Working Paper 1

CONSIDER THE SOURCE!
DETERMINANTS OF CORPORATE
PREFERENCES FOR PUBLIC POLICY
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INTRODUCTION

Few topics are as essential to the study of business government relations as 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 nineteenth-century businessmen met union demands with violence or with cooptive 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. I suggest that much of the literature analyzing employers’ preferences (implicitly 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. Thus some scholars believe that a process of social construction mediates the reality of business managers, whom others find to be the most material of actors.
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 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 becoming a phenomenon of the past, as globalization and multinational 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. Where one stands on this issue has implications for whether one believes that the pattern of business/government relations is essentially constant across settings, or that employers engage with the state in a fundamentally different manner across nations. If one believes that the structures and agents of the state are an important source of corporate preference formation, one might also accept that systematic patterns distinguish employers views of public policy across regimes.

The following pages present a survey of the dominant literature on corporate preference formation, drawing as well from some of my own empirical investigations of these questions. Specifically the paper examines four types of causal variables: economic characteristics of firms and sectors, institutional capacities within firms, the institutional profile of national business associations (and other national-level institutional vehicles for firm coordination), and finally the characteristics of state agencies and entrepreneurs that seek to bring employers into the business of public policy making. The essay analyzes the strengths and weaknesses, contributions and omissions of each approach, and offers examples of empirical research in each tradition. The
issue of corporate preferences is closely related to the related issue of business mobilization; therefore, I also touch on the latter topic, though perhaps not as systematically as the former.

Of course in these types of surveys, one often finds 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, I conclude from a survey of the literature that institutions (and ideas) do seem to matter to the formulation of corporate preferences, although their impact seems to vary across policy areas. Not surprisingly, purely economic factors seem to tell more of the story in cases where policy is closely tied to the firms’ core areas of production. Second, I find that the appropriate level of analysis varies across settings. The biases toward investigations of the impact of firm-level institutions on corporate preference formation in the United States and national-level investigations in continental Europe reflect the varying causal significance of firm-level and national institutions in the two settings (Martin 2002a). Thus one size does not fit all. 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.

MONEY MATTERS: ECONOMIC STRUCTURE AND FIRM PREFERENCES

Albert O. Hirshmann (1977) captures centuries of social scientific inquiry into the nature of preference formation in a simple phrase: “the passions and the interests.” Interests-based investigations of company positions on public policy often find causality in the economic
characteristics of the firm, or structure of the industry to which it belongs. The economic model, underlying public choice and many pluralist theories, assumes that individuals are motivated by readily-apparent economic interests. Thus, managers should have stable preferences oriented toward firm profitability and grounded in the economic structure of their firms and industries. Although managers generally resist regulations along with other claims on profits, companies may be supportive of or at least less hostile to policies that hold special benefit for them, for example, that improve their market position vis-a-vis their competitors.

The economic approach assumes that decisions to engage in collective political action are made by rational individuals who calculate the costs and benefits of such action. Satisfying individual concerns is easier than organizing for broad collective concerns, because non-participants in collective struggles can enjoy the benefits of collective action without paying the costs and have reason to opt out of the group effort. But mobilization in support of collective issues can occur when self-interests can also be gratified through selective side benefits, or when firms have fairly concentrated interests in their area of economic production. A large firm may assume the costs of political action without side benefits, if it expects to receive so much from the collective outcome that it is willing to bear the entire costs itself (Offe). Thus industrial sectors with a few large firms are more likely to organize politically than those with many small companies (Olson, 1971; Stigler, 1971). Because political mobilization in any policy area typically involves those with the most narrowly-focused interests and producers have more focused interests than consumers, producers are more willing than consumers to dedicate resources to influencing public policy.

Scholars conducting empirical studies in this tradition deduce companies’ preferences from the industrial structure of the firm. For example, Porter's seminal work on firm competitive
strategy analyzes five competitive forces: the threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products, rivalry among existing firms. Competitive forces vary across industries and strategic firms must take each of these competitive forces into effect.

Political strategy constitutes a subset of economic behavior: industries without many barriers to entry may ask for policy protections to keep out new entrants such as trade restrictions. Public policy may also help companies to improve their competitive advantage, by enabling firms to increase their market share, and to increase bargaining power with suppliers, customers and workers (Gale and Buchholz, 34-5). Thus Gordon suggests that employers developed private pensions in the twenties to reduce labor militancy (i.e. the bargaining power of their suppliers) and desired a national social security system in the thirties in order to impose costs on their competitors. Grier et. al. (1994) find that firms with greater contact with government agencies (either as regulators or as purchasers of goods and services) were more likely to contribute to campaigns (See also Masters et. al, 1985; Mitchell et. al., 1997). I found that sales to the government also made British companies statistically more likely to participate in the Blair New Deal initiatives (Martin, 2002a). Employers’ preferences for corporate taxation have also been shown to reflect firms’ industrial structure (Salamon and Siegfried; Jacobs, 1988; Williams and Collins, 1997).

The economic view of preferences has also been used to explain national policy changes. In this tradition, Kurth and Gourevitch have identified industries' tariff positions according to their positions in the product cycle. Ferguson (1984) has shown how shifting blocs of major investors have engineered major transformations in the course of American public policy and critical realignments in the party system. Business historians have developed an economic-
interest based theory to explain corporate support for welfare state development. Firms might support social policies in order to impost costs on their competitors (Gordon), to appease labor (Ferguson, 1984), or to frame policies in their own terms (Craig and Jenkins, 1989).

The literature locating firm preference in the economic characteristics of the industry or firm has made an important contribution in helping us to understand that corporate actors often do not coalesce around a class position in a given policy area. Rebelling against early characterizations of business as a unitary capitalist class or a structural power constraining the state (Mills, 1956; Lindblom, 1977); these scholars have offered much to our understanding of employers’ involvement with public policy in emphasizing the multiplicity of views and interests in the corporate world. Yet critics have attacked the economic view of corporate preferences as paying too little attention to the processes by which interests are formulated. For example, business historians have contributed much in documenting corporate liberals’ counterintuitive support for Keynesian economic and social policies (Collins, 1981; Wiebe, 1967), but they have been less persuasive in explaining why firms with the same objective circumstances present such different interpretations of their interests. Firms like other groups of individuals often have a multiplicity of objectives and should be viewed as having conflicting and ambiguous interests that are subject to a certain amount of social construction (Thompson, 1982, p. 233). Although a firm's primary goal may be to maximize profits, many intermediate goals may influence profit maximization and the relationship between action and outcome is looser than an economic reading would suggest (Fligstein). There is also often goal conflict over the best means to the ends. Decision making almost always occurs under conditions of bounded rationality in which full information is not available (Cyert and Marsh; Powell and DiMaggio, 1991).
In addition, because the economic approach rests on methodological individualism, it cannot survey forces with transcend the individual unit of analysis. Yet if one assumes substantial indeterminacy in the range of possible policy preferences, social context becomes critical to understanding the precise definition of interests and formation of policy preferences by business (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. The premise of methodological individualism prevents theorists from analyzing fully the social and ideological structures which set the context for rational action.

INSIDE THE COMPANY: THE FIRM’S ORGANIZATION AND PREFERENCES

Some of the criticisms of the economic view of interest formation have been addressed by those who emphasize the role of ideas and institutions in shaping managers’ preferences. Beginning with the insight that even firms with very similar economic structures do not always behave in like manner, scholars have set out to examine the strategic choices made by firms in their corporate mechanisms for control, organization of resources for production, and in conceptions of what produces growth.

This literature arguably begins with Coase, who realized that firms and markets are in a sense functional equivalents: both are mechanisms for organizing economic coordination. Williamson (1975) build on Coase's insight by identifying two constraints against coordination by markets: opportunism and bounded rationality. Firms developed out of the need to deal with these transaction costs, and decide whether to coordinate production in house or to buy on the market (See also Cyert and March.) Best criticizes the standard neoclassical explanations on two grounds: the idea that price perfectly allocates resources rules out strategy, and the interest-based
view of motivation rules out beliefs and norms. Penrose pointed out that important institutional permutations at the firm level deliver very different competitive strategies – the “inside value of productive service” is unique to each firm. This has important ramifications for competitive and political strategies, because it suggests that a number of alternatives will be equally appropriate. Child (1972) pointed out that choice of organizational forms is enhanced under conditions of complex and changing messages from the external world; organizational forms proliferate to cope with bounded rationality.

Much of the literature on corporate political activity recognizes the role of strategic choice, and sets out to identify sources of firms’ choices about political action. Thus Hillman and Hitt (1999) identify a range of decisions about political engagement and the factors influence companies’ deliberations at each level. In deciding among political strategies Yoffie (1984, 45) suggests that the “political entrepreneur” firm looks for opportunities in the political environment even if these opportunities are not in the firm’s main line of business (and one could not predict company involvement on the basis of its economic characteristics). Engagement with key politicians helps firms to build political capital for issues they feel strong about in the future. The strategic choice literature has gotten us away from the oppressive over-determinism of economic structure. Yet it leaves unanswered questions about where choices come from, and the source of information and collective structures that underlies choice (Granovetter, 1985). Mintzberg and Waters (1985) suggest that the concept of strategy overemphasizes explicit goals and under emphasizes patterns. Strategy also suggests a neutrality that is often lacking, as goals reflect underlying power relations (Knights and Morgan, 1991).
Insights about the role of strategic choice in shaping employers’ preferences are connected to two other research traditions – one emphasizing the institutional capacities within firms for engaging in political action and the other examining firm path dependencies.

First, institutional views make very different assumptions about 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 1990). 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 and forces transcending individuals shape political preferences. Thus institutionalists examine the organizational characteristics that matter to preferences.

An important institutional development that has heightened understanding of policy issues and increased political participation among U.S. firms has been the professionalization of the government affairs function (Post et al. 1983, 135-150). Government affairs departments were originally developed to fight the new social legislation of the seventies (Baysinger 1984, 248-258). But these units subsequently increased collaboration between business and government, as public affairs personnel tended to be policy experts who 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; Harris 1989, 261-286; Martin, 1995, 2000; Schuler, 1999). Thus the public affairs functions that first developed to protect the autonomy of the firm have now become the major locations for intercourse with government. One finds a similar development in Europe with the expansion of human resource departments at the firm level (Rhodes, 1998; McCartney and Teague, 1997).

Companies’ positions on complicated policy issues in part depends on the firms’ internal organizational capabilities for gathering information and deliberating about public policy. In the realm of social policy, I have argued that the presence of this alternative viewpoint challenges the usual corporate ideology and offers an alternative frame for social problems (Martin, 2000). Ideology, by definition, lacks nuances and simplifies experience whereas knowledge introduces complexity. Assuming that most business managers begin on the ideological right, a less-ideological, more technical assessment of issues should move them to the political center. Companies with a strong role for policy expertise have different preferences from those that lack this policy-evaluation capacity. Thus having a Washington government affairs office was a significant determinant of a company’s taking a position in favor of national health reform (Martin, 2000). In similar fashion Handler and Mulkern found that 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. Human resource professionals have also been important in bringing U.S. companies to comply with equal opportunity regulations (Sutton et. al., 1994, pp. 944-971). Similarly in British firms, the size of the human resources department was statistically significant to employers participation in the New Deal programs to provide jobs and
training to the long-term unemployed (Martin, 2002). Coen and Dannreuther argue that the existence of organizational capacity in the form of government affairs departments has vastly enhanced the efficacy of large employers in lobbying for their interests within the European Union (Coen and Dannreuther, 2002).

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, p. 47-84).

A second research tradition that builds on the insight that firms make choices in strategic action is one analyzing the path dependencies created by strategic choices of companies. Investigation into the power of path dependencies invariably point out that choices and strategies agreed upon at one point in time create legacies for future perception and action (DiMaggio). Thus in studying governmental policy making, scholars have argued that choices made at critical junctures establish institutional arrangements that lock in subsequent choices. Prior choices have policy ratchet effects, in other words they ratchet up the commitment to a chosen alternative, making future deviation from this alternative more difficult. An adaption 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, 2000; Huber and Stephens, 2001).

Business scholars have used arguments about path dependency to explain corporate strategies and preferences (Hacker, forthcoming). In this vein Miles and Snow (1978) suggest that organizations create their own environment to a certain extent with the strategic choices made by managers. 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, which is often too late. Policy legacies can have a negative impact on strategy as well as a positive one: thus I found that 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 (Martin, 2000).

Policy legacies can explain change in corporate strategies over time as well as continuities. Suarez (2001) has used the concept of policy legacies to investigate why companies have pursued such diverse strategies to influence the legislative fortunes of the “possessions tax break” at different points in time, when firm interests in this measure have remained essentially unchanged? She argues that managers succumb to the same sorts of dysfunctional patterns that military analysts thrive on: fighting the old wars, basing action on the rules of past engagements. Firms learn from their prior mistakes, but these lessons are often out-of-touch with current political conditions.
Path dependency arguments have also been used to account for employers’ contributions to national trajectories in public policy. For example, business historians have emphasized the role of early jobs-based social benefits in shaping both the subsequent preferences of employers and developments in public policy. 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, Weinstein, Jacoby). Berkowitz and McQuaid (1988) argue that the social security system grew out of these private pension plans, and Beth Stevens has suggested that the “shadow welfare state” challenges the notion that the U.S. has a limited welfare state (see also Hacker). Martin Rein argues that the contemporary movement of corporations into social service delivery has further eroded business class hostility.

Investigations of firm-level institutional determinants of corporate preferences have been criticized as insufficiently accounting for collective shifts in corporate sentiment. Employers often move in tandem, thus individual firm strategies may often be driven by larger movements within the business world. In addition, the pattern of political engagement found among corporate actors sometimes defies the expectations of both economic and firm-level institutional analyses. For example, I have argued that the small business lobby in the United States is if anything even more involved in many policy areas than large firms. Yet 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 is because large firms have more concentrated interests and because it is easier for sectors with a few large firms to organize; in the latter, because large firms are more likely to develop government affairs offices and other institutional capacities for policy expertise that enables them to secure benefits from the policy landscape.
GROUP THINK: EMPLOYER ASSOCIATIONS AND FIRM PREFERENCES

Another tradition of scholars have aimed their investigations on the broader, collective forums that bring individual firms to collective reconsideration of their interests. These scholars look beyond firm-level organizational patterns to broader networks and organizational forms of business representation that can account for important cross-national and cross-regional differences in the policy preferences of employers.

Sociologists such as Powell and DiMaggio, Laumann and Knoke, Mizruchi, and Fligstein (1990) have used network analyses to analyze employers’ preferences: they argue that firms’ positions within networks matter to their political preferences and in this way illustrate the importance of groups to corporate deliberations. Diverging from an older generation of sociologists’ emphasis on the social connections between elites, these scholars look to other “mediating mechanisms” by which class unity can be socially constructed: kinship, firms’ sector links such as overlapping directorates, and political organizations. For example, Fligstein (1990) suggests that the firm’s position in its institutional network of organizations (what he calls the organizational field) explains its choice of strategies. 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 100 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. Mizruchi finds that the social structures in which companies are located influence
the firms’ political action campaign contributions. Firms positioned in the center of their institutional networks exhibit mainstream political behaviors. Thus networks and groups not only represent their members’ interests, but also shape their preferences (Turner, 1982, p. 21, 27; Grimm and Holcomb 1987, 105-118).

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, these corporatist associations help their members to support collective goods by focusing participants’ attention on their broader, shared concerns. Corporatist peak associations bind firms to negotiated decisions, bringing members to trust that they will not be punished for committed to longer-term goals. 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. Members do not have the luxury of leaving and joining another group, should the association not satisfy narrow policy demands, thus giving the association the power to unify corporate preferences (Crouch, 1993; Katzenstein, 1985; Lembruch; Rothstein, 1988; Streeck; Schmitter; Visser and Hemmerijck). A corporatist organization of employers also strengthens business links with policy makers in government and in the labor movement; for example, labor unions have been important to the development of employers’ social preferences in Scandinavia and elsewhere (Thelen, 1993; 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 U.S. 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; Streeck and Schmitter, 1985; McKeown, 1994). Consequently, countries with encompassing employers and labor organizations are more likely to produce collectively beneficial outcomes than those without such groups (Wilensky, 1976; Kendix and Olson, 1990; Lijphart and Crepas; Streeck and Schmitter, 1985, Crouch, 1993; Hicks and Kenworthy, 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, for example, achieving wage and price restraints in exchange for stable employment and non-inflationary growth (Henly and Tsakalotos, 1992, p. 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 (e.g. in lockouts), and control of conflict funds (See also Crouch, 1993; van Waarden, 1995).

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 weak or divided business led to greater social provision 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 are significant determinants of total social welfare effort in 15 developed democracies between the 1970s and 1990s. Several features of employer organization are also positively associated with national resources devoted to active labor market policies in the late 1980s to mid-1990 (Swank and Martin, 2001).

Some argue that the emphasis on national characteristics is ill-suited to address subnational variation, and have examined the groups and networks that are important within sectors or policy areas. Policy communities 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). At the policy level one may find dynamics that contradict national patterns (Wilks and Wright, 1987; Jordan, Coleman and Jacek, 1989; Hart, pp. 255-300; Campbell et. al; Coleman and Grant, 1985, pp. 3-28; Cawson, 1985; Grant, 1989; Soskice). For example, Martin (2000) notes that in some U.S. policy areas are broad-based 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. Sector trade associations also influence firm preferences in public policy, since the type of organizing institution at the sectorial level shapes political relations within the industry (Atkinson and Coleman 1989, 47-67; Campbell, Hollingsworth, and Lindberg 1991). Regional networks also have an impact on companies choices about their economic competitive (Sabel, Herrigal, Saxenian).
Despite important contributions, corporatist reflections on corporate preferences suffers from several limitations. Corporatist investigations traditionally have focused more on employers’ collective action than on preference 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 decision making.

Peak associations at the national level seem to be under attack even in the old strongholds of corporatism, thus it is not clear how important the old patterns remain (Sandholtz and Zysman. 1989). The pressures of globalization, technological change, European integration, and growing regional identities may be eroding the distinctiveness of national political systems of interest intermediation (Henley and Tsakalotos, 1992). Globalization may (or may not) make it more difficult for coordinated market economies to sustain social provision (Swank, 2001; Kitschelt et. al, 1999; Esping-Andersen, 1996; Iversen, 2001). Technological change has made labor is becoming more diverse, creating a growing divergence between skilled and unskilled, and public-sector and white-collar workers (Lash and Urry, 1987; Longstreth, 1988; Lange et. al, 1995; Crouch, 1990). This diversity 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 acknowledged (Wallerstein, Golden, and Lange 1997, p. 383; Thelen, 1996; Crepaz, 1992; Perez, 2000; Due et. al, 1994).

Corporatist forms of interest intermediation may also be losing ground in public policy negotiations (Streeck and Schmitter, 1991; de Swaan, 1992, pp. 33-51; Sandholtz and Zysman,
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 counterparts at the national level (Rhodes, 1995; Coen and Grant, 2001; Greenwood, Grote, and Ronit, 1992; Greenwood, 1997.) Many companies (especially multinational ones) seem to be developing their own firm-level capacities to analyze public policy (Coen, 1997).

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 those outside of the firm, one must determine whether associations at the regional, sectoral, or national level matter most.

A recent strand of neo-corporatist writing, the varieties of capitalism literature, suggests that employers associations are only one institution that is important to shaping employers’ attitudes toward social policy. Broad connections link social welfare regimes, firm strategies for economic competition, systems of labor-relations, employer associations, and methods of financing and corporate governance, and companies preferences for policy are reinforced by the tight coupling between these desperate spheres. In coordinated market economies the supportive labor-management relations and high levels of social protection tend to encourage both labor and management to develop close economic cooperation, increase long-term investment in skills, and enhance productivity. Employers realize that in addition to deriving economic advantage from physical and factor components, 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 available to them. Alternatively, in liberal market economies such as the United States, labor-management relations tend to be contentious,
neither workers nor employers have much incentive to invest in skills, and competitive strategies entailing a high-skilled, productive workforce are discouraged. Scholars generally assume that it is extremely difficult for nations to alter their model economies once in place and that the persistence of policy in one sphere reflects the constraints imposed by deep linkages to other spheres (Hall and Soskice, 2001; Visser and Hemmerjck, 1997; Manow, 1998; Coates; Hays; Ebbinghaus; Estevez-Abe; Mares; Culpepper; Wood; Regini, 1995; Huber and Stephens (2001), and Kitschelt, Lange, Marks, and Stephens (1999b).

This research makes an important contribution in recognizing the wide range of institutional factors that contribute to economic development, but the stylized discussion of firm preferences within regimes is overly deterministic. Within national models of production is much diversity. Sectors vary enormously in competitive strategies (depending, for example, on the necessary skill levels of workers) and even individual firms within sectors may choose vastly different routes to productivity. In fact, managers are aware of the drawbacks of various models of production and of the connection between government policies and economic strategies; consequently, managers struggle to change the policy context. Yet the theory does not provide us with a political model to evaluate these struggles between competing factions.

THE EXECUTIVE MANAGER OF THE BOURGEOISIE

Thus far we have assumed that employers have decided to participate in active social programs more or less at their own initiative, yet this perspective ignores the role of the state. The state influences in both long-term structural and short-term strategic ways the formation of business preferences (and participation). 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 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 (Coleman, 1988). When access to government deliberations is limited, managers must discipline themselves to achieve success in their few opportunities for input. Thus Huber, Ragin and Stephens (1993) believe that 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. Features of the U.S. party system contributed historically to the fragmentation of business organization: the system of two-party competition combined with early suffrage and the sectional division of parties worked against the emergence of class-based parties (Martin, 2002b). Most scholars portray the U.S. as notoriously open to special interests, although Smith (1999) makes the counterintuitive view that this representational system delimits business control because high-salience 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 (Marks, Rooghe and Blank, 1996). The move to the EU level has been easier for large firms than for small ones, as the latter have had fewer resources, in addition, employers are over-represented in EU lobbying, compared with their proportion of political participation at home (Coen and Dannreuther, 2002; Coen and Grant, 2001; Greenwood, 1997). The increasing
dependence of the French state on the European Community altered its relationship with its own domestic business interests (Schmidt).

In addition to formal constitutional structures, governmental rules about business involvement in the policy making process shapes both the organization of private interest groups and the engagement of these groups in the political arena (Berger, 1981). Thus states in corporatist countries formally recognize peak employer associations as the legitimate representatives of their members, bringing business into the policymaking process and binding employers to policy outcomes (Lembruch, 1984; Rothstein, 1988).

Policy legacies also have an impact on the organization of business and on the preferences of employers. There is now a broad consensus that policy innovations are largely defined and constrained by the past, in other words policy is path dependent. Choices made at critical junctures establish institutional arrangements that lock in subsequent choices. An adaption 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, 1996; Swank, 2000).

Employers’ preferences are also shaped by policy legacies, because patterns of public policy divide interest groups in subsequent political battles. Thus the U.S. mixed system of social provision with participation from both the private and public sectors means that the interests of both employers and the general public will be more diverse than they are in countries with universal programs (Rein, 1997; Hacker and Pierson). For example, many large American employers desired a comprehensive reform of the health financing system in the early 1990s;
however, they resisted reforms that would diminish their own company programs (Martin, 2000; Hacker, Forthcoming).

The short-term strategic actions of government actors can also shape corporate preferences and initiate business mobilization (McConnell, 1996; Walker, 1976; Katzenstein, 1978; Martin, 1991, 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 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 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 U.S. corporate tax policy (Martin, 1991). Yet Thelen maintains that the state 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 (Thelen, forthcoming; Swenson, forthcoming).

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 upon long-term patterns of business-government engagement. Major periods of corporate mobilization in the U.S. have occurred when state actors actively work to build the organization capacity of business
for electoral or legislative purposes. Thus the National Association of Manufacturers was partially created at the behest of William McKinley to help with his electoral campaign (Martin, 2002b). The Business Roundtable followed on Lyndon Johnson’s efforts to mobilize large employers in the sixties (Martin, 1994). Aggressive mobilization by the Republican party has been partially responsible for the coalition movement among major small business groups, that 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 are proactive or reactive in recognizing their interests and seizing the day?

By way of conclusion, I will advance three generalizations about corporate preference formation, that I believe largely to be true. 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 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 across settings. 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 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 U.S. 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 U.S. 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 2002). Processes of employer engagement with the political sphere do seem to vary across regions.

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 agency creates alliances with corporate actors. Employers perceptions of the acceptable and the possible are altered in the process.
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1 This may be thought of as parallel to the insights of polity-centered theorists’ conclusions about governmental action depending on the institutional capacities of states to produce and to implement successfully certain kinds of public policies (Skocpol 1985).