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David Coen
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Chapter 3
Consider the Source! Determinants of Corporate Preferences for Public Policy

Cathie Jo Martin, Boston University

Introduction

Few topics are as essential to the study of business government relations as are the determinants of employers' preferences for public policy. If the passions and the interests that move the masses to make revolution were vital to the course of parliamentary democracy, so too was the constraining stance of employers. Whether 19th-century businessmen met union demands with violence or with co-opting concessions has influenced the course of the welfare state down to the present day. Business managers' strategies for economic competition have shaped their reception to public policies that simultaneously enhance workers' skills and add to the costs of labor. One can dwell on what the right hand giveth or what the left hand taketh away, and therein lies the difference between a business community accommodating growth in government services and one resisting expansion of the public sphere.

This essay grapples with the deceptively simple question of what matters to the formation of employer preferences, yet the project necessarily touches on a wide range of issues related to human motivation and democratic governance. (Thus the focus is on preference formation rather than interest mobilization.)

I suggest that much of the literature analyzing employers' preferences (implicidy or explicitly) assumes a stance on three general debates in political science. The first debate has to do with the relative importance of economic conditions and institutional constraints in guiding human action. Do business managers strive to fulfill easily identified objective interests that are grounded in the material characteristics of their firms and industries? Or do institutions, ideas and peer pressure influence how managers interpret (or socially construct) their interests?

A second debate concerns the appropriate level of analysis for appraising corporate interests. Again, one group of scholars suggests that business interests are largely defined and acted upon at the firm level, while another group

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1 An enormous amount has been written on business mobilization, but for a very good overview, see Hansen and Mitchell 2000.
locates causality in the collective deliberative processes of national employers associations. It is possible that this balance is changing: coordination and cooperation among employers may become a phenomenon of the past, as globalization and multi-national production fragment the collective identities of an earlier age.

A third debate has to do with the appropriate causal agent—whether employers are proactive in formulating their policy positions, or reactive and follow the lead of policy entrepreneurs in other realms such as government and unions. One’s stand on this issue has implications for the cross-national constancy of business-government relations: do employers engage with the state differently, or are relational dynamics ubiquitous throughout the industrialized world? If the structures and agents of the state are an important source of corporate preference formation, employers’ views of public policy may mirror cross-national differences in political regimes.

This chapter surveys the dominant literature on corporate preference formation and reflects on four broad causal determinants of preference: economic characteristics of firms and sectors, firms’ internal institutions for evaluating public policy, business associations (and other institutional vehicles for firm coordination), and government structures and agents that muster employers’ support for public policy. The essay analyzes the strengths and weaknesses, contributions and omissions of each approach, and offers examples of empirical research in each tradition.

Surveys are by design expansive, inclusive and likely to find that everything matters in its own way. Nevertheless, as with the blind men and the elephant, no approach completely captures the complex reality of firm preference formation. Thus, I attempt to impose some hierarchy on the myriad of factors said to influence managers’ thinking about public policy and suggest tentative positions on the three debates outlined above.

First (and in keeping with the popular institutionalism of the past quarter century), I conclude that institutions, indeed, contribute to the formulation of corporate preferences, although their impact varies across policy fields. Not surprisingly, purely economic factors are more comprehensively predictive of policy positions closely linked to the firms’ core productive activities.

Second, I find that the appropriate level of institutional analysis varies across settings: one size does not fit all. British and American scholars have been rather more keen to investigate the impact of firm-level institutions on corporate preferences than their continental European counterparts, who are more likely to study group influences, because Anglo firms are not particularly impressed with external employers’ associations (Martin 2005). Finally, state structures and agents matter enormously to how managers view their interests; indeed, it seems likely that investigations of public–private reciprocal influences will continue to be an exciting and fruitful research agenda in the study of corporate preference formation.

Consider the Source!

Show me the money! Economic structure and firm preferences

Albert O. Hirschman (1977) captures centuries of social scientific reflection on preference formation in a simple phrase: “the passions and the interests.” While passions must be invoked, a subject to which we return momentarily, interests are fixed by tangible circumstance (or so the story goes). To predict company policy positions from interests, scholars simply must analyze the economic characteristics of the firm, or the structure of the industry to which it belongs.

This economic model of preference underlies public choice and many pluralist theories, and assumes that individuals are motivated by readily apparent material circumstance. Managers in this world are straightforward and easily understood: they worry about the bottom line, place profit-making above all else, and hold preferences derived from the economic structure of their firm or industry. Apart from their general contempt for profit-eroding government regulations, managers periodically support (or are less hostile to) policies that hold special advantages for their firms or improve their market positions vis-à-vis competitors.

Scholars conducting empirical studies in this tradition deduce companies’ economic strategies and political preferences from the industrial structure of the firm. For Porter (1980), five competitive forces, rooted in its industry’s structure, may influence a firm’s productive strategies: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products, and the rivalry among existing firms. These forces vary across industries, and successful firms will fashion competitive strategies to triumph over their most intimidating threats. For example, the most important threat to profits for an oil tanker firm is the bargaining power of its buyers, the oil companies; firms in the steel industry worry more about new entrants in the form of foreign competitors. Thus industry structure influences both the rules of and strategies for competition.

Political preferences in this model constitute a subset of economic strategies (Hillman, Keim, and Schuler 2004). Public policies create market conditions that allow companies to improve their competitive advantage; to increase their market share; or to augment their bargaining leverage over suppliers, customers and workers (Gale and Buchholz 1987: 34–5). Larger, capital-intensive firms are more likely to demand selective investment tax incentives (that cut the costs of new plant and equipment) than smaller, labor-intensive firms (Salamon and Siegfried 1974, Jacobs 1988, Williams and Collins 1997). Firms with government contracts, and those subject to high levels of regulation, are, not surprisingly, more likely to contribute to electoral campaigns, because these political contributions may result in later economic advantages for the companies (Grier et al. 1994, Masters and Keim 1985, Mitchell et al. 1997). The geographical concentration of firms within a
given industrial sector make companies in the sector more likely to take political action (Busch and Reinhardt 2000). Foreign ownership diminishes companies' likelihood of participating in political activities (Hansen and Mitchell 2000). According to Ferguson, shifting blocs of major investors have brought about critical realignments in the American party system and major public policy transformations (Ferguson 1984).

British employers' involvement with the recent New Deal social programs illustrates how industrial structure characteristics may shape employers' political preferences. Prime Minister Tony Blair asked British firms to create jobs for the long-term unemployed, as a way to bring these forgotten workers back into the core economy; yet, companies were hesitant to hire workers they perceived as marginal and even "unemployable."

In interviews with a random sample of the top 500 British firms, I found that firms with a large percentage of sales going to the public sector were significantly more likely to participate. The most prevalent motivation given by companies for joining the programs was a political one: nearly one third credited their participation to strong pressure from government and a desire to please the new administration. Thus it makes sense that those more dependent on government purchasers would participate, or, as one manager put it, "The New Deal was a new government program. The firm's business is heavily tied to the Ministry of Defense and to the government. So we felt obliged to support a new, and very key, program for the Blair government" (Martin 2005).

Business historians have also developed interest-based theories to account for corporate support for welfare state development. Firms might support social policies in order to impose costs on their competitors, to maintain labor stability (and guard against disruptions in the production process), or to frame policies in their own terms (Ferguson 1984, Craig and Jenkins 1989). Thus, while American firms developed their own company pension plans in the 1920s as a mechanism for reducing labor militancy, large companies later expressed support for a state social security system in order to impose costs on their competitors (Gordon 1991).

Industrial-sector analyses have been used extensively to predict industrial sectors' demands for trade protections under conditions of international trade: obviously, companies that export a larger proportion of their products are less likely to support tariffs and non-tariff barriers to trade than would firms producing largely for domestic markets and subject to imports competition.

Yet these preferences are tempered by the companies' level of direct foreign investments, as companies with many investments abroad risk retaliation in their demands for protection (Milner 1988). In keeping with the Stolper-Samuelson theorem, Rogowski (1989) argues that the relative abundance of factors of production in a given sector influences the policy positions of the owners of these factors. Owners of abundant factors will support free trade, because they can presumably export their goods to countries where the factors are scarcer. Owners of scarce factors will demand trade protections, because they fear that imports will drive down the price of their goods.

The distributional effects of international trade also depend on the mobility of factors among sectors: owners of specific factors (that is, ones that cannot easily be transferred among sectors) in the export sectors will support trade, while owners of specific factors in protected sectors will demand trade protections.

Demands for trade protections are also influenced by the industries' positions in the product cycle and their countries' wage structures. In countries such as the United States where labor costs are high and firms are very good at innovation, trade protections are not as high a priority for companies creating new products as they are for firms mass-producing relatively cheap goods: in the latter case a firm's competitive advantages depend more on wage costs than on its innovative capabilities (Kurth and Gourevitch, 1979). Yet these predictions about industrial-sector demands are only imperfectly translated into public policy positions, in large part because only certain types of industries will organize to lobby for trade protections (Mitra 1999, Elliott 1991). Interest groups provide information.

Expressing passive approval for public policy is one thing; developing collective or even individual positions on policy is quite another. One wonders how economic actors decide to devote material resources to the pursuit of political concerns. Organizing for broad collective concerns is risky business, because "free riders"—the nonparticipants in collective struggles—enjoy the benefits of collective action without paying for the costs. And who can blame them for opting out of the group effort when presented with such incentives to do so? The rational protagonists of the economic model calculate the costs and benefits of collective political action and proceed with caution, especially with regard to political issues marginally connected to the immediate productive concerns of their firms. Even within a single diversified firm, business units often have conflicting interests (Shaffer and Hillman 2000). As problems of collective action are compounded by the multiplicity of interests in the business world, it is easy to see why corporate actors fail to coalesce around a unified class position in many policy areas.

Most economic models posit that producers are more likely to mobilize to influence public policy, because producers have more focused interests than consumers (Stigler 1971). At the same time, these models acknowledge that rational producers may only participate under certain conditions. Perhaps employers' individual interests can be gratified through selective side benefits. Perhaps firms' interests in the policy outcome are highly concentrated; hence, a large firm may assume the costs of political action without side

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2 Thus, this model breaks with characterizations of business as a unitary capitalist class, and points to the limits of structural theories of business power (Mills 1956, Lindblom 1977). But see Dreiling (2000).
benefits, if it expects to receive so much from the collective outcome that it is willing to bear the entire costs itself. In this case, industrial sectors with a few large firms are more likely to organize politically than those with many small companies: industrial concentration, oligopoly, and geographical concentration all should be favorable industrial characteristics for collective action (Olson 1965, Offe 1985).

Yet, it is also possible that employers' associations are strongest in sectors with smaller-sized firms. While large firms in concentrated industries can form more rigid organizational cartels to achieve their economic and political ends, small firms can secure regulation only with looser forms of collective action. In addition, while large diversified firms may prefer developing internal labor strategies to accepting the jurisdiction of employers' organizations, small companies lack this option (Posner 1974).

The theoretical indeterminacy of industrial-structure models is matched by a range of somewhat contradictory empirical experience. In Britain, associations never managed to exert much discipline over individual firms, because the large diversified firms preferred developing internal labor strategies to accepting the jurisdiction of the employers' associations. Yet firm size had a very different impact in Germany and Sweden, where large firms dominate the important associations (Tolliday and Zeitlin 1991: 299–300). This diversity of experience is even more apparent in the realm of public policy. Thus, we know from business historians that "corporate liberals" historically broke with laissez-faire thinking in supporting social policies, yet we have less insight into why similar companies interpreted their political interests so differently (Collins 1981, Wiebe 1967). Because material circumstance seems unable to capture the full range of corporate political preferences and actions, we turn to another body of scholarship dedicated to the processes of preference formation.

Inside the company: The firm's organization and preferences

Critics of the economic model began with the observation that firms have multiple objectives and ambiguous interests: many intermediate goals coexist with the primary ambition of profit maximization (Thompson 1982: 233, Fiegelein1990). Decision-making almost always occurs under conditions of bounded rationality in which full information is not available (Cyert and March 1963; DiMaggio and Powell, 1991). Indeed, the very origins of the modern corporation reflect this ambiguity of interests: firms were developed to solve market transactions costs when producers were faced with problems of opportunism, bounded rationality, and the inability of pricing mechanisms

perfectly to allocate resources (Williamson 1975; Cyert and March, 1963; Best 1990).³

This ambiguity has important ramifications for competitive and political strategies, because it suggests that several alternatives may be equally appropriate. Because firms must make strategic choices in their mechanisms for control and their organization of resources for production, even those with similar structural characteristics do not always behave in like manner. Institutional permutations at the firm level deliver very different competitive strategies: the "inside value of productive service" is unique to each firm (Penrose 1959).⁴

Strategic choice seems particularly relevant to the processes by which companies develop their political preferences and strategies. Firms must make three critical decisions before setting off on a course of political engagement.

They must decide on a general political strategy; for example, determining whether to actively influence public policy and to build relations to that end in advance of important legislative initiatives. They must determine their level of commitment to political participation; this includes determining whether to engage in collective action or in individual activities. Finally, firms make choices about strategies for influencing politics; for example, contributing to campaigns, providing information, and building constituencies (Hillman and Hitt 1999).

Over time, firms develop very different political profiles. Some routinely seek out opportunities in the political environment, even when these opportunities are not related to core corporate concerns, because they seek to build political capital with key politicians and hope for quid pro quo returns on future issues (Yoffie 1984: 45).

Critics also charge that the economic approach, with its commitment to methodological individualism, cannot account for causal forces that transcend the individual unit of analysis. Acknowledging the role of strategic choice leaves unanswered questions about where choices come from, and about the sources of information and collective structures that underlie corporate decisions (Granovetter 1985, Crystal 2003).⁵ If one assumes substantial indeterminacy in a firm's range of possible policy preferences, social context

³ Coase began this discussion with his important insight that firms and markets are functional equivalents: both are mechanisms for organizing economic coordination. Lazonick (1991) stresses that Williamson's view of the emergent corporation as an "adaptive" organization (to solve negative transaction costs) misses the positive, innovative reasons for the development of the modern company.

⁴ Under conditions of complex and changing messages from the external world, organizational forms within companies have proliferated to cope with this bounded rationality. Child (1972).

⁵ The concept of strategic choice also overemphasizes explicit goals and underemphasizes patterns. It also suggests a neutrality that is often lacking, as goals reflect underlying power relations (Mintzberg and Waters 1985, Knights and Morgan 1991).
becomes critical to understanding the precise definition of interests and formation of policy preferences by employers (Friedland and Robertson 1990: 32, Moe 1987: 277). Because companies operate under conditions of bounded rationality, organization mechanisms to process information greatly matter to strategic choice; yet the premise of methodological individualism prevents theorists from fully analyzing the social and ideological structures that set the context for rational action.

To meet these criticisms, scholars have looked to the institution within companies that help these firms develop their policy preferences and decide to engage in political action. These institutional views make very different assumptions about employers’ preferences from economic models, and take neither preference nor political action for granted. A weak version of this view assumes a gap between material conditions and the articulation of preference; individuals or firms take a while to adjust their positions in response to environmental change (Davies 1962: 5–19).

A stronger version of institutionalism is that a range of policies might be in an individual’s or company’s objective interests; one must decide which position within this range to endorse (Mansbridge 1992). Thus, although economic scholars root firm preferences in the overarching desire for profits, institutionalists assert that multiple interests, intermediate goals, and uncertain causal relations force managers to think about which policies will best achieve profitability. In a changing economy, managers must be made aware of their evolving interests—stitutions that transcend the level of the individual shape of managers’ policy preferences.

Companies’ positions on complicated policy issues in part depend on the firms’ internal organizational capacities for gathering information and deliberating about public policy. Companies with in-house public policy experts have different preferences from those firms lacking the internal capacities for evaluating public policy.

Why do the firms’ policy experts make a different to preferences? Policy experts within the firm share both language and perspective with policy analysts in government and academic sectors. These corporate technocrats expose their colleagues to technical arguments, when they bring ideas from the external community of policy-makers back to others within the firms, a process called “boundary spanning” (DiMaggio and Powell 1991, Harris 1989: 261-286, Martin 1995, 2000, Schuler 1999).

Thus, companies’ policy experts challenge the usual corporate ideology and offer alternative frames for viewing policy problems (Martin 2000). Ideology, by definition, lacks nuances and simplifies experience, whereas knowledge introduces complexity. While firms lacking policy expertise might be more likely to interpret issues through an ideological lens (often on the political right), policy experts offer more technical assessments of issues, and their preferences should be closer to the political center.

These policy experts can be found in several parts of the firm. For example, many large American firms have developed professional government affairs department in the past 40 years (Post et al. 1983: 135–150). Government affairs departments were originally developed to fight the new social legislation of the 1970s (Baysinger 1984: 248–258).

But these units subsequently increased collaboration between business and government. The departments, which first developed to protect the autonomy of the firm, later became major locations for intercourse with government. Empirical studies support the impact of government affairs departments on preferences; for example, when Washington government affairs representatives determine political action campaign (PAC) spending by their firms, decisions are more pragmatic than those in firms in which top management provide the guiding voice (Handler and Mulkern 1982). The growth of government affairs departments among large European firms has vastly enhanced the efficacy of these large employers in lobbying for their interests within the European Union (Coen and Dannreuther 2002).

In a study of American firms’ preferences for comprehensive health reform, I found that companies with institutionalized internal policy expertise in the form of a Washington government affairs office were significantly more likely to take a position in favor of employer mandates. Qualitative interview data revealed that human resources experts were also involved in forming preferences, often in conjunction with the government affairs professionals. In these companies, the issue of health preferences was delegated to the experts: in the words of an airline company vice-president, “the push comes from lower down.” A western oil producer put it, the “lower-level guys run the show.” As a chemical HR vice-president put it, “If the CEO were spending more time on it [health], he wouldn’t be doing his job adequately.... I want the CEO to think that our guys have it by the throat” (Martin 2000).

Human resources departments are another location for public policy expertise and an influence on firms’ preferences. For example, human resources professionals were important in bringing US companies to comply with equal opportunity regulations (Sutton et al. 1994: 944–971). Many European companies have also formed professional human resources departments in recent years (Rhodes 1998, McCartney and Teague 1997, Rogaczewski et al. 1999).

In the fore-mentioned study of the British New Deal programs, the size of the human resources department had a significant impact on employers’ participation. Many companies identified their own internal HR department as their most significant source of information about the New Deal, or they learned about the programs through human resource networks and professional organizations. Thus, an enthusiastic HR employee with New Deal...
experience from a prior job convinced first the HR department and then the managing director to participate. In firms where the CEO, responding to Blair's appeal, committed the firm to participating without involving the HR department, there was little follow-up on these initial commitments. One manager reflected:

The firm signed on mainly from a public relations perspective: the CEO thought that there were kudos with being associated...but the company did not put enough resources into making the local managers enthusiastic... HR never really bought in (Martin 2005).

Theorists have also pondered the question of what accounts for the development of human resources departments by firms. Marcus et al. (1987) suggest that the company's decision to develop in-house expertise or participate collectively through a trade association depends on the nature of its primary industrial sector. Sectors in which all engage in complementary activities may have different patterns of political participation from those in which all engage in the same behavior. Companies with nonspecific interests are likely to choose not to develop their internal resources, but companies with specific and frequent political needs will develop a public affairs office. Private policy professionals in these departments work wish to accentuate the importance of the issues over which they have jurisdiction in order to enhance their own position within the firm (Edelman, Abraham, and Erlanger 1992: 47-84).

In addition to its internal institutional capacities for processing public policy, a company's preferences may be influenced by past policy choices. Preferences and strategic actions developed at one point create legacies for, or path dependence influencing, future political positions (DiMaggio and Powell 1991). Prior choices have policy ratchet effects. In other words, they lock in a commitment to a chosen alternative, making future deviation from this alternative more difficult.

An adaptation process brings individuals to feel comfortable with and accustomed to their national approach to social problems; although economists say that we should write off sunk costs, these prior investments make it psychologically hard to set out in new directions (Weir 1992, Pierson 1994, Swank 2002, Huber and Stephens 2001). Thus, firms create their own environment through the strategic choices made by their managers (Miles and Snow 1978).

Business scholars have used arguments about path dependence to explain corporate strategies and preferences. Once in place, these choices create structure and process, which in turn serve to delimit future decisions. In a study of the tobacco industry, Robert Miles (1982) shows that companies tend to replicate strategies across time and situations. Thus, some companies (the prospectors) lead in developing creative responses to external threats, while others (the reactors) alter their behavior only when absolutely forced to

Consider the Source

(which is often too late). Policy legacies can have a negative impact on strategy as well as a positive one: failed experiments with private-market interventions to contain health costs often encouraged benefits managers to support a national government overhaul of the American health system. At the same time, these employers resisted reforms that would diminish their own company programs (Martin 2000, Hacker 2002).

Policy legacies can explain change in corporate strategies over time, as well as continuities. Suarez (2000) investigated why companies held divergent positions on the "possessions tax break" over time, when their interests remained essentially unchanged. Managers learned from their prior mistakes, yet succumbed to the same dysfunctional patterns that military analysts thrive on: fighting the old wars and basing action on the rules of past engagements.

Business historians have used path-dependency arguments to explore the contribution of employment-based social benefits to the evolution of national public programs. Large employers in the United States developed private social benefits because legislative solutions were unacceptable to the South, because they wanted to prohibit the spread of unionism, and because they believed that these benefits contributed to worker productivity (Quadagno 1988, Weinstein 1968, Jacoby 1997). The social security system grew out of these private pension plans (Berkowitz and McQuaid 1984), yet the "shadow welfare state" of private benefits continued to coexist alongside the public programs. This mixed system of social provision with participation from both the private and public sectors has meant both that societal interests are more diverse than they are in countries with universal programs, and that the American welfare state is larger than would first appear (Stevens 1986, Hacker 2002, Rein 1997).

While these investigations of organizational capacity for processing public policy within firms tell us much about preference formation, firm-level institutions cannot shed light on collective shifts in corporate sentiment. Employees often move in tandem, and the deliberations of individual firms may be guided by larger movements within the business world. Patterns of business-political engagement sometimes defy expectations; for example, the American small business lobby is, if anything, more active politically than are large firms in many policy areas. Yet as discussed before, both economic and firm-level institutional analyses predict that large firms are more likely to engage in political action than small firms. In the former case, this reflects the more concentrated interests of large firms: sectors with a few large firms have an easier time organizing for collective action. In the latter case, we might expect large firms to participate more because they are more likely to develop government affairs offices and other institutional capacities for policy expertise that help them secure political benefits (Olson 1965, Martin 2000, Coen and Danreuther 2002). Clearly, other explanations are needed to account for patterns of business political action that transcend the capacities of individual players.
Group think: Employer associations and firm preferences

In another tradition, scholars investigate the broader, collective forums that aggregate individual firms for purposes of contemplating their collective interests. To explain business preferences, these scholars look beyond firm-level organizations to broader networks and institutions for business representation that vary both cross-nationally and among regions. These scholars assume that networks and groups not only represent members' interests, but shape preferences (Turner 1982: 21, 27, Grimm and Holcomb 1987: 105–118).

Sociologists use network analyses to show that firms' positions within networks matter to their political preferences (DiMaggio and Powell, 1991 Laumann and Knoke 1987, Mizruchi 1990, Fligstein 1992, Pedersen Andersen, Kjær, and Elberg 1992, Campbell and Pedersen 2001). Diverging from an older generation of sociologists who explored the social connections between elites, these scholars look to other “mediating mechanisms” by which class unity can be socially constructed: kinship, overlapping directorates, and political organizations.

For example, for Fligstein (1990), the firm's position in its institutional network of organizations (or the organizational field) contributes to its strategic choices. Organizational fields promote stability within the sector, but are usually constructed to meet the needs of the most powerful members. Thus, the transformation of the American economy in the past hundred years did not spontaneously develop from profit-maximizing rational behavior, but rather can be traced to a long-term shift in the largest firms' "conception of control," or views about how best to achieve growth and profitability. Firms' location in their networks influence their political action campaign contributions, with those positioned at the center exhibiting the most mainstream, or commonly found, political behaviors (Mizruchi 1992). Regional networks have an impact on companies' choices of economic competitive strategies and explain the rather impressive diversity of regional industrial districts (Herrigel 1996, Saxenian 1996, Christiansen and Rommetvedt, 1999).

Comparative political scientists writing in the corporatist tradition have highlighted the importance of business organization to employers' preferences for economic and social policy outcomes. Peak associations with broader scope, exclusivity, and degree of centralization help employers to generate industry-wide positions on public policy that are more enduring than the business inputs one finds in countries without formal structures for corporate involvement. On a cognitive dimension, a corporatist association helps its members to support a collective good by bringing them together to discuss their broader, shared concerns. Corporatist peak associations bind firms to negotiated outcomes; therefore, members will be more willing to commit to longer-term goals, even if these goals detract from shorter-term interests. A corporatist association has an edge over its pluralist counterpart because membership is either compulsory or no other group exists to challenge the association's hegemony. Thus, its members cannot leave to join another group, should the association fail to satisfy narrow policy demands (Crouch 1993; Katzenstein 1985, Lenbruch 1984, Rothstein 1988, Streeck 1992, Schmitter 1981, Visser and Hemerijck 1997).

Corporatist employers' organizations have stronger links with policymakers in government and in the labor movement than pluralist groups; thus, unions have been important to the development of employers' social preferences in Scandinavia and elsewhere (Thelen 1996, Pontusson and Swenson 1996). According to this view, the centralized, encompassing, unitary employer associations found in many continental European countries (corporatist groups) are much better able to generate business class positions on political issues than the pluralist groups found, for example, in the United States. Because corporatist employer associations have a monopoly within their countries in the political representation game, they are better able to focus their members' attention on long-term goals and adjudicate between conflicting business demands (Wilson 1990, Streeck and Schmitter 1991, McKeown 1994). Peak associations adjudicate among conflicting demands: often large, technologically advanced export sectors can force traditionalists in the small business sectors to go along with a program of social reform.

Consequently, countries with encompassing employers and labor organizations are more likely to produce different—and some argue more collective—goals than those without such groups (Wilensky 1976, Kendix and Olson 1990, Crepaz 1992, Streeck and Schmitter 1991, Crouch 1993, Hicks and Kentworthy 1998). In the area of economic performance, corporatist labor and employer associations with centralized systems of collective bargaining have been able to focus members' attention on shared macroeconomic goals and to achieve wage and price restraints in exchange for stable employment and non-inflationary growth (Henly and Tsakalotos, 1992: 566–568). Wallerstein, Golden, and Lange (1997), using cross-national and cross-time indicators of union and employer organization, show how corporatist patterns of organization influence aspects of the industrial relations system, such as control over wage bargaining, veto power over affiliates (for example, in lockouts), and control of conflict funds (see also Crouch 1993).

A stronger organization of employers may also expand support for the welfare state. Although much of the conventional writing on the welfare state held that countries with weak or divided business communities were more apt to have higher levels of social spending because strong employers defeat social initiatives (Korpi 1980, Castles 1978), the logic of corporatism suggests that well-organized managers are more likely to favor broader, more universal welfare states (Wilensky 1976: 23–25, Streeck 1992, Martin 2000).

Duane Swank and I found empirical evidence of this relationship between corporatist organization and the welfare state. The centralization of national
employer associations, the amount of cohesion among employer groups, and
the level of economic cooperation across enterprises were significant deter-
minants of total social welfare effort in 15 developed democracies between
the 1970s and 1990s. Features of employer organization were positively asso-
ciated with national resources devoted to active labor market policies in the

Some scholars argue that the emphasis on national characteristics is il-
suited to address subnational variation, and they have examined the groups
and networks that are important within sectors or policy areas. Policy com-
munities or networks are relatively stable groups of public- and private-sector
actors who share interests in an issue and who repeatedly interact to develop
policy in this issue area (Jordan 1983).

At the policy level, one may find dynamics that contradict national pat-
300, Campbell et al., 1991, Coleman and Grant 1985: 3–28, Cawson 1985,
Grant 1989). For example, some American policy areas have broad-based
business groups that dominate the issue, resemble national peak associations
within their narrow field, and enjoy formal or informal recognition as the
legitimate representatives for their concerns (Martin 2000). Some issues of
public policy concern a few sectors; in this case, the type of sectoral organi-
izing institutions has an important impact on political relations within the
industry (Coleman 1989: 47-67, Campbell, Hollingsworth, and Lindberg

Despite important contributions, corporatist views of corporate prefer-
ences suffer from several limitations. Corporatist investigations traditionally
have focused more on employers’ collective action than on preference for-
formation, and have over-emphasized trust and discipline to the neglect of group
influence on cognitive processes (but see Thelen 1999, Martin 2002). Very
little work has been done at the firm level to provide empirically testable
models for how corporatist organization influences companies’ perceptions
of their interests and to link institutional processes at various levels of deci-
sion-making.

In addition, peak associations at the national level may be under attack
even in the old strongholds of corporatism, and many wonder whether the old
distinctions between corporatist and pluralist groups will survive (Sandholtz
and Zysman 1989). The pressures of globalization, technological change,
European integration, and growing regional identities may be eroding the
distinctions among national groups (Henley and Tsakalotos 1992, Houge and
Marks 2003). Globalization may (or may not) make it more difficult for
coordinated market economies to sustain social provision (Swank 2002,
change has made labor more diverse, creating a growing divergence between
skilled and unskilled, and public-sector and white-collar workers (Lash and
may be complicating organizational efforts to negotiate economy-wide wage
agreements, leading to a possible decentralization of collective bargaining in
most European countries (Pontusson and Swenson 1996, Katz 1993). Yet
collective bargaining and corporatism may more resilient than is often ac-

Corporatist forms of interest intermediation may also be losing ground in
public policy negotiations (Streeck and Schmitter 1991, de Swaan 1992: 33–
Increased regional disparity and political shifts in balance of power to the EU
level may entail a decline of national associations, because peak associations
may have less representational power in EU negotiations than their counter-
parts at the national level (Rhodes 1997 Coen and Grant 2001, Greenwood,
Grote, and Ronit 1992, Greenwood 2002, Christiansen and Rommetvedt
1999). Many companies (especially multi-national ones) seem to be de-
veloping their own firm-level capacities to analyze public policy (Coen 1997, D.
Hart 2004).

A final problem with institutional views of corporate preference is that it
is difficult to know which institution matters. Not only must one sort out
whether institutional configurations within the firm are more important to
preference formation than those groups outside of the firm, but one must de-
termine the relative salience of associations at the regional, sectoral and
national levels. For example, scholars writing about the “varieties of capital-
ism” view employers’ associations as only one among many institutions
determining employers’ policy preferences. Broad connections link social
welfare regimes, firms’ strategies for economic competition, systems of labor
relations, employers’ associations, and methods of financing and corporate
governance; companies’ preferences for policy are reinforced by the tight
coupling between these disparate spheres.

In coordinated market economies, the supportive labor-management rela-
tions and high levels of social protection tend to encourage both labor and
management to develop close economic cooperation, increase long-term in-
vestment in skills, and enhance productivity. Employers realize that in
addition to deriving economic advantage from physical and factor compo-
nents, they can enhance their competitive positions with institutional
arrangements that encourage information exchange and consensus. These
arrangements enable firms to move into market niches not otherwise avail-
able to them. Alternatively, in liberal market economies such as the United
States, labor-management relations tend to be contentious; neither workers
nor employers have incentives to invest in skills; and competitive strategies
entailing a high-skilled, productive workforce are discouraged. Nations ex-
perience difficulty altering their model economies: the persistence of policy
solutions in one sphere reflects the constraints imposed by deep linkages to
other spheres (Hall and Soskice 2001, Visser and Hemmerjck 1997, Manow
business preferences in both long-term structural and short-term strategic ways.

The broad institutional structures of government (such as constitutional structure and veto points) have an impact on how managers enter into the political process, and they go far in explaining cross-national differences in employer behavior. State fragmentation (separation of powers, federalism, and coalition party rule) generally translates into greater business fragmentation because managers can try to influence successive veto points until they find a sympathetic hearing (Martin 2000). When access to government deliberations is limited, managers must discipline themselves to achieve success in their few opportunities for input. Less formal governmental rules about business involvement in the policy making process also shape both the organization of private interest groups and the engagement of these groups in the political arena (Berger, 1981).

Thus employers supported the Swedish social agenda in large part because strong social democratic party control and limited governmental veto points forced a stance of negotiation and compromise (Huber, Ragain, and Stephens 1993, Hacker and Pierson 2002).

Most scholars portray the US as notoriously open to special interests, although Smith (1999) takes the counternovel view that this representational system delimits business control because high-salicence issues upon which business agrees gain media attention and elicit citizen backlash.

Employers’ responses to European integration provide a great example of how state structures (and the changes therein) influence the perceptions and political participation of business. The constitutional structure of the European Union differs dramatically from that of many member countries, and firms have altered their patterns of political engagement accordingly. The move to the EU level has been easier for large firms than for small ones, as the latter have fewer resources to devote to politics; thus, employers have greater advantages over workers at the EU level than in member states (Coen and Dannreuther 2002, Coen and Grant 2001, Greenwood 2002, Sabatier 1998). The growing importance of the European Community in France (and increasing dependence of the French state on the European level) altered domestic business-government relations (Schmidt 1996).

The short-term strategic actions of government actors can also shape corporate preferences and initiate business mobilization (McConnell 1966, Walker 1983, Katzenstein 1978, Martin 1991, 1994, 2000). The state role in the preference formation and mobilization of employers has been quite strong in the United States, perhaps because both employers and government are so weakly organized and highly fragmented. Divided party control of the branches of government has increased institutional conflict and infighting among factions of government. Especially when state actors have activist goals and when institutional rivalry between parts of government is high, these actors may choose to build coalitions with corporate actors. Policy en-
entrepreneurs may cultivate a faction of business when they perceive a potentially shared interest; coalitions with private sector groups may be used to alter the balance of power in intra-state political infighting.

State-led coalition building has been vital to the articulation of business preferences in US corporate tax policy (Martin 1991). Groups have become most active in Washington in areas where governmental activity has been high; thus, expanding governmental activities have created incentives for companies to mobilize (Leech, Baumgartner, La Pira, and Semenko 2003).

Government has also played an important role in corporate preference formation in coordinated market economies. Coordination must be renegotiated, and the long-term viability of labor-management relation systems and other institutions requiring a high level of coordination depends on a continuous renewal of the political agreements underlying these arrangements. The state often plays a leadership role in this process (Swenson 2002).

In addition, this process of coalition-building has produced institutional developments in the organization of business; thus, state strategies can alter as well as build on long-term patterns of business-government engagement. Major periods of corporate mobilization in the US have occurred when state actors actively work to build the organizational capacity of business for electoral or legislative purposes. The Business Roundtable followed on Lyndon Johnson’s efforts to mobilize large employers in the 1960s (Martin 1994). Aggressive mobilization by the Republican party has been partially responsible for the coalition movement among major small business groups, which in turn has transformed these groups into a major political force in the United States today (Martin 1991, 2000).

The three blind men and the elephant

At the end of the day, a great many things would seem to matter to the formation of corporate preferences. How, then, does one make sense of this panoply of causal variables? Do passions, interests, or perceptions ultimately matter most to corporate engagement with the state? To what extent do the material characteristics of the firm constrain managers’ attitudes toward public policy, and to what extent is engagement with the public realm tempered by ideas and institutions? If institutions matter, which institutions are most significant to employers’ view of their interests? Who is providing leadership in the process? Are employers proactive or reactive in recognizing their interests and seizing the day?

By way of conclusion, I will make three generalizations about corporate preference formation.

First, institutions do, indeed, seem to matter, but their influence varies across policy areas. Napoleon’s view of human nature was rather jaded but undoubtedly true: men are more likely to fight for their interests than their rights. Corporate preferences are probably similarly ordered according to a Maslovian hierarchy; thus, the further an issue is from the company’s core profit-making activity, the greater the degrees of freedom in the construction of the firm’s interests. This logic does not deny the importance of social construction to the choice of competitive strategies; rather, it suggests that in areas such as social policy, firms have an even greater range of possible preference positions. We might expect the role of preference-shaping institutions and ideas to be more influential to companies’ views on social policy than on regulations connected to their core profit-making activities. Thus, while economic factors might have a great deal of influence on a telephone company’s preferences for telecommunications regulation, these factors might be less significant to the firm’s views of national health reform.

Second, institutions matter, but different institutions matter under diverse regime types. The divergence in approaches across the great Atlantic divide has some basis in reality. Scholars on our side of the pond tend to investigate firm-level economic and institutional determinants of interests, and British studies often join America in this pursuit. In comparison, continental European scholars seem more inclined to study national characteristics of business organization and competitive strategies. To some extent, this is because scholars of Europe are more likely to be engaged in cross-national comparisons than are specialists on the United States, who are generally unashamed and unrepentant about their areas study orientation.

At the same time, however, the emphasis on firm-level institutions in the US and corporatist national-level institutions in Europe reflects the differential influences of these types of institutional structures in the two regions. In my study of US employers, the firm-level institutional variable of the presence of a Washington government affairs department was significant to employers’ preferences for national health reform (Martin 2000).

In my study of the British employers, the firm-level institutional variable of the size of the human resources department was significant to employers’ participation in active social policies, while membership in a national level employers’ association was not relevant to the dependent variable.

But the reverse was true in my examination of Danish employers’ participation in active social policies: here, the firm-level variable (again size of the HR department) was not relevant while membership in the national employers’ association was highly salient to firm participation (Martin 2005). Processes of employer engagement with the political sphere seem to vary cross-nationally.

Finally, public institutions and policy entrepreneurs matter in addition to private ones. Marx said it well: the state acts as the executive manager of the bourgeoisie. Yet Marx was only partially correct: state actors do organize interests, but the characteristics and actions of the state influence how preferences are manifested. States vary, and these many permutations have enormous consequences for how employers engage in the political sphere. By
definition, public policy is not the primary business of firms; therefore, business managers tend to be reactive, following the lead of others in deciding to get involved with policy issues. For this reason, state structures and government policy entrepreneurs (as well as leaders in the labor movement) may be quite important to employers’ deliberations and mobilization. State structures set the terms for business engagement with public policy; state actors create alliances with corporate partners. Employers’ perceptions of the acceptable and the possible are altered in the process.

References for Chapter 3

Consider the Source!


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