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Business–Government Interactions in a Globalizing Economy

Introduction to the Special Issue

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Keywords: *corporate political action; internationalization*

In the study of business and society, Karl Polyani's (1957) observation that a free market needs a regulatory state is a central principle. Firms compete within markets, but it is within the political realm that many of the rules are made that structure market competition. Although in most cases the primary competitive focus of firms is on their business rivals, there is no firm that is not confronted in one way or another with public bodies, government organizations, councils, committees, and regulatory agencies. The importance of government leads firms to develop strategies to react to, anticipate, and try to influence public decision making. For this reason, the development of corporate political strategies is of central concern in business and society research.

In most industries, contacts with public bodies and regulatory agencies are an integral part of the competitive strategies of businesses. Corporate

Authors' Note: This special issue is compiled of selected articles presented in two interrelated conferences in the area of business–government relations. The first one, “Business and Government: New Directions,” took place in Tampere, Finland, in November 2004. The follow-up conference, “Corporate Political Activities in an Internationalizing Economy,” was held at the Free University in Amsterdam in February 2006. We gratefully acknowledge the financial support of the International Association of Business and Society, the Academy of Finland, and the Faculty of Social Sciences at the Free University, as well as the support of the Dutch Science Foundation NWO (Grant ISW 460-06-001). We want to thank all who participated in the two conferences for their contributions. We also want to thank the reviewers who helped us in putting this special issue together. Finally, a special thanks to Nicholas Dahan, Jennifer Griffin, Morten Huse, Juha-Antti Lamberg, Juha Näsi, and Kathleen Rehbein for their contribution in helping to organize the conferences. Please address correspondence to Arnold Wilts, De Boelelaan 1081, 1081 HV Amsterdam, Netherlands; e-mail: as.wilts@fsw.vu.nl.

political activities are often essential to firm performance and survival. This is most apparent in heavily regulated industries. Examples are pharmaceuticals, where marketing authorization for new products is granted by public authorities, and tobacco, where issues of health and product information are an important concern of legislators. However, government also plays a central role in market relations in industries in which regulation is less apparent. Real estate development, for instance, often hinges on site permissions issued by lower governments; Internet service providers are asked to keep traffic data to fight cybercrime and support the war on terror; and companies in the airline industry, steel production, or public utilities need to get public approval for planned mergers.

Corporate political strategizing is embedded in heterogeneous networks of relations among firms and between them and other organizations such as lobbying firms, consultancies, regulatory bodies, political authorities, and government agencies. It is within these relations that firms may realize private influence on public decision making. To be able to realize this influence, firms need resources such as knowledge, expertise, and relational skills (Dahan, 2005). At the same time, however, public authorities in many ways depend on firms for the market information that they need to arrive at good decisions. This, for example, is the case in supranational decision making in the European Union, where business interests are often high on the political agenda (Bouwen, 2002; Greenwood, 1997). The interdependence between private firms and public authorities means that firms developing political strategies must determine how and when to interact with public decision makers. It also means that firms have to decide whether and when to compete or cooperate with rivals in trying to bring their interests to bear on public decision making.

Corporate political strategizing thus implies the existence of mutual stakeholder relationships among firms and between firms and public authorities. Firms that enter into these relationships are faced with a critical management problem. First, they have to coordinate strategies such as direct lobbying, grassroots activities, and providing financial support to candidates running for public office (Hillman & Hitt, 1999). Second, politically active firms have to integrate their political activities with their market actions (Baron, 1995). This means that information capabilities and decision-making routines are extremely important for politically active firms (Taminiau & Wilts, 2006). These help firms to recognize ways and opportunities for political action. The internationalization of economic and political relations, however, greatly complicates the way in which firms acquire necessary resources, process information, and integrate their market and nonmarket activities.

Business–government interactions are not static but change and develop in a dynamic way. In the context of these developments, firms can learn to become more effective politically, and thus corporate political activities will evolve over time (Skippari, 2005). Past experiences and interactions with political actors can improve managerial skills and lead to increased activity (Lamberg, Skippari, Eloranta, & Mäkinen, 2004) and performance (Bonardi, Holburn, & Vanden Bergh, 2006) in the political arena. This may also lead firms to become active in newly emerging, supranational political arenas.

Although the importance of contacts with public authorities to firm performance is recognized in the management literature (Hillman, Keim, & Schuler, 2004), there is no clear consensus on how to conceptualize questions of corporate political action. Getz (1997) identified a large number of theoretical foundations that are used as interpretative frameworks in corporate political action research. These range from interest group and public choice theories to transaction cost economics, resource dependency, and the behavioral theory of the firm. The wide variety in perspectives shows that corporate political activities are difficult to conceptualize.

The difficulties in modeling and explaining corporate political action are partly caused by the interdisciplinary character of the subject (Vogel, 1996). Questions of business–government relations and private–public interactions refer to processes of strategy formation at firm level (Schuler & Rehbein, 1997) as well as to the dynamics of policy networks (Coen, 1997) and, for instance, changes in the institutional organization of markets (Mahon & McGowan, 1998). Research into corporate political action, therefore, touches on an array of research topics of fields ranging from management studies and decision-making theory to political science and business economics.

Despite conceptual difficulties, however, corporate political action literature is growing. Epstein's (1969) observation that there is a lack of systematic empirical research into the political activities of business firms no longer holds. Empirical studies have identified organizational characteristics of firms, structural features of markets and industries, and institutional aspects of policy environments as factors affecting corporate political strategies. The interplay between causal factors in corporate political strategizing is most apparent in large multinational corporations, which are able to act as independent political actors and interact directly with the highest political levels (Coen, 1997) and whose activities are most likely to attract political actors' attention. Political strategizing by these firms, however, is greatly complicated by the internationalization of economic and political relations. Developments such as the enlargement of the European Union and the establishment of international trade agreements like the North

American Free Trade Agreement and the World Trade Organization have added a layer of complexity to corporate political strategizing. This, in particular, affects the functioning of multinational corporations. In addition, the emergence of global issues such as the employment effects of outsourcing production to low-cost countries, concerns about child labor, media attention for the environmental footprints of sold products, and ongoing debates about global warming put extra pressure on the way firms achieve the integration between their market and nonmarket activities. The social relevance and political reality of these issues bring with them a more active role of nongovernmental organizations and news media (Den Hond & De Bakker, in press) in disseminating information of these issues and the strategies of firms.

Connected to these developments, corporate behavior is becoming subject to a growing body of international, and internationally standardized, regulation. Political and regulatory decision making has increasingly become a multilevel process, organized in national and supranational layers. Accordingly, the number of factors that firms have to take into consideration when developing and implementing their political strategies has increased. Firms trying to bring their private interests to bear on public decision making today have to operate at various and interrelated levels of political decision making (Hillman & Keim, 1995). These firms also have to adjust their activities at these levels effectively, at the same time integrating them with their market activities, often in different markets and in multiple countries at the same time, and that in a context of increased scrutiny by nongovernmental organizations and news media. As markets are becoming more international in both economic and political terms, the political activities of firms thus become more complex, more varied, and above all more difficult to manage.

As such, this development affects the political activities of firms by offering new opportunities and constraints for achieving strategic goals through political action. At the same time, these new characteristics of business's international political environment pose a challenge to both academic researchers and practitioners involved in business-government relations. As an empirical phenomenon, the internationalization of business-government relations is not yet well understood. The aim of this special issue of *Business & Society* is to address this research gap and provide more understanding of this phenomenon. The collection of articles in this issue provides important insights into current questions of international business-government relations. The selection of articles starts with an extensive review of the international public affairs literature and is followed by three case studies and one conceptual article dealing with the internationalization of corporate political activities.

Jean Boddewyn presents an overview of developments in the international public affairs (IPA) literature since the early 1960s. Although there are several literature reviews published in the area of corporate political activity (Getz, 1997; Griffin, 2005; Hillman et al., 2004; Preston, 1986; Shaffer, 1995; Skippari, Eloranta, Lamberg, & Parvinen, 2005; Vogel, 1996), Boddewyn's article is the first to focus exclusively on international aspects in the literature. Boddewyn acknowledges the substantial contributions in IPA research but is also critical of current developments in the IPA literature. He pleads for more careful conceptualizations and argues that qualitative methods and research approaches are particularly useful in IPA research. On the basis of this argument, Boddewyn provides several concrete suggestions for future research.

The article by Scott Kennedy develops the notion of transnational political alliances. On the basis of his extensive research into the strategic behavior of Western firms operating in the People's Republic of China, Kennedy argues that cooperation with local companies is essential for multinational corporations trying to influence Chinese authorities. The analysis in this article adds to our knowledge of business and society relations in one of the largest and fastest growing economies, of which very little is known in the published literature. The notion of transnational political alliances, however, has a relevance that goes beyond the activities of firms in China. Kennedy's article suggests that political activities of multinational corporations necessarily entail managing layered and highly complex networks of multistakeholder relations that stretch out to local levels of decision making in host countries.

Ans Kolk and Jonatan Pinkse present an empirical study of the strategies of multinational corporations surrounding the issue of climate change. This article illustrates empirically many of the observations of Boddewyn's article about developments in public affairs. Kolk and Pinkse show that the political strategies of international firms are differentiated across institutional contexts. However, the article also shows that in many ways political business strategy involves forms of collective action among competitors. This article presents a systematic illustration of how corporate political action evolves in heterogeneous networks of mutual, and multilateral, relations among firms and between them and public authorities.

The article by Cornelia Woll is a case study of the political activities of firms in the context of the World Trade Organization's efforts to regulate the global telecommunications industry. Woll's case study highlights that corporate political action is increasingly oriented toward supranational authorities. Firms trying to influence decision making by these authorities are by necessity forced to be simultaneously active in different political arenas.

This observation leads Woll to raise questions regarding the emergence of firms' preferences on forms of regulation and the way in which firms articulate these preferences toward different public authorities. Drawing largely on concepts developed in political science, Woll's article effectively bridges the gap with the management literature.

Finally, the article by Duane Windsor presents a conceptualization of different levels and arenas in corporate political action. Windsor provides a systematic analysis of resource allocation processes underlying the international political strategies of firms. The article connects many of the insights of Boddewyn's article with the empirical observations in the other articles in this special issue. Windsor argues that an improved understanding of how different policy arenas are interconnected may help firms to reduce the complexity of political strategizing in a global economy. However, this also means that analytical models of the firm's political behavior should be more nuanced and differentiated. Windsor suggests several research directions to achieve this.

The five articles in this special issue on the internationalization of business–government interactions address the importance of international political strategies. Besides extending existing literature on corporate political activity, the articles also suggest many interesting questions for future research. Thus, we hope that this special issue encourages scholars to put more efforts into studying corporate political activities in an international context.

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