In a constantly changing business environment, firms with access to those who make public policy enjoy competitive advantage. To gain such access, politically active firms engage in a variety of tactics. Modeling the determinants of corporate political activity as a single, multivariate phenomenon, we demonstrate that politically active firms combine tactics. We also show that political activism, institutional features of Congress, firm size, government contracts, and industry concentration drive firms to use multiple political tactics.

Spurred by globalization and technological development, firms search feverishly for sources of competitive advantage. One such source, long recognized but seldom emphasized, is government policy, which determines the rules of commerce; the structure of markets (through barriers to entry and changes in cost structures due to regulations, subsidies, and taxation); the offerings of goods and services that are permissible; and the sizes of markets based on government subsidies and purchases. Consequently, gaining and maintaining access to those who make public policy may well be a firm's single most important political goal (Clawson, Neustadt, & Weller, 1998; Eismeier & Pollack, 1988; Grenzke, 1988; Hall & Wayman, 1990; Hillman, Zardkoohi, & Bierman, 1999; Keim & Zeithaml, 1986; Quinn & Shapiro, 1991; Weidenbaum, 1980; Wright, 1990).

Access provides information that helps businesses anticipate changes in the policy environment. It is the prerequisite for building strategic alliances with legislators and regulators. Access is also said to increase a firm's ability to survive by decreasing uncertainty in the political domain (Hillman et al., 1999). Furthermore, access is necessary, though not sufficient, to allow businesses to shape public policies. Firms “achieve influence in Congress to the degree that legislators choose their counsel, to the degree that legislators grant them access” (Hansen, 1991: 2). Access may be important for gaining influence over the legislative and regulatory processes (Hillman et al., 1999). “Political analysts have long agreed that access is the principal goal of most interest groups, and lobbyists have always recognized that access is the key to persuasion” (Sabato, 1984: 127). For all these reasons, we expect that politically active firms will attempt to gain access to policy makers.

Proactive political firms exert direct pressure on policy makers through tactics such as funding campaigns or using lobbyists. Firms indirectly pressure policy makers by mobilizing grassroots constituencies (Hillman & Hitt, 1999: 827–828). Despite widespread consensus that the long-term goal of corporate political activity is to maintain parity with competitors or even to attain strategic advantage, there has been little discussion of exactly how firms pursue the more immediate objective of gaining access to political decisionmakers.

In this study, we argue that firms use multiple tactics in order to enter the political arena. Similarly, Hillman and Hitt (1999) stated that firms employ a variety of tactics in an attempt to influence public policy, thereby shaping the competitive environment. However, these analysts only implicitly connected the provision of political information and financial resources to the higher-level goal of institutions.
gaining access, a step toward influence. Mahon (1993) argued that several types of political behaviors may be practiced simultaneously to achieve favorable policy outcomes. Getz (1993) also noted that different combinations of political tactics may be used to solve various agency problems that arise between firms and their agents, public policy makers. However, no one has explicitly modeled the conditions under which firms are more likely to combine political tactics.

Empirical work, too, has not fully embraced the analysis of multiple political tactics aimed at a strategic goal. Overwhelmingly, empirical studies have focused primarily upon a single political activity, such as a firm's having a political action committee (PAC), a legal mechanism that permits certain organizations to contribute money to politicians (associated Grier, Munger, & Roberts, 1994; Masters & Keim, 1985; http://www.opensecrets.org/pacs/whatisapac.html); or on an aspect of lobbying, including expenses (Esty & Caves, 1983), lobbying preferences (Martin, 1995), and grassroots lobbying (Lord, 2000). The few studies in which multiple tactics are considered generally treat them as independent activities rather than as complements (e.g., Aplin & Hegarty, 1980; Hansen & Mitchell, 1997; Masters & Keim, 1985; Schuler, 1996). Recent work has examined the relationship between political tactics, specifically, between PACs and lobbying, although there has been debate about whether PACs are merely an extension of lobbying (Humphries, 1990; Wilson, 1990) and whether lobbying is a consequence of PAC activity (Gray & Lowery, 1997). Political contributions and lobbying are said to be the primary tactics interest groups use to try to gain political access (Smith, 1995; Vogel, 1996).

We address this gap in the literature by conceptualizing why firms may want to combine political tactics and, specifically, the three most prevalent and visible ones: making political contributions, using staff lobbyists, and hiring outside lobbyists. According to the “exchange view of politics” (Mayhew, 1974; discussed below), most politicians desire to be elected and reelected. To achieve this end, they need information about the policy desires of likely voters in their constituencies and the financial means to collect this information and to run elections. As a firm gains a reputation as a reliable source of information and funding, it can solidify its contacts with key political actors. And the cycle continues. This is why it is likely that these two activities, although sometimes treated as distinct political approaches (Hillman & Hitt, 1999), are viewed as complements by politically active firms. In part of this study, we investigated whether politically active firms tend to bundle the use of lobbying and PACs. Additionally, we tested the factors that drive a firm to engage in these political activities in combination.

Our methodology gave us much flexibility to not only weigh the relative importance of a common set of predictors, but also estimate the potential relationship between the political responses. Instead of constructing separate models for the three primary political tactics, we analyzed them as a single, multivariate phenomenon. In doing so, we introduce into the management literature a relatively new estimation technique, alternating logistical regression (ALR; Carey, Zeger, & Diggle, 1993). Given information about a firm’s environmental and internal characteristics, as well as its current array of political tactics, ALR allows estimation of the probability that a firm will engage in a specified political activity. ALR accommodates two important a priori assumptions: first, that complementarity among the political activities could exist—that is, firms might combine political tactics for strategic advantage—and second, that firms might choose one or more of the tactics as alternative channels of political information for policy makers. The ability of ALR to handle both of these assumptions makes it more appropriate for this analysis than multinomial logit analysis, which would force an ex ante categorization of all combinations of these political activities. In addition, unlike multinomial logit, ALR can provide a measure of the association between the political tactics. ALR also provides a more parsimonious estimation (one model instead of three) of a firm’s political access strategy, allowing for more reliable inferences about relationships between the various predictor variables and the phenomenon as a whole.

UNDERSTANDING POLITICAL NEEDS:
INFORMATION AND MONEY

To understand the potential complementarity of using lobbying and campaign contributions, one must first consider the U.S. political system. Numerous researchers (e.g., Hillman & Hitt, 1999; Hillman & Keim, 1995; Keim & Zeithaml, 1986; Salisbury, 1969), taking the exchange view of politics, have described the interdependence of suppliers of public policy (like legislators) and demanders of public policy (such as firms and other interest groups). Using this premise of interdependence, it is possible to understand the incentives that legislators and firms have for interacting with one another. These interactions are exchanges; the medium of exchange an elected official has to offer is
access to himself or herself, and the medium of exchange firms have is hiring lobbyists and funding PACs (Hansen, 1991).

The exchange view of politics also encompasses how business and other interests influence non-elected public officials, such as bureaucrats in regulatory agencies. The scope and budgets of regulatory agencies are dictated by elected officials, typically by legislatures. With this legislative and financial control, legislators are able to steer agencies toward certain policies. Knowing this, interest groups may approach legislators in a manner similar to the above in order to seek favorable regulatory outcomes (Shelnut & Weingast, 1987).

Once in office, elected officials attempt to discover the policy preferences of their constituents (especially those most likely to vote in the next election) so that they can legislate in accordance with the voting majority’s interests. However, the information-gathering process is difficult: typically legislators face barriers to learning the true state of constituent preferences (Hillman & Hitt, 1999; Keim & Zeithaml, 1986). By and large, most of a legislator’s constituents are not involved in policy issues, which makes lawmakers uncertain about constituent policy preferences (Hansen, 1991). This provides an opportunity for organized interests, such as firms, to assist legislators and their staffs by supplying information about policy details through lobbying. Normally, such information highlights the benefits and costs associated with different policy alternatives and reduces a legislator’s uncertainty (Aplin & Hegarty, 1980).

Elections and information gathering are expensive. According to the Center for Responsive Politics, fund-raising and spending for the past presidential and congressional elections was the highest to date (http://www.opensecrets.org/2000elect/index.asp). For example, the average amount of money raised by candidates for the U.S. Senate was $5,587,556 (the winners raised over $7.3 million each), and the average for the House of Representatives was $716,347 (winners raised $914,564) (http://www.opensecrets.org/2000elect/storysofar/index). In some states and districts, the resources needed to compete were even grander: for example, the battle for the Senate seat in New York cost over $94 million, and the two major party candidates were responsible for most of that spending. Interest groups such as business firms are important sources of such funds.

Lawmakers reduce the uncertainty of their reelection by granting access to firms under two conditions: (1) a firm has a competitive advantage over its rivals in providing information that helps legislators be elected and reelected and (2) the issues and circumstances that established the competitive advantage are expected to recur (Hansen, 1991: 5). With respect to the first point, a legislator selects a firm as a political informant if it can reduce the costs of collecting political intelligence (Hansen, 1991: 106). This is accomplished when a firm identifies the issues relevant to a lawmaker’s constituency and conveys the electoral value of these issues. The second point reflects aspects of Hillman and Hitt’s (1999) relational approach to legislators: more likely to rely upon an informant when the relationship is trusting and when interaction is repeated rather than a one-time transaction (Currall, 1992; Mayer, Davis, & Schoorman, 1995). If a firm can develop a strategy for delivering reliable political information to legislators, akin to Hillman and Hitt’s information strategy (1999: 834), it is likely to gain and maintain political access.

From the demand perspective, firms have an incentive to seek access to legislators. The ultimate goal of corporate political strategy is to enhance a firm’s market strategies so as to create value for the firm. As Keim and Baysinger stated, “The pursuit of political advantage through the political process is itself a competitive endeavor” (1988: 164). Firms attempt to shape public policy outcomes so that they complement private profit-seeking goals (Hillman & Hitt, 1999; Mitnick, 1993). At a minimum, political activities lead to competitive parity—that is, they may provide access to policy makers—which in turn gives the firm timely information about the contours and dynamics of the policy landscape. This relationship fortifies the bridge between firm and political stakeholders (Meznar & Nigh, 1995).

Firms face several constraints in gaining access to legislators. First, firms must realize that they are competing with other informants with respect to their ability to provide useful information to lawmakers. In order to gain access, a firm has to provide information more efficiently and at a lower cost than its competitors (Hansen, 1991). A second realization is that politicians desiring to be elected and reelected face considerable information, resource, and time-allocation constraints.

Given these restrictions, firms should view lobbying and campaign contributions (such as through corporate PACs) as complementary political activities that enable them to gain access. PAC contributions affect the time and attention that a policy maker gives to the donor (Wilson, 1990), leaving less time available for other (possibly competing) interests. Langbein (1986) demonstrated that campaign contributions by interest groups were positively related to the amount of time that legislators
spent with these donors in a typical workweek. Whether “strategically” given or solicited by members, PAC contributions result in returned telephone calls and scheduled meetings. A Washington-based political consultant told us that, barring being a large employer in a member’s district, making PAC contributions is the best way to ensure effective lobbying. Lobbyists take advantage of the allotted time to deliver information about issues. Firms that earn a reputation for accuracy, timeliness, and reliability are more likely to have ongoing access to those policy makers. Some have argued that the use of lobbying and campaign contributions might also affect political influence (Evans, 1986; Keim & Zeithaml, 1986; Sabato, 1984), although others have more recently found that grassroots activities are more influential (Lord, 2000). What is certain, however, is that lobbying and campaign contributions seem to be complementary activities that can be used to gain and maintain access to policymakers, a seemingly necessary condition for exercising political influence (that can be wielded through other political tactics). The next section presents the hypotheses we developed to test the determinants of such a political strategy.

**DRIVERS OF CORPORATE POLITICAL TACTICS**

While the logic is clear, the factors that drive a firm to combine its use of political tactics in attempts to gain political access are less apparent. In this section, we draw from the exchange view of politics to identify the factors that motivate firms to interact with legislators. The general premise is that firms with certain types of characteristics will be in a good position to gain a legislator’s attention. Therefore, they will have more of an incentive than firms without those characteristics to use multiple tactics to establish political relationships. In addition to this premise, we also used collective action theory, competitive niche theory, institutional theory, and resource dependency theory to establish seven hypotheses regarding the determinants of a firm’s direct lobbying and campaign contribution activities. In our model, we recognize that the constraints on a firm’s political actions may originate either within the firm or outside it (Masters & Baysinger, 1985; Schuler, 1999). The independent variables below accordingly reflect both industry and firm influences on a firm’s decision to use multiple political tactics.

**Industry Conditions: Collective Action and Political Activism**

The structural conditions of an industry may influence a firm’s decision to employ multiple tactics for two reasons. Firms must gain access in order to begin pursuing the benefits associated with favorable political decisions. Since the political payoffs are higher for firms in a more concentrated industry, these firms should have more of an incentive to initiate the process and try to gain access to policy makers. Olson’s (1965) collective action problem states that under many circumstances—such as when an industry has many firms (is fragmented) and lacks a dominant player—a firm has little economic incentive to incur any of the costs of political action. A politically active firm can expect to share the collective benefits of favorable public policy with other industry firms that incurred no costs as well as with those that did incur costs (Andres, 1985; Esty & Caves, 1983; Grier, Munger, & Roberts, 1991; Pittman, 1988; Zardkoohi, 1988). Under these conditions, a firm is likely to adopt the free-riding position of not engaging in political activities. Conversely, when an industry has fewer total firms or only a few dominant ones, as in a highly concentrated industry, the potential for economic gain for the dominant firms through political actions counteracts the tendency to free ride. In concentrated industries, it is generally easier to organize political cooperation and to discourage individual firms from free riding, which results in a larger overall collective good and larger portions for individual firms.

Secondly, firms in more concentrated industries are more likely to succeed in gaining access to legislators. Policy makers are more responsive to lobbying groups that are organized, specialized, and representative of more numerous constituents (Hansen, 1991: 15). Concentration allows an industry to present a more unified political voice. As mentioned earlier, a concentrated industry’s ability to reduce the costs of collective action enables it to be more efficient in the political arena. Therefore, firms in a concentrated industry should be more motivated to use lobbying and PACS to gain access to policy makers.

*Hypothesis 1. The more concentrated a firm’s industry, the more likely the firm is to combine political tactics.*

Rather than motivate strategic free riding, political actions taken by other industry players may instead prompt a firm to use multiple political tactics. Often a firm faces its most intense political rivalry with product-market competitors and will
to secure policies that confer advantages over rivals (Leone, 1986). As one lobbyist pointed out, “What’s going on [in lobbying] is akin to an arms race, with everyone trying to beef up their arsenals” (IMPACT, 1999: 3). As Gray and Lowery noted, “Competition for viable niches will be especially fierce among those interests that are most similar to each other” (1997: 327). We expected that the greater the intraindustry political rivalry, the greater the likelihood that a firm would use multiple tactics to get the attention of policy makers who grant access.

Logic from institutional theory provides another reason why we might find a firm more likely to practice political activity when others in its industry do the same. The model of mimetic isomorphism suggests that a firm will likely adopt the strategy most favored by its competitors (DiMaggio & Powell, 1983; Mezias, 1990). In uncertain situations, which often occur in the public policy arena, mimetic behaviors give a firm legitimacy (Goodrick & Salancik, 1996). Similarly, Chatman and Jehn’s study of industry “macro-culture” effects on organizational outcomes showed that “firms should consider the benefits of imitating the cultures of successful players in their industries” (1994: 548).

The competitive niche and the institutional perspective both lead to the expectation that a firm is more likely to use multiple tactics if other industry players are doing the same. We therefore expected that the more a firm faces political activists within its industry, the more likely it is to rely on lobbyists and campaign contributions.

Hypothesis 2. The more political activists a firm faces in its industry, the more likely the firm is to combine political tactics.

Industry Unionization

Drawing from the exchange perspective on politics, firms facing political competition will have more of an incentive to interact with legislators. Firms may also face political competition from noncorporate actors such as unions. Labor organizations have tremendous political capabilities and have been shown to keep a close eye on the business practices and political activities of firms (Masters & Keim, 1985). Additionally, labor often opposes corporations on issues such as worker safety, wages, health, and trade. Interest groups representing unions are also in a position to provide lawmakers with critical information. They can play the same role as corporations in decreasing a legislator’s political uncertainty. We therefore expected that firms in industries with high unionization rates will face political competition and therefore be motivated to counterattack with multiple political tactics.

Hypothesis 3. The more highly a firm’s industry is unionized, the more likely the firm is to combine political tactics.

Industry Caucus

As mentioned earlier, legislators are more likely to continue to grant access to selected firms when they expect the same issues and circumstances to continue to be politically important. A firm that helps reduce a legislator’s uncertainty may be in a position to maintain access as long as it continues to be a reliable informant. Some of the informal congressional organizations called caucuses (Hammond, 1998) are organized around industries; examples include the Congressional Automotive Caucus, the Congressional Biotechnology Caucus, and the Congressional Steel Caucus. Because the members of a caucus are usually sympathetic to the policy concerns of the represented industry, firms in an industry with a congressional caucus should be more inclined to continue to use multiple political tactics in order to maintain political access. The causality is clearly reversed: that is, industries must prove their political reliability in order to gain an industry caucus. The associational aspect is relevant here: ceteris paribus, our expectations was that we would be more likely to see firms providing information and funding to politicians when the firms were in industries with caucuses than when they were in those without.

Hypothesis 4. If a firm’s industry has a congressional caucus, the firm is more likely to combine political tactics.

Firm Size and Resources

Large firms often have complex public policy needs (Epstein, 1969) and therefore have incentives to share political information with politicians. Because a firm’s size can also be a proxy for resources, political clout, and visibility, it is probable that size will also determine its share of the benefits and/or losses associated with political decisions. Because lawmakers tend to select political informants who can provide extensive policy details and numerous constituents, large firms should have a competitive advantage in the political process. Lastly, resource-constrained politicians may be more likely to grant access to large firms that contribute to their resource bases. Since large firms may be more likely
to be successful in gaining access, this should further motivate them to use multiple tactics. From an empirical perspective, most studies of corporate political involvement have included controls for size discrepancies (with size generally measured as annual sales) among companies (Andres, 1985; Martin, 1995; Masters & Keim, 1985). Free cash flow is another proxy for a firm’s level of resources (Jensen, 1986). A high level of resources not only enables a firm to afford lobbying and campaign financing, but also makes it more attractive to resource-constrained legislators.

**Hypothesis 5.** The larger the firm, the more likely it is to combine political tactics.

**Hypothesis 6.** The higher the level of free cash flow a firm possesses, the more likely it is to combine political tactics.

Resources derived directly from the federal government through Department of Defense contracts may affect corporate political strategy (Boies, 1989; Grier et al., 1994; Masters & Keim, 1985; Pittman, 1977; Zardkoohi, 1985). Resource dependency theorists have stated that if the government occupies an important position in a firm’s task environment (as is often the case with firms that receive defense-related revenues), the firm will become proactive in attempting to shape this environment (Pfeffer & Salancik, 1978; Schuler & Rehbein, 1997). Political activities have also been seen to provide firms with “domain maintenance” and “domain defense” (Baysinger, 1984). We expected to find that companies that rely upon government contracts as a significant part of their revenues have already succeeded in gaining access to legislators. Firms that have succeeded in getting government contracts have already proved that they can deliver reliable political information to legislators. Defense contracts are also a continuing issue, so that legislators continue to need information about this policy area. In order to keep its status as a reliable informant, a firm will need to maintain good relations by financing campaigns and sharing information with important political actors.

**Hypothesis 7.** The higher the proportion of its total revenue a firm derives directly from the federal government, the more likely it is to combine political tactics.

**METHODS**

The data set consisted of 1,284 United States-based, publicly traded (filing a 10K with the Securities and Exchange Commission) manufacturing firms with SIC codes in the range 2000 to 3999. We initially identified 1,329 such firms using COMPUSTAT-PC Plus. However, the lack of complete data on several firms reduced the number of usable firms to 1,284. The firms with incomplete data did not appear to have any perceptible differences from the included firms. We intentionally excluded foreign-owned companies because of certain prohibitions on PAC contributions by foreign corporations and their U.S. subsidiaries under the 1974 Federal Election Campaign Act.

**Measures**

**Dependent variables.** We identified three corporate political tactics used to gain access to policymakers: (1) PAC contributions to all congressional candidates in the 1991–92 and 1993–94 elections, (2) the average number of staff members in each firm’s Washington office from 1991 to 1994 (such staff are called inside lobbyists), and (3) the average number of outside lobbyists and political consultants retained by each firm from 1991 to 1994. In total, 420 firms (33 percent of the sample) participated in at least one of the three political activities during the period. Of these active firms, 262 had PACs, and the average contribution per election cycle was $48,605; Philip Morris, with a PAC contribution of $638,000, was the most aggressive. A total of 171 firms established Washington offices, which were typically small: the average number of political professionals was about 1.5, and the largest had 22 (General Electric). A total of 332 firms had hired outside lobbyists and consultants, with the average number being about 1.3 per firm, and Westinghouse having the most, 25. Among the 420 politically active firms, just over half had combined at least two political tactics, and over 25 percent had combined all three. It must be noted, however, that most firms—864 in total—refrained from using any of these political tactics.

**Industry-level independent variables.** For each industry, we measured the four-firm concentration ratio, as published in a table, Concentration Ratios in Manufacturing, in the 1992 Census of Manufacturers from the Census Bureau.

We wanted to measure how prevalent political activity was in other firms in a target firm’s industry. For each political activity, we calculated the proportions of a firm’s competitors within its three-digit SIC code that used PACs, inside lobbying, and outside lobbying during the years 1991–94. Although this measure, industry political rivalry, does not capture the strength of a particular firm within its industry, it does indicate for a target firm...
how many of its rivals engaged in each of the political activities of interest here.

For each industry, we measured unionization as the percentage of its workforce that was represented by unions, as measured by Curme, Hirsch, and McPherson (1990).

A dummy variable was coded 1 (0 otherwise) if a congressional caucus represented an industry during the years 1991-94. The source of this information was the Washington Information Directory (from CQ Press).

**Firm-level independent variables.** The logarithm of a firm’s sales, averaged over 1991–94, was calculated from COMPUSTAT data. Free cash flow, averaged over 1991–94, was calculated as net income minus income taxes minus gross interest expense on long-term debt minus dividends paid on preferred stock minus dividends paid on common stock (Lehn & Poulsen, 1989: 777).

We measured government contracts as the log of the dollar amount of Department of Defense Primary Contracts and Department of Defense Research and Development Contracts, divided by firm’s total sales, averaged over 1991–94. Sources of these data were two U.S. Department of Defense publications, 100 Companies Receiving the Largest Dollar Volume of Prime Contract Awards and 500 Contractors Receiving the Largest Dollar Volume of Prime Contract Awards for Research, Development, Test and Evaluation.

Table 1 provides the correlation analysis of these variables as well as means and standard deviations.

### Table 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>s.d.</th>
<th>1</th>
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<th>10</th>
<th>11</th>
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<tr>
<td>1. PAC contributions</td>
<td>15,886.00</td>
<td>58,487.00</td>
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<td>2. Inside lobbyists</td>
<td>0.50</td>
<td>1.93</td>
<td>.58**</td>
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<td>3. Outside lobbyists</td>
<td>0.44</td>
<td>1.43</td>
<td>.50**</td>
<td>.51**</td>
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<tr>
<td>4. Industry concentration</td>
<td>0.37</td>
<td>0.15</td>
<td>.15**</td>
<td>.16**</td>
<td>.14**</td>
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<td>5. Industry political rivalry:</td>
<td>0.20</td>
<td>0.21</td>
<td>.36**</td>
<td>.27**</td>
<td>.27**</td>
<td>.27**</td>
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<td>PACs</td>
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<td>6. Industry political rivalry:</td>
<td>0.13</td>
<td>0.16</td>
<td>.31**</td>
<td>.29**</td>
<td>.27**</td>
<td>.27**</td>
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<tr>
<td>7. Industry political rivalry:</td>
<td>0.26</td>
<td>0.21</td>
<td>.29**</td>
<td>.26**</td>
<td>.28**</td>
<td>.25**</td>
<td>.27**</td>
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<td>Outside lobbyists</td>
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<td>8. Unionization</td>
<td>0.20</td>
<td>0.14</td>
<td>.24**</td>
<td>.10*</td>
<td>.13**</td>
<td>.20**</td>
<td>.44**</td>
<td>.20**</td>
<td>.28**</td>
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<td>9. Caucus</td>
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<td>10. Sales</td>
<td>1,794.00</td>
<td>7,235.00</td>
<td>.46**</td>
<td>.42**</td>
<td>.38**</td>
<td>.14**</td>
<td>.29**</td>
<td>.24**</td>
<td>.24**</td>
<td>.28**</td>
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<td>11. Free cash flows</td>
<td>-0.25</td>
<td>3.83</td>
<td>.04</td>
<td>.03</td>
<td>-0.03</td>
<td>0.01</td>
<td>0.01</td>
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<td>0.07*</td>
<td>-0.09*</td>
<td>0.14**</td>
<td></td>
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<tr>
<td>12. Government contracts</td>
<td>0.03</td>
<td>0.25</td>
<td>.37**</td>
<td>.37**</td>
<td>.30**</td>
<td>.15**</td>
<td>.22**</td>
<td>.27**</td>
<td>.21**</td>
<td>.13**</td>
<td>.05*</td>
<td>.45**</td>
<td>.05</td>
</tr>
</tbody>
</table>

* n = 1,284.

* p < .05

** p < .01

Two-tailed tests.

### Analysis

**Overview.** Our intention was to estimate the parameters of the factors that determine whether a firm will engage in lobbying and contributing to political campaigns, two political responses that may be related. Researchers have typically taken a univariate approach to estimation of corporate political strategy. For example, Schuler's (1996) study of the political strategies of steel manufacturers included two separate regression calculations assessing firms' responses to two political events. The simplicity of this technique is offset by its unrealistic disregard for the possible relationships between political responses. Since in the current research we had an a priori belief that inside and outside lobbying and campaign contributions might be related, we employed a multivariate technique that took into account a firm's combined use of such tactics.

Using a multivariate approach was complicated by the fact that the political measures were of mixed type, consisting of both continuous and discrete variables. One way of analyzing multivariate responses of mixed type is to dichotomize each response. That is, we created a binary variable set equal to 0 for a firm with no PAC contributions and set equal to 1 when PAC contributions had been made. Binary response variables were similarly created for numbers of inside lobbyists and outside lobbyists. The multivariate response for each firm is the three-dimensional binary response vector $Y' = (PACs,$ inside lobbyists, outside lobby-
byists). In creating a dichotomous variable set, we lost information about the magnitude of each political tactic. However, the benefit was that our dichotomous set allowed us to answer the research question; that is, we were able to investigate how the independent variables influenced political decisions given an a priori assumption that the three political tactics might be used together.

**The ALR model.** As noted, alternating logistic regression (ALR) analysis was the multivariate technique used to estimate the binary response of whether or not a firm was politically active. The model accounted for the three different measures—PAC contributions, inside lobbyists, and outside lobbyists—by our addition of indicator variables to the set of explanatory variables. ALR simultaneously regressed the political response on the explanatory variables as well as modeling the association among responses in terms of “pairwise” odds ratios (Carey et al., 1993: 517). In essence, we fitted three “marginal” models for the three different responses, modeled as probabilities, for each firm. The advantage of this procedure was that we got model estimates while taking into account the covariance among responses.

Again, as noted above, ALR allowed us to obtain better estimates of the determinants of corporate political access strategy than we could have obtained through univariate regression models. If any single response had been of primary interest, a univariate model would have been the appropriate tool. (For example, the variable PAC contributions, averaged over two election cycles, can be treated as continuous. Appropriate marginal models for PAC are the Heckman regression models [Greene, 1993; Grier et al., 1994].) On the other hand, numbers of inside lobbyists and outside lobbyists are count variables, and appropriate regressions include the Poisson and negative binomial models.

ALR was also the best of the multivariate techniques for the present study. Multivariate methods such as multinomial logit and multinomial probit would have required ex ante categorization of all combinations of these political tactics. ALR provides information comparable to that provided by multinomial logit but does so in a more parsimonious way and without forcing constraints on the covariance structure. Also, ALR is easier to interpret than multinomial probit in that ALR provides measures of association between the responses themselves, and not between the individual categories that the responses form.

The measure of association estimated in ALR is the pairwise logarithmic odds (log-odds) ratio. Specifically, the log-odds ratio for any two responses is defined as:

\[
\log \theta_{jk} = \log \left( \frac{\Pr(Y_j = 1, Y_k = 1)\Pr(Y_j = 0, Y_k = 0)}{\Pr(Y_j = 1, Y_k = 0)\Pr(Y_j = 0, Y_k = 1)} \right).
\]

A log-odds ratio not significantly different from 0 would suggest that the two responses are independent, and an estimate of, say, 0.5 would suggest that the odds of success for response \( j \) are about 66 percent better \( (e^{0.5} = 1.66) \) when the \( j \)th response is positive than the odds are when the response is 0. As can be seen from the formula above, the pairwise log-odds ratio is symmetric in the two responses, and hence the interpretation is also symmetric. The simplest ALR model fits a constant log-odds ratio, which implies that the log-odds ratio of any two responses is the same.

The ALR approach specifies a single model for our three-dimensional binary response while addressing pairwise associations between dimensions.

Let \( Y_{jk} \) denote the \( k \)th element of \( Y_j \). That is, \( Y_{jk} \) is the \( k \)th response for firm \( j \), \( k = 1, 2, 3 \). Let \( X_j \) denote the corresponding vector of covariates for firm \( j \). Define \( \pi_{jk} = \Pr[Y_{jk} = 1] \). The ALR model is:

\[
\log \left( \frac{\pi_{jk}}{1 - \pi_{jk}} \right) = X_j' \beta \quad (1)
\]

and

\[
\log(\theta_{jk}) = Z_{jk}' \alpha, \quad (2)
\]

where \( \beta \) and \( \alpha \) are, respectively, the regression coefficients and the log-odds ratios to be estimated. The variable \( Z_{jk} \) in Equation 1 is an indicator vector used to indicate which two responses \( (k \) and \( l) \) for firm \( j \) are being compared in the log-odds ratio. The ALR method simultaneously estimates the set of regression coefficients, \( \beta \), and the set of log-odds ratios, \( \alpha \), by alternating between two logistic regressions (Carey et al., 1993).

**RESULTS**

The results of the multivariate analysis, reported in Table 2, offer several insights about a firm’s decision to combine political tactics. First, the results of the ALR suggest that the three political responses are highly related. The estimates of the log-odds ratios are all greater than 1.0 and significant. This result indicates that for each of the pairs of political activities, when a firm engages in one activity, it is significantly more likely to engage in the other. Each log-odds ratio is symmetrical. For example, the alpha of 2.63 for the multiplicative interaction of PAC contributions and inside lobbyists implies that a firm that has a PAC is over 13
TABLE 2
ALR Estimates of Corporate Political Accessa

<table>
<thead>
<tr>
<th>Model Covariant</th>
<th>Estimate</th>
<th>s.e.</th>
<th>Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-4.34</td>
<td>0.38</td>
<td>-11.29***</td>
</tr>
<tr>
<td>Concentration</td>
<td>0.68</td>
<td>0.40</td>
<td>1.67*</td>
</tr>
<tr>
<td>Industry political rivalry</td>
<td>1.91</td>
<td>0.25</td>
<td>7.71***</td>
</tr>
<tr>
<td>Unionization</td>
<td>-0.00</td>
<td>0.00</td>
<td>-1.04</td>
</tr>
<tr>
<td>Caucus</td>
<td>0.46</td>
<td>0.16</td>
<td>2.86***</td>
</tr>
<tr>
<td>Sales</td>
<td>0.49</td>
<td>0.05</td>
<td>10.44***</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>-0.02</td>
<td>0.02</td>
<td>-0.98</td>
</tr>
<tr>
<td>Government contracts</td>
<td>0.09</td>
<td>0.02</td>
<td>5.88***</td>
</tr>
<tr>
<td>Inside lobbyistsb</td>
<td>-0.52</td>
<td>0.10</td>
<td>-5.37***</td>
</tr>
<tr>
<td>Outside lobbyistsb</td>
<td>0.28</td>
<td>0.09</td>
<td>3.06**</td>
</tr>
<tr>
<td>Log-odds ratios: α</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAC contributions × inside lobbyists</td>
<td>2.63</td>
<td>0.26</td>
<td>10.26***</td>
</tr>
<tr>
<td>PAC contributions × outside lobbyists</td>
<td>1.76</td>
<td>0.19</td>
<td>9.05***</td>
</tr>
<tr>
<td>Inside lobbyists × outside lobbyists</td>
<td>2.34</td>
<td>0.27</td>
<td>8.75***</td>
</tr>
</tbody>
</table>

a ALR is alternating logistic regression analysis. n = 1,284.

b These are dummy variables that can be used to predict the regression coefficients for each of the three political activities separately.

*p < .05

**p < .01

***p < .001

(e^{2.63} = 13.87) times more likely to have in-house lobbyists than a firm without a PAC; in addition, a firm with in-house lobbyists is over 13 times as likely to have a PAC than one without in-house lobbyists. Likewise, a firm that has a PAC is almost 6 (e^{1.70} = 5.81) times more likely to have hired political consultants than a firm not using a PAC. This same ratio estimate (alpha) suggests that firms that use external political lobbyists are almost 6 times as likely to also have PACs than those without outside lobbyists. Finally, the log-odds results of interacting inside and outside lobbyists indicate both that a firm having in-house lobbyists is about 10 times (e^{2.34} = 10.38) more likely to use external lobbyists than firms that do not have an in-house lobbying function and that the reverse relationship also pertains. The overall result is strong empirical evidence that politically active firms combine these three political activities.

Industry concentration was positively and marginally significantly related to a firm’s decision to combine political tactics, supporting Hypothesis 1. We found modest evidence that firms in highly concentrated industries used multiple political tactics, like other researchers who have found a significant, positive relationship between industry concentration and firm political behavior (Pittman, 1977; Schuler, 1996). However, our marginally sig-

Supporting Hypothesis 2, we provide evidence that when an industry’s member firms are politically active, an individual firm will tend to combine political tactics instead of free riding on the political activities of its industry cohorts. This result supports both competitive niche and institutional theories. Consistent with other researchers’ claims, our findings characterize political activity as a competitive race for access to key officials (Gray & Lowery, 1997). This competition is likely to be fiercest among interests that are similar, such as firms within the same industry vying for the time of policy makers. Additionally, in line with institutional theory predictions about uncertain environments, the studied firms appeared to imitate the political practices of their competitors.

Counter to Hypothesis 3, the unionization of an industry was statistically unrelated to a firm’s decision to employ multiple political tactics. It may be that we have made an incorrect assumption about the hostility of organized labor to the management of firms on most public policy issues. Perhaps, in this globally competitive world, firms and unions in the United States normally work together on political issues—an example is the alliance between the management and unions of the U.S. steel industry in seeking trade protection against imports into the domestic market—and only occasionally stand in opposition. Still, the results are puzzling and in contrast to the results found by others (Masters & Keim, 1985).

We found support for Hypothesis 4. Existing political ties in the form of a congressional caucus seemed to promote a firm’s use of political tactics. Firms might have calculated that contacts on the Hill would increase the usefulness of their political activities. So rather than rest on this privileged position of contact, companies from industries with caucuses were more likely to combine their use of political tactics. Given the uncertainty of the public policy process, an industry-focused caucus might provide one of the clearer signals to a firm that it should continue with its political activities.

The results support Hypothesis 5, stating that the largest firms in American industry aggressively combine political tactics. Whether big firms are the most able to practice political activities or merely consider themselves to be vulnerable to adverse public policies (perhaps owing to the populist nature of the U.S. polity), it is undeniable that size in terms of sales was positively and strongly related to political activities. This relationship between firm size and corporate political action has been found
in many other studies (Andres, 1985; Boies, 1989; Martin, 1995; Masters & Keim, 1985; Schuler, 1996). Surprisingly, we did not find support for Hypothesis 6: firm resources, as measured by free cash flows, were not statistically related to corporate political activity. However, if political strategies are integrated into competitive strategies, perhaps we should not be surprised to find a lack of relationship between these activities and discretionary cash flows. Given Keim and Baysinger’s (1988) argument that political activities are integral to strategy for many firms (and thus not discretionary) and our nonsignificant results, perhaps it is time that management researchers stopped searching for a link between discretionary resources and political activities (Lenway & Rehbein, 1991).

Finally, political strategy aimed toward gaining and maintaining access was well practiced by firms relying upon U.S. military contracts, as predicted in Hypothesis 7. Per resource dependency theory, the firms that rely heavily upon defense-oriented contracts lobbied and contributed to campaigns to maintain close ties with the policy makers responsible for their livelihoods. The political activity of defense contractors also seems consistent with the idea of integrated strategy (Baron, 1995). For many of these firms, political strategy is market strategy; it means, for instance, securing the contracts necessary to sustain revenues into the next period. These results were also consistent with those of Masters and Baysinger (1985) on corporate PACs.

DISCUSSION AND CONCLUSION

We set out to develop and test a model of how firms achieve competitive parity in the political process. Starting with the incentives created by the U.S. electoral and political process, we obtained statistical evidence that, to gain access to policy makers, politically active firms often combine making PAC contributions, having Washington offices (inside lobbyists), and contracting with outside lobbyists. Access is a legitimate goal of a firm’s political efforts because it creates relationships with legislators and regulators that may be useful in navigating the complex public policy arena (Clawson et al., 1998; Eismeier & Pollack, 1988; Hillman & Hitt, 1999; Hillman et al., 1999). Access can be seen as a necessary condition for exercising political influence. Thus, we add to the relatively thin evidence about how firms practice political behavior (Hillman & Hitt, 1999) through examining the determinants behind firms’ use of lobbying and campaign contributions.

Our findings are interesting for several other reasons. We challenge the existing political strategy classifications that put PACs and lobbying into separate categories (Aplin & Hegarty, 1980; Hansen & Mitchell, 1997; Hillman & Hitt, 1999; Oberman, 1993). Drawing on the exchange view of politics, which focuses on the electoral and legislative goals of politicians, we argue that firms (and other interest groups) have tremendous incentives to combine lobbying and campaign funding activities to gain access. From this point of entry, firms may engage in additional tactics that may be more critical in influencing political actors (Lord, 2000). Our empirical results verify that a firm making an initial decision to become politically active is more likely to favor combining tactics. Thus, the independent variables that drive these political activities need to be examined not separately, but together, as in the present study, because they are complementary, strategic activities aimed at gaining political attention.

In addition to demonstrating that politically active companies are inclined to combine political tactics, we have also found new evidence about the drivers of such activity. Firms are likely to imitate the political activities of their rivals. We cannot determine from these data whether the rationale underlying imitation is fighting for policy space in a crowded and competitive policy field (Gray & Lowery, 1997) or behaving mimetically in an uncertain environment to maintain legitimacy (DiMaggio & Powell, 1983; Hillman & Keim, 2000). Ceteris paribus, and taking a collective action view (Olson, 1965), we suggest firms have more incentives to participate politically in concentrated rather than fragmented industries. Firms in more concentrated industries are also in a better position to present a unified political position, which should be appealing to legislators desiring to reduce their political uncertainty. Overall, the managers charged with making political decisions appear to take cues from both the political and competitive behaviors of industry players, consistent with the exchange view of politics, according to which firms must compete with other informants to gain access to lawmakers.

We also confirmed Hillman and Keim’s (1995) supposition that the institutional setting mediating the firm-government interface can affect corporate political activity. We found a positive relationship between a firm’s membership in an industry-focused congressional caucus and firm-level political activity. Our research design does not allow us to go deeply into these relationships, but scholars may wish to focus upon some of the particular institutional elements that might elicit (or repel) certain types of corporate political behavior. Even at a subnational level, firms and managers might...
tailor their political strategies to reflect the special characteristics of various governmental institutions in order to maximize their effectiveness.

Finally, we found further evidence that resources matter for firms practicing corporate political activity. The largest firms, in terms of sales, are most likely to combine PAC and lobbying activities. This finding is consistent with the vast majority of prior research (e.g., Andres, 1985; Grier et al., 1994; Masters & Keim, 1985), which has shown that the largest firms dominate political activity. Also, consistent with resource dependency theory, firms relying heavily upon governmental contracts are more active political players than those that do not. This relationship has also been shown to be statistically significant in studies by Boies (1989), Masters and Baysinger (1985), and Zardkoohi (1985). Thus, in terms of resource availability and vulnerability, the largest and most government-reliant industrial companies are the most vigilant pursuers of political solutions.

Despite the possible advantages public policy can confer on them, we have also found that the vast majority of firms do not actively lobby or make PAC contributions. It could be that, for these firms, the costs of lobbying and making campaign contributions do not surpass the incremental benefits, and therefore they rationally free ride (Olson, 1965). Furthermore, of the politically active firms in our sample, only slightly more than half combined tactics. Some firms may be able to attain their political goals through use of a single tactic. For example, a firm with significant employment in a given congressional district may not need to use a political contribution to gain an appointment with its representative. Alternatively, by using outside lobbyists, some firms may realize access benefits that these lobbying organizations have already accrued. Some firms may rely upon their industry associations for lobbying expertise while independently revealing their preferences through PAC contributions.

Like many other studies in this area, ours falls short in several ways. First, our conceptualization of the corporate political decision-making process is simple, essentially a direct effects model (Schuler, 1999); future models might include more complex processes (see Baron, 1995; Moe, 1980; Schuler & Rehbein, 1997). Second, like many other empiricists, we did not have all of the data that we desired. For example, we did not have data on two other tactics respectively associated with financial incentive and information strategies, soft money contributions and supplying position papers (Hillman & Hitt, 1999: 835, Table 1). Although we feel that our data on firm PAC contributions and inside and outside lobbying were sufficient for our purposes and that these were probably the only tactics systematically available to these firms during this time period, it would have been ideal to use additional political information. Furthermore, Hillman and Hitt identified an indirect political strategy, constituency building, consisting of such tactics as working with stakeholders and trade associations, for which we did not have data. For many firms, these indirect political channels serve as alternate forms of access. We also desired additional information for some of our independent variables. For example, political activism is not likely to be confined only to a firm’s primary industry, as we defined it, but may include referent firms from other industries. Although we limited our independent variables to the common predictors used in other studies, others, such as the degree of industry regulation, might be added.

Since ours was a general model, we ignored specific political issues that might drive political activity. Methodologically, as has been noted previously in this field (see Grier et al.’s [1994] Appendix), the “problem of zeros”—that is, of firms without “visible” political activities—poses a substantial challenge to the reliability of coefficient estimates and to the robustness of the overall model. Although we are confident that ALR analysis substantially reduces this problem, we will continue to refine techniques for gaining unbiased estimates of corporate political behavior.

Despite limitations, our study offers important insights into the nature of corporate political access strategy. First, we argued that firms have incentives to combine the tactics of PAC contributions, employing in-house lobbyists, and hiring outside lobbyists. We showed statistically that politically active firms do combine these political tactics, and we isolated some important factors that drive firms to undertake such political activities.

To progress in understanding corporate political behavior, researchers should pay continued attention to its many components as well as to using the appropriate data and methods for unveiling these multiple dimensions. Furthermore, researchers need to extend study of combinations of political tactics with strategic goals even further to include market tactics. The real importance of firms’ political strategies lies not just in political outcomes, but also in their overall competitive outcomes. Understanding corporate political strategy is indispensable for making sense of competitive strategy.
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