

# CORPORATE POLITICAL AGENCY

*The Construction of Competition  
in Public Affairs*

Barry M. Mitnick  
editor

A SAGE  
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EDITION

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For Margy

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## *Acknowledgments*

This book began with a suggestion by Jim Post to think about writing a review of the literature on corporate political activity (a task not done here), and an invitation by John Mahon to contribute a paper on Edwin Epstein's *The Corporation in American Politics* to a symposium on Epstein's work at the Academy of Management annual meeting (a paper now included within a longer chapter in this volume). With principals such as these, it was hard not to try to be a perfect agent. Readers of agency theory know, of course, that perfect agency is rare. I am sure that applies here as well.

It occurred to me that some published and unpublished work I had done would fit nicely with some other research I had seen recently by others, including three who were or had recently been in our business environment and public policy group at Pittsburgh. Indeed, organizing work around the concepts of creating agency, competition among political agents, and the design of political agency seemed like a fruitful way to develop new insights about corporate political activity. And so the project evolved.

I have learned much from the contributors to this volume; they have proved nearly perfect agents for me. I am grateful for the assistance they have given me in assembling this collection.

I have also benefited from the assistance of a number of graduate research assistants over the years in which my sections of the book were written and revised. Most recently, these have included Mark Cordano, Martin Lewison, William Martello, William Oberman, and Curt Worden.

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I can give no thank you more than to Jenny, Jeff, Michael, and especially to my wife, Margy. They *are* my principals.

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## *PART I*

# *Agency and Competition*

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### *I*

## *Choosing Agency*

BARRY M. MITNICK

The central problem of politics is agency. Democratic systems of governance are populated with agents. They must be chosen, monitored, and, as necessary, instructed or influenced. Indeed, democracy itself is a system of competitions over whose agents will govern, and which goals of which principals those agents will seek to advance.

Thus corporate political activity may be seen, too, as a game of agents. Agents are created, or used, in corporate political activity for the same reasons agents are created in general: Because particular benefits are potential from governmental authority or action, as in regulation, and because firms either cannot perform the agency by themselves, find it efficient to have it performed by others, require the agency to coordinate their efforts with others in order to get the benefits, or need the agency to signal third parties.

The firm's problem becomes one of designing its agency, as well as its uses of agency in the political competition of which that agency is to be part. What choices of institutional setting are available, and on what basis can we choose among them? Shall the firm rely on an in-house capability or contract it out? Shall a trade association or



another external agent be used? If the firm employs public affairs managers, what alternative roles can they play? Should they employ the specialized expertise they possess on issues and means of advocacy to develop and implement solutions to the firm's public affairs dilemmas, or should they train other managers to deal with such problems themselves?

Given the choice of institutional setting for managing corporate political activity, what strategies and tactics may be selected to participate in the political competition? To what extent can firms manipulate the arena of competition, shaping the issues on the public agenda and subtly manufacturing agency without formal or overt means of control over the agents created? What is the range of strategy and tactic choice available and how is it influenced by available resources and environmental opportunities for strategic political action? How can the selection of corporate political tactics be appropriately customized for policy type, target type, policy process stage, specific agency problem, and contextual organization and industry conditions?

Finally, how can we assess whether the corporate public affairs activity selected actually worked?

Corporate political activity therefore incorporates complex problems of agency that range from the most general aspects of the democratic arena in which the competition among political agents occurs, through choices of institutional home, remote vs. direct control, conditional aspects of strategy and tactic choice, and monitoring of the political agent's performance.

The structure of this book mirrors the hierarchy of agency choice in corporate political activity. We go from the most basic concerns regarding the understanding of what democracy is and how we can modify its design to achieve the competitive system we desire to very practical concerns about whether the specific forms of public affairs activity chosen actually performed as intended. I know of no other work that has attempted such a comprehensive pass at corporate political activity.

### *The Literature on Corporate Political Activity*

Indeed, for a topic as old and as widely studied as corporate political activity (CPA), it is astonishing how little we know. This is especially true from the perspective of the firm or industry potentially involved in such activity. Corporate political activity has been the subject of attention in political science (e.g., much of the interest group literature, with

Bauer, Pool, and Dexter [1963] at the head of modern research in this area), sociology (e.g., Zald 1978; Laumann and Knoke 1987), business environment studies (i.e., by scholars in business school settings, e.g., Epstein 1969; Marcus 1984; Yoffie and Bergenstein 1985; Preston 1986; Wood 1986; Marcus, Kaufman, and Beam 1987; Yoffie 1987; Keim and Baysinger 1988; Quinn 1988; Mahon 1989), and even by economists (e.g., Peltzman 1976; Owen and Braeutigam 1978). Yet we still cannot explain why certain strategies or tactics are adopted under certain conditions (indeed, there is little *systematic* study of this), nor can we address the related prescriptive question of how firms, desiring certain outcomes under specified conditions, should organize themselves and should behave. This volume is addressed squarely at this fundamental question: Can we say something systematically about the *choice of political agency*?

There is, of course, an expanding literature of relatively recent vintage on public affairs departments and "issues management" (e.g., Sonnenfeld 1981; Marcus, Kaufman, and Beam 1987; see especially work done in the last decade or so by scholars at Boston University [e.g., J. Post, J. Mahon] and Texas A&M [e.g., G. Keim, B. Baysinger] on public affairs departments and on political strategies). Despite this, and despite a number of pieces listing and discussing a variety of political strategies and tactics and considerations in the corporate management of political action, nowhere can we yet find systematic and reasonably integrated treatment of the basic choice problems in political action: What possibilities for choice exist for: corporate structures; corporate political instruments, including tactics and strategies (and political arenas, targets, issue areas, etc.); corporate political action environments or settings; temporal differences across the public policy process; means for assessing the appropriateness of political action and for assessing political action effectiveness; and so on. It is not that work is absent in all of these areas; far from it. But we still lack the means to analyze the choice and design features of political action systematically.

Related to our concerns is an evolving literature on institutional and instrument ("tool") choice (key scholars include, *among others*, Salamon, Hood, Dubnick, Linder, Peters, Shepsle, Mitnick, Kneese, and the constitutional design literature, including Buchanan and Tullock; see references elsewhere in this volume). This literature focuses on the choice of governance structures, however, and *not* on the means to influence the activity that populates those structures.

One leading approach to the examination of social and institutional problems of intervention and control is the *theory of agency*. Widespread now in accounting, economics, and finance, work has also become increasingly common in organizational studies and the other social sciences.<sup>1</sup> The choice of political action may be considered a variant of the general problem of choosing and controlling agents. This volume will look at corporate political activity generally from the perspective of agency, though not all the chapters use the theory of agency explicitly as the central logic in their analyses.

### ***Outline of the Book***

We begin with a reformulation of democratic theory in terms of political competition in which the chief actors are usually agents. Indeed, I argue that the essence of a democracy lies not in its rules but in its competitions. What we seek by this test is a system that is *politically contestable*.

Perhaps the most extensive set of theories about corporate political activity is still in the classic analysis by Edwin Epstein, *The Corporation in American Politics* (1969). I extract and display these theories, which may someday become parts of theories both of the players (a *theory of corporate political advocacy*) and of the playing field and its refereeing (a *theory of competitive constraint* and a *theory of compensated competition*). Such theories would indeed begin to explain how political systems are or are not contestable, and how they can be made to be contestable.

To understand the objectives of use of political agents, we need to discuss the benefits, or at least the opportunities, that corporate political participation can provide. I therefore discuss the strategic uses of regulation (and deregulation), laying out these possibilities of benefit in the context of regulation.

Besides seeking to identify the political benefits, we must understand when those benefits may be most fruitfully sought via the use of political agents. Thus I present an analysis of the reasons why agents are used, with examples from the context of government regulation. While the application is to political agents, it should be emphasized that the rationales for employing agents that I develop here are perfectly general; they apply to all agency relationships, in any context.

Consistent with our perspective on political contestability and with certain earlier research (see, e.g., Mitnick 1980; see also Peltzman 1984; Weingast 1984) Gerald D. Keim and Barry D. Baysinger next sketch a model of political decision making featuring a competition to establish agency relationships in the system of political action. Legislators become the agents of competing constituent interests. The authors then discuss some conditions related to the firm's choice of the most appropriate political strategy to create such agency relationships. Of particular interest is the insightful way in which Keim and Baysinger observe parallels between the selection of corporate strategies in market settings and the selection of political strategies of competition.

The Keim and Baysinger chapter provides a bridge to the next section of the book, which is concerned with the choice of the most appropriate institutional setting, including the locale for performance of the public affairs function and the roles to be played by public affairs managers. In effect, we examine both structure and individual actor relations.

Allen M. Kaufman, Ernest J. Englander, and Alfred A. Marcus employ the transaction cost and theory of agency approaches to identify concerns relevant to the choice of whether to run issues management in-house or contract it out. Issue frequency and specificity (identified from an application of the transaction cost approach) and symbolic and collective action considerations (from the rationales for agent use in agency theory) potentially combine to suggest the appropriate venue for issues management. This is an innovative application of the transaction cost and agency approaches to an important applied problem in public affairs management, the selection and/or construction of optimal settings for advocacy. It begins to give a sound theoretical base to what otherwise might be ad hoc argument about organizational design for influence.

Applying the agent creation rationales (see above) to advisory relationships, I derive a general typology of advisory relationships that is then related to the behavior of public affairs managers. The types identified include modeling, problem solving, training, and risk reducing, depending on who solves the problem (adviser or client) and whether new expertise is transferred to the client. These types are also said to vary on a contentful versus symbolic dimension. The chapter also provides an inventory of the games that advisers, here public affairs managers, can play in dealing with clients.

The next section of the book addresses the important question of choice of macro-level strategies and micro-level tactics.

John F. Mahon employs agency theory with work on corporate political strategy, public agenda-building, and issues management, to discuss the *sculpting* of business environments to produce *manufactured agents*. Such agents are not formally servants of the firm's (or other actor's) goals but, rather, are created as agents via the subtle manipulation of the firm's environmental setting. Manufactured agents may not even be aware that they are serving in an agent role, and would certainly deny they are linked in any way to the firm, yet their agency can be critical to the advocacy success of their corporate (or other) principals.

Mahon's concept of manufactured agency is a major contribution not only to our thinking about political activity, but to the theory of agency as well. Corporate political agents, like agents in general, need not be formally structured. Unlike the concept of agency in law, the general concept of agency employed in agency theory does not necessarily require that the agent be acting under the orders of the principal. Agency in politics would surely be poorly expressed by a focus on the formal institutions alone.

Mahon presents a model of corporate political strategy and discusses the instigation of corporate political action and the choices of political behavior made. These relate to the choice of issue and the manipulation of the agenda, to the choice of arena for action, and to the choice of behaviors toward other social actors or stakeholders. Mahon also gives us a discussion of the choices of appropriate managerial strategies at the various life cycle stages of an issue.

William D. Oberman addresses the question of corporate political strategy and tactic choice, tracing the logic of what firms do when they select political action. Operating with a model of how choice occurs within a resource and institution-constrained environment, Oberman presents new typologies of political resources and political strategies (domain objectives). He links domain objectives with policy types preferred, and offers classifications of basic influence activities and collective tactics. While his approach uses logics from resource/institutional rather than agency analysis, the structure of his argument is quite consistent with the overall perspective of this volume. There are very few works in the literature that use a central theoretical logic (e.g., resource-based theory of the firm; institutional theory; agency theory) to move through the choice problem in corporate political action, from macro strategy to micro tactic or influence activity. Oberman's chapter is thus a significant stand-alone contribution to our thinking about choice in political action as well as, implicitly, another view about how agency and its choice occurs in corporate political activity.

Kathleen A. Getz's chapter, drawn from her award-winning dissertation (Getz 1991), takes a systematic look at the problem of selecting corporate political tactics. She develops an explicit theory of how this occurs, relating the targets of political activity (itself a complex typology based on four descriptors: authority, level, function, and access), type of policy (social, economic, political, and technological), issue life cycle stage (emergence, formulation, administration), agency problems faced by the actors involved in corporate political activity (knowledge, disposition, capacity, and effort problems), and contextual organizational and industry factors. Using a systematic analysis, she is able to identify the agency problems that occur for each of the major target types for each grouping of policy type with issue life cycle stage. She then offers another set of propositions, identifying the primary and secondary choices of tactic for each agency problem type.

Getz's analysis is a formidable attempt at moving from the lists that populate the literature—lists of targets for political action, lists of policy areas covered, lists of tactics and strategies, and so on—to real, testable, systematic theory. Furthermore, she builds her propositions and conducts her analysis using a consistent theoretical logic, that of agency theory. Readers may consult her dissertation (Getz 1991) and other papers for empirical tests of this theory.

In the last section, Craig S. Fleisher provides a pathbreaking analysis of the problem of assessing the effectiveness of corporate public affairs. It is one thing to make the apparently correct choice of corporate political tactic; it is another to know if it was indeed effective. Fleisher constructs and discusses a systems model for evaluating public affairs effectiveness. He also describes an exploratory study of public affairs effectiveness and lists a number of propositions suggested by the results of the study. Readers may consult his dissertation (Fleisher 1992) as well as his other papers for the results of his large survey (the largest, most comprehensive of its type ever done) on public affairs effectiveness.

## *Conclusion*

For too long, we have lacked systematics, cumulation, and good core logics in the research stream in corporate political activity. Though there is plenty of good, solid research in the area (e.g., see the references cited in several of the chapters to follow), the pieces have so far failed to link up; we still cannot answer the most basic questions about the

choice and conduct of corporate political activity. Ironically, the work that perhaps stands at the head of the flow of work in the area, Epstein's *The Corporation in American Politics* (1969), has been admired more for its insights than for the real theory it contains. It is time to start building the theoretical structures that, with empirical evaluation, will provide understanding of the central activity in the life of any democracy, the political competitions of its constituents.

I hope that this volume will create agents in the literature that must inevitably follow.

## Note

1. There are now several helpful reviews of agency theory available, though the reader is cautioned that most are incomplete or, in some cases, develop perspectives on the content and development of the literature that some scholars challenge. In part, this may be due to agency's crossing of disciplinary boundaries, with the consequent application of disciplinary blinders when assembling the literature and applying interpretation. Some of the major reviews include Baiman 1982; Moe 1984; Pratt and Zeckhauser 1985; Barney and Ouchi 1986; Perrow 1986; Shapiro 1987; Levinthal 1988; Eisenhardt 1989; Bettis and Donaldson 1990; Armstrong 1991; Sappington 1991; Mitnick 1992; and Bergen, Dutta, and Walker, 1992. There are others, some in the law reviews (e.g., Bratton 1989).

The original papers proposing a general theory of agency were by Ross 1973; Mitnick 1973, 1974, 1975; and Jensen and Meckling 1976. Earlier works by such scholars as Alchian; Alchian and Demsetz; Arrow; Marshak and Radner; Spence and Zeckhauser; Simon; Williamson; and others were important and made possible the independent proposals of Mitnick (1973) and Ross (1973) that a general theory of agency be developed. My 1973 paper cited Ross (1973) because it appeared while I was completing it, but the two papers were independently conceived. My work made the first extensive attempt to develop components of an agency theory in general, made the first applications in political science, and was the first to lay out a sociological/organizational approach in the area. Because most of the subsequent work in agency used the economics literature as prime source, the original status of my work is not widely cited.

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