reviewer has suggested that national security might be added to the list of forms of argument.

We assume that the elements are chosen simultaneously, or at least in no particular sequence. Since sequencing is always part of comprehensive strategy, further research could well be directed at the sequencing of choices. For example, Hillman and Hitt (1999) suggest that inclusivity may precede other choices.

Our approach can also be applied to other types of political strategies, most importantly to financial strategies. As we have already noted, the ideas of inclusivity, venue and target apply equally well to political financial strategies, but there may be additional factors to consider.

Perhaps more importantly, the framework presented can be used to develop and test hypotheses regarding the role of political lobbying strategy. For example, it is likely that the strategy bundle chosen by each firm will depend on the nature of the issue (geographic

Copyright © 2005 John Wiley & Sons, Ltd.

scope, life cycle), the nature of the firm (size, geographical and product diversity, competitive advantage), the nature of the industry (concentration, knowledge-based, resource-based) and the nature of the country (legal system, political system). It is a natural extension of this paper to consider how each of these factors is related to choice of lobbying strategy elements. We see particular merit in further exploring the relationship between the quality of government in a country (La Porta *et al.*, 1999) and the political choices made by firms.

We do not directly focus on the specific benefit–cost calculus that 'triggers' a particular firm to engage in a political strategy or on the particular institutional and issue characteristics that raise or lower the probability of success.[10] Clearly, however, different success rates depend to some extent on both competitive (market) and political (non-market) strategies. Specifically, if there is an optimal bundle that defines a political strategy for each firm, given its circumstances, then firms that choose the optimal bundle should be more successful than firms that do not. Similarly, the circumstances under which market and non-market strategies are substitutes or complements merit more attention. While also not a focus of this paper, the relationship between government actions and specific market strategies also appears to be ripe for further analysis.

Biographical notes

Aidan R. Vining is the CNABS Professor of Business and Government Relations in the Faculty of Business Administration, Simon Fraser University, Vancouver. He obtained his PhD from the University of California, Berkeley. He also holds an LL.B (King's College London) and an MBA and MPP. He teaches and researches in the areas of public policy, policy analysis and business strategy. Recent articles have appeared in the *Journal of Policy Analysis and Management*, *Journal of Management Studies, Industrial and Corporate Change, the Journal of Strategic Management Education, Canadian Journal of Administrative Sciences* and the *Journal of Risk and Insurance*, among others. He is the co-author of *Policy Analysis; Concepts and Practice* (4th Edition, Pearson Prentice-Hall, 2005) and *Cost-Benefit Analysis: Concepts and Practice* (2nd Edition, Pearson Prentice-Hall, 2001) and co-editor of *Building the Future: Issues in Public Infrastructure in Canada* (C.D. Howe, 2001) with John Richards.

Daniel M. Shapiro is the Dennis Culver EMBA Alumni Professor in the Faculty of Business Administration, Simon Fraser University, Vancouver. He obtained his PhD from Cornell University. He teaches and researches in the areas of business strategy, international business and business economics. Recent articles have appeared in the *Strategic Management Journal*, *Journal of International Business Studies*, *Academy of Management Journal, Industrial and Corporate Change, the Journal of Strategic Management Education* and *the Journal of Business Research*, among others.

Bernhard Borges is a senior technologist for IBM's Business Consulting Group. His areas of expertise are distributed computing and enterprise integration. He holds an MBA and PhD from Simon Fraser University. He lives in Phoenix, Arizona.

References

Alm L. 1993. Regional influences and environmental policymaking: a study of acid rain. *Policy Studies Journal* **21**: 638–650.

Anderson K. 1993. Agency discretion or statutory direction: decision-making at the US International Trade Commission. *Journal of Law and Economics* **36**: 915–935.

Anonymous. 2000. UK climate tax spells trouble for steel industry. *International Tax Review* **11**: 6.

Ashford N, Ryan W, Caldart C. 1983. Law and science policy in federal regulation of formaldehyde. *Science* **222**: 894–900.

[10]On the former, see the comprehensive model developed by Lenway and Rehbein (1991); on the latter, see Hansen (1990) and Mucciaroni (1995).

Copyright © 2005 John Wiley & Sons, Ltd.

Austen-Smith D. 1993. Information and influence: lobbying for agendas and votes. *American Journal of Political Science* **37**: 799–833.

Bailey E. 1997. Integrating policy trends into dynamic strategy. In *Wharton on Dynamic Competitive Strategy*, Day G, Reibstein D, Gunther R (eds). John Wiley and Sons: New York, NY; 76–83.

Baldwin R, Steagall J. 1994. An analysis of ITC decisions in anti-dumping, countervailing duty and safeguard cases. *Weltwirschaftliches Archiv* **130**: 290–308.

Barke R. 1993. Managing technological change in federal communications policy: the role of advisory groups. In *Policy Change and Learning*, Sabatier P, Jenkins-Smith H (eds). Westview Press: Boulder, CO; 129–146.

Baron D. 1995. *Business and its Environment*, 2nd edn. Prentice Hall: Upper Saddle River, NJ.

Baysinger B, Keim G, Zeithaml C. 1985. An empirical evaluation of the potential for including shareholders in corporate constituency programs. *Academy of Management Journal* **28**: 180–201.

Becker G. 1983. A theory of competition among pressure groups for political influence. *The Quarterly Journal of Economics* **98**: 371–400.

Bennett R. 1997. The relation between government and business associations in Britain: an evaluation of recent developments. *Policy Studies* **18**: 5–33.

Benston G. 1994. Universal banking. *Journal of Economic Perspectives* **8**: 121–144.

Berry J. 1997. *The Interest Group Society*, 2nd edn. Scott-Foresman: Glenview, IL.

Besanko D, D'souza J, Thiagarajan SR. 2001. The effect of wholesale market deregulation on shareholder wealth in the electric power industry. *The Journal of Law and Economics* **44**: 65–88.

Besanko D, Dranove D, Shanley M. 2000. *The Economics of Strategy*, 2nd edn. John Wiley and Sons: New York, NY.

Black S, Lynch L. 1996. Human capital investments and productivity. *American Economic Review: Papers and Proceedings* **86**: 263–267.

Boardman A, Vertinsky I, Whistler D. 1997. Using information diffusion models to estimate the impacts of regulatory events on publicly traded firms. *Journal of Public Economics* **63**: 283–300.

Boddewyn J, Brewer T. 1994. International-business political behavior: new theoretical directions. *Academy of Management Review* **19**: 119–143.

Bosso C. 1987. *Pesticides and Politics: The Life Cycle of a Public Issue.* University of Pittsburgh Press: Pittsburgh, PA.

Bound J, Johnson G. 1995. What are the causes of rising wage inequality in the United States? *Economic Policy Review* **1**: 9–17.

Brock W, Evans D. 1986. *The Economics of Small Business: Their Role and Regulation in the US Economy*. Holmss and Meier: New York, NY.

Bronors S, Lott J Jr. 1997. Do campaign donations alter how a politician votes? Or, do donors support candidates who value the same things that they do? *Journal of Law and Economics* **40**: 317–350.

Browne W. 1990. Organized interests and their issue niches: a search for pluralism in a policy domain. *Journal of Politics* **52**: 477–509.

Browne W. 1995. *Cultivating Congress: Constituents, Issues, Interests and Agricultural Policy.* University Press of Kansas: Lawrence, KA.

Bryner G. 1987. *Bureaucratic Discretion: Law and Policy in Federal Regulatory Agencies.* Pergamon: New York, NY.

Buchanan J, Tullock G. 1975. Polluters' profits and political response: direct control versus taxes. *American Economic Review* **65**: 139–147.

Cansier D, Krumm R. 1997. Air pollution taxation: an empirical survey. *Ecological Economics* **23**: 59–70.

Caswell J, Johnson G. 1991. Firm strategic response to food safety and nutrition regulation. In *The Economics of Food Safety*, Caswell J (ed.). Elsevier Science Publishing: New York, NY; 273–298.

Congressional Budget Office. 1995. *Federal Financial Support of Business.* Congressional Budget Office: Washington, DC.

Christensen C. 1997. *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail.* Harvard Business School Press: Boston, MA.

Clancy K. 1988. *Consumer Demands in the Marketplace: Public Policies Related to Food Safety, Quality, and Human Health.* Resources for the Future: Washington, DC.

Clark D, Kaserman D, Mayo J. 1990. Barriers to trade and the import vulnerability of US manufacturing industries. *The Journal of Industrial Economics* **38**: 433–447.

Coen D. 1997. The European business lobby. *Business Strategy Review* **8**: 17–25.

Coen D. 1999. The impact of US lobbying practice on the European business–government relationship. *California Management Review* **41**: 27–44.

Copyright © 2005 John Wiley & Sons, Ltd.

Conrad R, Hool B. 1980. *Taxation of Mineral Resources*. D.C Heath and Co: Lexington, MA.

Crandell R. 1992. *After the Breakup: US Telecommunications in a More Competitive Era.* The Brookings Institution: Washington, DC.

De Figueiredo J, Silverman B. 2002. Academic earmarks and the returns to lobbying. *MIT Sloan School of Management Working Paper 4245-02*.

De Figueiredo J. 2002. Lobbying and information in politics. *Business and Politics* **4**: 125–159.

Dean T, Brown R. 1995. Pollution regulation as a barrier to new firm entry: initial evidence and implications for future research. *Academy of Management Journal* **38**: 288–303.

Dupor B, Lochner L, Taber C, Wittekind M. 1996. Some effects of taxes on schooling and training. *American Economic Review Papers and Proceedings* **86**: 340–346.

Eckbo B. 1983. Horizontal mergers, collusion, and stockholder wealth. *Journal of Financial Economics* **11**: 241–273.

Eckbo B, Weir P. 1985. Antimerger policy under the Hart–Scott–Rodino Act: a reexamination of the market power hypothesis. *Journal of Law and Economics* **28**: 119–149.

El-Gazzar S, Sannella A. 1996. The effect of airline deregulation on shareholder wealth: some additional evidence. *Atlantic Economic Journal* **24**: 144–155.

Ellison S, Wolfram C. 2001. Pharmaceutical prices and political activity. *NBER Working Paper 4842*.

Estey D, Caves R. 1983. Market structure and political influence: new data on political expenditures, activity, and success. *Economic Inquiry* **21**: 24–38.

Eyssell T, Arshardi N. 1990. The wealth effects of the risk-based capital requirements in banking: the evidence from the capital market. *Journal of Banking and Finance* **14**: 179–198.

Feenstra R. 1992. How costly is protectionism? *Journal of Economic Perspectives* **6**: 159–178.

Finger J, Hall K, Nelson D. 1982. The political economy of administered protection. *American Economic Review* **72**: 452–466.

Friedman L. 1999. Presidential address: peanuts envy? *Journal of Policy Analysis and Management* **18**: 211–225.

Furlong S. 1995. Reinventing regulatory development at the Environmental Protection Agency. *Policy Studies Journal* **23**: 466–482.

Gawande K. 1998. Stigler–Olson lobbying behavior in protectionist industries: evidence from the lobbying power function. *Journal of Economic Behavior & Organization* **35**: 477–499.

Getz K. 2002. Public affairs and political strategy: theoretical foundations. *Journal of Public Affairs* **1/2**: 305–329.

Globerman S, Shapiro DM. 1999. The impact of government policies on foreign direct investment: the Canadian experience. *Journal of International Business Studies* **30**: 513–533.

Godwin RK, Seldon B. 2002. What corporations really want from government: the public provision of private goods. In *Interest Group Politics*, Cigar AJ, Loomis BA (eds). CQ Press: Washington, DC; 205–224.

Goldstein J. 1989. The impact of ideas on trade policy: the origins of US agricultural and manufacturing policies. *International Organization* **43**: 31–71.

Gottlieb D. 2000. US could fail to back WTO—if Congress goes along. *Purchasing* **128**: 32–38.

Grant W. 1993. Pressure groups and the EC. In *Lobbying in the EC*, Mazey S, Richardson J (eds). Oxford University Press: New York, NY; 123–142.

Grier K, Munger M. 1991. Committee assignments, constituent preferences, and campaign contributions to House incumbents. *Economic Inquiry* **29**: 24–43.

Grier K, Munger M, Roberts R. 1994. The determinants of industry political activity, 1978–1986. *American Political Science Review* **88**: 911–926.

Grove A. 1996. *Only the Paranoid: How to Exploit the Crisis Points that Challenge Every Career and Company*. Currency Doubleday: New York, NY.

Guston D, Jones M, Branscomb L. 1997. The demand for and supply of technical information and analysis in state legislatures. *Policy Studies Journal* **25**: 451–469.

Hahn R, Hird J. 1991. The costs and benefits of regulation: review and synthesis. *Yale Journal of Regulation* **8**: 233–278.

Hall R, Wayman F. 1990. Buying time: moneyed interests and the mobilization of bias in congressional committees. *American Political Science Review* **84**: 797–820.

Hambrick D, Frederickson J. 2001. Are you sure you have a strategy? *Academy of Management Executive* **15**: 48–59.

Copyright © 2005 John Wiley & Sons, Ltd.

Hansen W. 1990. The International Trade Commission and the politics of protectionism. *American Political Science Review* **84**: 21–46.

Hansen W, Prusa T. 1997. The economics and politics of trade policy: an empirical analysis of ITC decision making. *Review of International Economics* **5**: 230–245.

Harris R. 1985. Why voluntary export restraints are ‘voluntary’. *Canadian Journal of Economics* **18**: 799–809.

Harrison K. 1995. Is cooperation the answer? Canadian environmental enforcement in comparative context. *Journal of Policy Analysis and Management* **14**: 221–244.

Harrison K, Hoberg G. 1991. Setting the environmental agenda in Canada and the United States: the cases of dioxin and radon. *Canadian Journal of Political Science* **24**: 3–27.

Hart D. 2001. Why do some firms give? Why do some give a lot? High-tech PACs, 1977–1996. *Journal of Politics* **63**: 1230–1249.

Hart D. 2004. Business is not an interest group: on companies in American national politics. *Annual Review of Political Science* **7**: 47–69.

Hatten K, Schendel D, Cooper A. 1978. A strategic model of the US brewing industry, 1952–71. *Academy of Management Journal* **21**: 592–610.

Hausman JA. 1993. *Contingent Valuation: A Critical Assessment.* North-Holland: New York, NY.

Hays S. 1996. Patterns of reinvention: the nature of evolution during policy diffusion. *Policy Studies Journal* **24**: 551–566.

Heinz J, Laumann E, Nelson R, Salisbury R. 1993. *The Hollow Core: Private Interests in National Policy Making*. Harvard University Press: Cambridge, MA.

Henderson R, Clark K. 1990. Architectural innovation: the reconfiguration of existing product technologies and the failure of established firms. *Administrative Science Quarterly* **35**:9–30.

Hillman A, Hitt M. 1999. Corporate political strategy formulation: a model of approach, participation, and strategy decisions. *Academy of Management Review* **24**: 825–842.

Hillman A, Keim G, Shuler D. 2004. Corporate political activity: a review and research agenda. *Journal of Management* **30**: 837–857.

Hojnacki M, Kimball D. 1998. Organized interests and the decision of whom to lobby in congress. *American Political Science Review* **92**: 775–790.

Hopkins T. 1996. *Regulatory Costs in Profile.* Policy Study 132. Center for the Study of American Business: St Louis, MO.

Howells J. 2002. The response of old technology incumbents to technological competition—Does the sailing ship effect exist? *Journal of Management Studies* **39**: 887–906.

Hrebenar R. 1997. *Interest Group Politics in America.*: ME Sharpe: New York, NY.

Hufbauer G, Elliott K. 1994. *Measuring the Costs of Protection in the United States*. Institute for International Economics: Washington, DC.

Hughes J, Magat W, Ricks W. 1986. The economic consequences of the OSHA cotton dust standards: an analysis of stock price behaviour. *Journal of Law and Economics* **29**: 29–59.

Humphries C. 1991. Corporations, PACs, and the strategic link between contributions and lobbying. *Western Political Quarterly* **44**: 353–372.

Jenkins-Smith H, Bassett G. 1994. Perceived risk and uncertainty of nuclear waste: differences among science, business, and environmental group members. *Risk Analysis* **14**: 851–856.

Jimenez M. 1997. Ottawa caved in on new herbal remedies rules, B.C. doctors charge. *The Vancouver Sun*, 6 October: B1–B2.

Johnson P. 1996. Corporate political offices in a rent-seeking society. *Public Choice* **88**: 309–331.

Joskow P, Schmalensee R. 1998. The political economy of market-based environmental policy: the US acid rain policy. *Journal of Law and Economics* **41**: 89–135.

Kang C. 1997. US politics and greater regulation of inward foreign direct investment.*International Organization* **51**: 301–333.

Katz L, Summers L. 1989. Industry rents: evidence and implications. *Brookings Papers on Economic Activity* (Microeconomics): 209–275.

Keim G, Baysinger B. 1988. The efficacy of business political activity: competitive considerations in a principal-agent context. *Journal of Management* **14**: 163–180.

Kempton W, Boster J, Harley J. 1995. *Environmental Values in American Culture*. MIT Press: Cambridge, MA.

Kerwin C. 1994. *Rulemaking: How Government Agencies Write Law and Make Policy*. Congressional Quarterly: Washington, DC.

Kingdon J. 1984. *Agendas, Alternatives and Public Policies.* Little Brown: Boston, MA.

Copyright © 2005 John Wiley & Sons, Ltd.

Klyza C, Mlyn E. 1995. Privileged ideas and state interests: bombs, trees and state autonomy. *Policy Studies Journal* **23**: 203–217.

Knetsch J. 1995. Assumptions, behavioral findings, and policy analysis. *Journal of Policy Analysis and Management* **14**: 68–78.

Koeppl P. 2001. The acceptance, relevance and dominance of lobbying the EU Commission— A first-time survey of the EU Commission's civil servants. *Journal of Public Affairs* **1**: 69–80.

Krishna K. 1989. Trade restraints as facilitating devices. *Journal of International Economics* **26**: 251–270.

Krueger A. 1996. The political economy of controls: American sugar. In *Empirical Studies in Institutional Change*, Alston L, Eggertsson T, North D (eds). Cambridge University Press: New York, NY; 169–218.

Lam S. 1997. Control versus firm value: the impact of restrictions on foreign share ownership. *Financial Management* **26**: 48–61.

Landy M, Levin M. 1996. *The New Politics of Public Policy.* John Hopkins University Press: Baltimore, MD.

LaPorta R, Lopez-de-Silanes F, Shleifer A, Vishny R. 1999. The quality of government. *Journal of Law, Economics and Organization* **15**: 222–279.

Lenway S, Rehbein K. 1991. Leaders, followers, and free riders: an empirical test of variation in corporate political involvement. *Academy of Management Journal* **34**: 893–905.

Leone R, Koch J. 1979. The Clean Water Act: unexpected impacts on industry. *Harvard Environmental Law Review* **3**: 84–93.

Lewis N. 1997. Rail Bill would aid freight carriers in lawsuits. *The New York Times (National)*, 22 October: A15.

Lindzen R. 1996. Science and politics. In *Risks, Costs, and Lives Saved*, Hahn R (ed.). Oxford University Press: New York, NY; 85–103.

Lord MD. 2000. Corporate political strategy and legislative decision making. *Business and Society* **39**: 76–94.

MacAvoy P. 1992. *Industry Regulation and the Performance of the American Economy*. W.W. Norton and Co: New York, NY.

Mahon J. 1993. Shaping issues/manufacturing agents: corporate political sculpting. In *Corporate Political Agency*, Mitnick B (ed.). Sage: Newbury Park, CA; 22–39.

Mahon J, Fahey L, Bigelow B. 1994. Corporate political strategy. In *The Portable MBA in Corporate Strategy*, Fahey L, Randall R (eds). Wiley: New York; 142–167.

Mahoney R. 1997. Trade winds or head winds? US Government export policy. *The CEO Series No. 19*. Center for the Study of American Business: St Louis, MO.

Majone G. 1989. *Evidence, Argument, & Persuasion in the Policy Process*. Yale University Press: New Haven, CT.

Maney A, Plutzer E. 1996. Scientific information, elite attitudes, and the public debate over food safety. *Policy Studies Journal* **24**: 42–56.

Marin B, Mayntz R. 1991. *Policy Networks: Empirical Evidence and Theoretical Considerations*. Westview Press: Boulder, CO.

Marsh D, Smith M. 2000. Understanding policy networks: towards a dialectical approach. *Political Studies* **48**: 4–21.

McCubbins M, Schwartz T. 1984. Congressional oversight overlooked: police patrols versus fire alarms. *American Political Science Review* **28**: 165–179.

McGarity T. 1991. The internal structure of EPA rulemaking. *Law and Contemporary Problems* **54**: 57–111.

McMillan J. 1994. Selling spectrum rights. *Journal of Economic Perspectives* **8**: 145–162.

McPherson M. 1993. *Paying the Piper: Productivity, Incentives, and Financing in US Higher Education*. University of Michigan Press: Ann Arbor, MI.

McWilliams A, Van Fleet D, Cory K. 2002. Raising rivals' costs through political strategy: an extension of resource-based theory. *Journal of Management Studies* **39**: 707–723.

Meyer R, Yandle B. 1987. The political economy of acid rain. *Cato Journal* **7**: 527–545.

Miller R, Benjamin D, North D. 1993. *The Economics of Public Issues*. Harper Collins College Publications: New York, NY.

Moe T. 1990. Political institutions: the neglected side of the story. *Journal of Law, Economics and Organization* **6**: 213–253.

Mucciaroni G. 1995. *Reversals of Fortune: Public Policy and Private Interests*. The Brookings Institution: Washington, DC.

Copyright © 2005 John Wiley & Sons, Ltd.

Nelson R. 1995. Why should managers be thinking about technology policy? *Strategic Management Journal* **16**: 581–588.

Olson M. 1965. *The Logic of Collective Action: Public Goods and the Theory of Groups*. Harvard University Press: Cambridge, MA.

Olson M. 1994. Political influence and regulatory policy: the 1984 drug legislation. *Economic Inquiry* **32**: 363–382.

Oster S. 1994. *Modern Competitive Analysis*, 2nd edn. Oxford University Press: New York, NY.

Peltzman S. 1976. Towards a more general theory of regulation. *Journal of Law and Economics* **19**: 211–240.

Peltzman S. 1981. The effects of FTC advertising regulation. *Journal of Law and Economics* **24**: 403–448.

Porter M. 1979. The structure within industries and companies' performance. *Review of Economics and Statistics* **61**: 214–227.

Porter M. 1980. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. The Free Press: New York, NY.

Porter M. 1990. *The Competitive Advantage of Nations*. The Free Press: New York, NY.

Portney P. 1984. The benefits and costs of regulatory analysis. In *Environmental Policy Under Reagan's Executive Order*. University of North Carolina Press: Chapel Hill, NC.

Portney P, Harrington W. 1995. Economics and health-based environmental standards. *Policy Studies Journal* **23**: 96–104.

Primo Braga C. 1997. Liberalizing telecommunications and the role of the World Trade Organization. *Public Policy for the Privatesector* **11**: 39–46.

Prince-Embryo S, Gooney J. 1995. Psychological adaptation among residents following the restart of Three Mile Island. *Journal of Traumatic Stress* **8**: 47–58.

Quirk P. 1988. In defense of the politics of ideas. *Journal of Politics* **50**: 31–41.

Regan P. 1993. Ideas or interests: privacy in electronic communications. *Policy Studies Journal* **21**: 450–469.

Ries J. 1993. Windfall profits and vertical relationships: who gained in the Japanese auto industry from VERs? *Journal of Industrial Economics* **41**: 259–276.

Rogers E. 1995. *Diffusion of Innovations*, 4th edn. Free Press: New York, NY.

Rowley C, Thorbecke W, Wagner R. 1995. *Trade Protection in the United States*. Edward Elgar: Brookfield, VT.

Sabatier P. 1988. An advocacy coalition framework of policy change and the role of policy-oriented learning therein. *Policy Sciences* **21**: 129–168.

Sabatier P, Jenkins-Smith H. 1993. *Policy Change and Learning: An Advocacy Coalition Approach.* Westview Press: Boulder, CO.

Sabato L. 1984. *PAC Power: Inside the World of Political Action Committees*. WW Norton: NY.

Salamon L, Siegfried J. 1977. Economic power and political influence: the impact of industry structure on public policy. *American Political Science Review* **71**: 1026–1043.

Salhofer K, Hoffreither M, Sinabell F. 2000. Promotion of the agricultural sector and political power in Austria. *Public Choice* **102**: 229–246.

Saunders A, Walter I. 1994. *Universal Banking in the United States: What Could We Gain? What Could We Lose?* Oxford University Press: New York, NY.

Schattschneider EE. 1960. *The Semi-Sovereign People*. Holt, Rinehart and Winston: New York, NY.

Scherer F, Ross D. 1990. *Industrial Market Structure and Economic Performance*. Houghton Mifflin: Boston, MA.

Schlager E. 1995. Policy making and collective action: defining coalitions within the advocacy coalition framework. *Policy Sciences* **28**: 243–270.

Schuler D. 1996. Corporate political strategy and foreign competitions: the case of the steel industry. *Academy of Management Journal* **39**: 720–737.

Schuler D, Rehbein K, Cramer RD. 2002. Pursuing strategic advantage through political means: a multivariate approach. *Academy of Management Journal* **45**: 659–672.

Shaffer B, Quasney T, Grimm C. 2000. Firm level performance: implications of nonmarket actions. *Business and Society* **39**: 126–143.

Shapiro DM, Switzer L. 1993. The stock market response to changing drug patent legislation: the case of compulsory licensing in Canada. *Managerial and Decision Economics* **14**: 247–261.

Copyright © 2005 John Wiley & Sons, Ltd.

Shughart W, Chappell W, Cottle R. 1994. *Modern Managerial Economics*. South-Western Publishing Co: Cincinnati, OH.

Smith C. 1993. *Courts and Public Policy*. Nelson-Hall Publishers: Chicago, IL.

Stavins R. 1998. What can we learn from the Grand Policy Experiment? Lessons from the SO2 allowance trading. *Journal of Economic Perspectives* **12**: 69–88.

Stigler G. 1971. The theory of economic regulation. *Bell Journal of Economics and Management Science* **2**: 3–21.

Stillman R. 1983. Examining anti-trust policy towards horizontal mergers. *Journal of Financial Economics* **11**: 225–240.

Stratmann T. 1991. What do campaign contributions buy? *Southern Economic Journal* **57**: 606–620.

Stulz R, Wasserfallen W. 1995. Foreign equity investment restrictions, capital flight, and shareholder wealth maximization. *Review of Financial Studies* **8**: 1019–1057.

Svendsen G. 1999. US interest groups prefer emission trading: a new perspective. *Public Choice* **101**: 109–128.

Thomas L. 1990. Regulation and firm size: FDA impacts on innovation. *RAND Journal of Economics* **21**: 497–517.

Thompson A. 1993. The anticipated sectoral adjustment to the Canada–United States Free Trade Agreement: an event study analysis. *Canadian Journal of Economics* **26**: 253–271.

Timmer C. 1986. *Getting Prices Right*. Cornell University Press: Ithica, NY.

Uehling M, Thomas R. 1986. Tax reform: congress hatches some loopholes. *Newsweek* 29 September: 22.

Ungar S. 1992. The rise and (relative) decline of global warming as a social problem. *Sociological Quarterly* **33**: 483–501.

Utterback J. 1996. *Mastering the Dynamics of Innovation*. Harvard Business School Press: Boston, MA.

Vining A, Globerman S. 1999. A conceptual framework for understanding the outsourcing decision. *European Management Journal* **17**: 645–654

Wagster J, Kolari J, Cooper K. 1996. Market reaction to national discretion in implementing the Basle Accord. *The Journal of Financial Research* **19**: 339–357.

Walker J. 1983. The origins and maintenance of interest groups in America. *American Political Science Review* **77**: 390–406.

Walsh S, Kirchhof B. 2002. Technology transfer from government labs to entrepreneurs. *Journal of Enterprising Culture* **10**: 133–149.

Weimer D. 1982. Organizational incentives: safe and available drugs. In *Reforming Social Regulation*, Graymer L, Thompson F (eds). Sage Publications: Beverly Hills, CA; 19–69.

Weinberg A. 1972. Science and trans-science. *Minerva* **10**: 209–222.

Weingast B. 1981. Regulation, reregulation, and deregulation: the political foundations of agency clientele relations. *Law and Contemporary Problems* **44**: 147–177.

Weingast B. 1984. The congressional–bureaucratic system: a principal-agent perspective (with applications to the SEC). *Public Choice* **44**: 147–191.

Weingast B, Shepsle K, Johnsen C. 1981. The political economy of benefits and costs: a neoclassical approach to distributive politics. *Journal of Political Economy* **89**: 642–664.

Weiss L. 1989. *Concentration and Price*. MIT Press: Cambridge, MA.

West W. 1988. The growth of internal conflict in administrative regulation. *Public Administration Review* **48**: 773–782.

Whisnant R, DeWitt Cherry D. 1996. Economic analysis of rules: devolution, evolution and realism. *Wake Forest Law Review* **31**: 693–743.

White C. 2001. Disruptive technologies and the tax law. *Engineering Management Journal* **13**: 21–26.

Wilson G. 1991. Corporate political strategies. *British Journal of Political Science* **20**: 281–288.

Wilson J. 1980. *The Politics of Regulation*. Basic Books: New York, NY.

Witte J. 1985. *The Politics and Development of the Federal Income Tax*. Wisconsin University Press: Madison, WI.

Wright J. 1990. Contributions, lobbying, and committee voting in the US House of Representatives. *American Political Science Review* **84**: 417–438.

Copyright © 2005 John Wiley & Sons, Ltd.