



## The corporation as a political actor – European and North American perspectives

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### ABSTRACT

This article distinguishes two approaches to study the political role of corporations. On the one hand, North American scholars have primarily understood the link between business and politics through the lens of corporate political activity (CPA) looking at how firms influence government policy. On the other hand, European scholars have recently promoted an understanding of corporate social responsibility (CSR) emphasizing that firms often assume a political role because they increasingly provide public goods and become involved in multi-actor governance processes. This article contrasts both approaches and suggests that differences in the way the political role of corporations are understood can at least, in part, be explained by the distinct nature of European/North American management scholarship as well as by the political environment in both regions. It is also suggested that both perspectives share a number of commonalities and complement each other.

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### Introduction

Firms' non-market strategies have been discussed from various theoretical perspectives. In particular, the relationship between corporations and politics has attracted much scholarly attention. Two schools of thought seem particularly noteworthy. On the one hand, the corporate political activity (CPA) literature has emphasized that firms interact with governments in a variety of ways, for instance, by trying to influence policy outcomes. On the other hand, recent discussions in the field of corporate social responsibility (CSR) have highlighted that CSR should be understood politically, because firms increasingly provide public goods (e.g., education) and engage in business regulation, thus assuming state-like obligations. While North American scholars were at the forefront of developing the CPA approach (Baron, 2003; Getz, 1997; Hillman, Keim, & Schuler, 2004), European scholars have predominantly shaped the discussion around political CSR (Scherer & Palazzo, 2007, 2011; Whelan, 2012).

Of course, it would be an oversimplification to claim that only European scholars have contributed to the political CSR literature and that only North American scholars have added to the CPA debate, especially when considering that scholarly discourses increasingly transcend regional boundaries (Wagner & Leydesdorff, 2005), not to mention that the contours of both fields cannot be clearly identified. What I am arguing is that European and North American scholars have undertaken the *paradigmatic framing* of both

perspectives and that the majority of intellectual contributions to each approach come from Europe and North America respectively. Hence, a comparative perspective is helpful to set both approaches apart on a conceptual level.

Although political CSR and CPA share a common interest in studying the link between firms and politics, surprisingly little reflection has gone into exploring the relationship between both concepts (for a recent exception see den Hond, Rehbein, de Bakker, & van Lankveld, 2014). While the political CSR literature frames CPA as a “purely instrumental view of corporate politics” (Scherer & Palazzo, 2011, p. 900), it has not looked into the details of CPA scholarship. Exploring commonalities and differences between the two approaches is thus a worthwhile endeavor that allows us to better understand the ways in which scholarship in CSR and CPA can(not) interact with each other.

The objective of this contribution is twofold. First, I aim to show how both approaches to the study of corporations as political actors differ. I suggest that some of the key differences can be explained when contrasting the answers given by both approaches to two questions: (a) *Where*, i.e. in what settings, does the political engagement of firms take place? and (b) *Why* do firms become politically active? I argue that the differences can be explained, at least in part, by the characteristics of European/North American management scholarship as well as by the political environment in both regions. Second, I would like to make the controversial point that both perspectives share a number of commonalities and also complement each other. I use these insights as a springboard to outline a brief agenda for future research on the interaction effects between CPA and political CSR.

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## Political corporate social responsibility

There is not much consensus on what CSR entails as a theoretical concept (McWilliams, Siegel, & Wright, 2006). I use CSR as an umbrella concept that defines the responsibilities of firms towards their stakeholders and the natural environment that demonstrates how such responsibilities are operationalized (Waddock, 2008). Much of the literature on CSR is based on an economic view, emphasizing that social and environmental responsibilities should only be accepted if there is a strategic reason to do so (e.g., advancing the competitive position of a firm (McWilliams & Siegel, 2001)). According to Scherer and Palazzo (2011, p. 904), such a perspective assumes that there is a clear separation between business and government. Businesses should maximize profits, while governmental actors should assume responsibility for those issues that corporations cannot address due to their fiduciary responsibilities to shareholders (see also Friedman, 1970).

The political CSR approach acknowledges the limits of such an economic view under conditions of globalization. Governments can only protect citizens from corporate misconduct if they are able to regulate business behavior in their sphere of influence. Firms, however, increasingly manage global supply and value chains and are thus exposed to heterogeneous legal environments and social demands. This challenges the traditional division of labor between business and government (Scherer & Palazzo, 2011), as gaps in global governance restrict the ability of states to regulate adequately corporate behavior through judicial systems. Scherer and Palazzo (2008) emphasize in particular the role of regulatory gaps. Such gaps occur because the flexibility of (multinational) corporations to move production to countries with weak legal systems cannot be matched by nation states (whose power remains territorially bound) or international organizations (who lack enforcement capacity).

Gaps in global governance are not restricted to the regulatory dimension. Many global problems cannot be addressed because a number of other governance gaps exist (Weiss & Thakur, 2010, pp. 7–23). First, there are gaps in our knowledge about the nature, magnitude and solutions to a number of global problems (e.g., climate change; Bäckstrand & Lövbrand, 2006). *Knowledge gaps* are problematic, as sufficient consensual knowledge about an issue is a precondition for developing relevant policies. Firms, together with civil society organizations and state actors, can create discursive spaces where relevant knowledge can be collected, analyzed, debated, and disseminated (Rasche, 2012). Second, global governance is also hindered by lack of agreement on who can legitimately set global norms (i.e. normative gaps). Defining such norms is important, as they often “harden” into more binding regulations. Although the United Nations (UN) is perceived as a legitimate entity, it cannot simply introduce norms, as norms are dependent on being recognized as accepted standards. Finally, the imbalance between the scale of global problems and the resources and political authority attached to organizations intended to address them causes *institutional gaps*. Institutions like the UN often lack adequate resources and the authority to enforce existing norms and policies, for instance, when considering human rights. Firms increasingly provide resources to international organizations, for instance, through UN–business partnerships (Rasche & Kell, 2010), and thus indirectly assume a political role.

Political CSR emphasizes that firms become political actors due to the existence of such global governance gaps. Scherer and Palazzo (2011) summarize this perspective on the political role of corporations by arguing that “political CSR suggests an extended model of governance with business firms contributing to global regulation and providing public goods” (p. 901). Political CSR sharpens our attention to the fact that many firms have assumed state-like functions (e.g., in the prevention and treatment of HIV/AIDS; Valente

& Crane, 2010) and the fact that state and non-state actors are working together in the attempt to find solutions to governance challenges.

## Corporate political activity

The CPA literature looks at the interdependence of business and government from a different, yet also interrelated, perspective. Theories in the CPA domain rest on the assumption that governments are not following laissez-faire economic policies due to the provision of subsidies, price controls, entry barriers, and other interventions (Shaffer, 1995, p. 498). Such interventions increase environmental uncertainty. Consequently, firms have an incentive to develop “domain management” strategies – i.e., to use governmental interventions in a way that supports their own strategic objectives (Baysinger, 1984, p. 249). Getz (1997) defines CPA as “any deliberate firm action intended to influence government policy or process” (pp. 32–33). Other scholars highlight the ability (or inability) of firms to strategically adapt to government policies as an important topic in the CPA debate (Shaffer, 1995).

The CPA literature views business–government relations from a managerial point of view. It looks at how firms attempt to control their external environment by protecting and advancing their political interests, for instance, by lobbying policy makers, forming coalitions, and making contributions to political campaigns. Getz (1997, p. 55) suggests that firms engage in CPA because either they want to protect themselves from perceived environmental threats (be they real or anticipated), or they want to leverage opportunities in their relationship with government. Hillman and Hitt (1999) further distinguish between a transactional and a relational approach towards political action. The transactional approach is reactive in the sense that firms await the development of public policies in a specific issue area, developing short-term tactics to influence these policies. The relational approach focuses less on single issues, but stresses that some firms build long-term relations with relevant parties across issue areas, so that relevant contacts and resources are already in place when policies emerge.

Much research attention has been placed on the external and internal factors that influence the extent to which a firm engages in CPA. Lux, Crook, and Woehr (2011) identify three types of antecedents. First, CPA of firms depends, to some degree, on their institutional environment. For instance, the level of government regulation is usually seen to positively influence business’ political activity (Kim, 2008), while the extent to which a firm depends on public contracts (i.e., government sales) also positively relates to CPA (Boies, 1989). Second, market and industry-level factors can also influence CPA. For example, research has found that higher industry concentration (and, hence, more consensus regarding policy issues) stimulates higher levels of CPA, as there are more policy demanders with related interests (Yoffie, 1987). Finally, firm-level antecedents are also used to explain CPA. For instance, prior research shows that larger firms are more likely to engage in political action, e.g., because they possess more resources and also act as contractual partners for governments (Lux et al., 2011).

## Differences between political CSR and CPA

I explore differences between CPA and political CSR in light of two questions: (a) *Where*, i.e. in what settings, does the political engagement of firms take place? and (b) *Why* do firms become politically active? I suggest that differences between both approaches can be explained, at least in part, by the characteristics of European/North American management scholarship as well as by the political environment in both regions.

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