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# Corporate political resources and the resource-based view of the firm

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Several authors looking at firms operating in regulated markets or, more generally, attempting to influence public policies, argue that a critical aspect to consider is whether these firms possess specific political resources; i.e. a set of unique political assets and skills that might prepare these firms to participate in policy debates, face the rivalry of competing interest groups and shape policy decisions (Boddewyn, 1994; Dean and Brown, 1995). Similar to the resource-based view (RBV) of the firm, which holds that a firm's resources that are rare, inimitable, non-substitutable and valuable may result in sustained competitive advantage (Wernerfelt, 1984), it has thus been argued that firms, in many cases, should also develop political resources with similar attributes. Baron (2003) argues, for instance, that 'nonmarket assets, and the competencies that flow from them, can give a firm a nonmarket advantage. Distinctive competencies and firm-specific nonmarket assets generate value as a function of how costly it is for market and nonmarket rivals to replicate them' (2003: 42). A similar proposition can be found, in different forms, in Dahan (2005), Keim and Baysinger (1988), Maijoor and Van Witteloostuijn (1996), Oliver and Holzinger (2008) or Wei (2006), suggesting that the RBV can be applied in a straightforward manner when it comes to studying corporate political resources.

In this essay, I challenge this proposition and argue that important modifications to the original RBV analysis need to be considered to really develop a theory of political resources and why they matter for firms. Rare, inimitable and non-substitutable resources certainly exist in political environments; however, I show that these criteria are not necessary conditions for political resources to matter and that other criteria are in fact as important, or even more important, in political environments. In fact, building a theory of firm political resources probably needs to start with a good theoretical understanding of the specificities of political arenas rather than with an attempt to directly extrapolate from the RBV as used for economic arenas.[1]

The first two sections that follow summarize the problems with a pure RBV view – and particularly its focus on hard-to-imitate resources[2] – for political arenas, both at the empirical and the theoretical level. The last section offers directions which, I think, could set future research on a more promising path.

## The resource-based view and what we know empirically about political activities

One way to approach the issue at hand is to explore whether the RBV framework, as it has been developed for economic environments, can provide new explanations about what has been observed, empirically, regarding firms' political activities. This analysis reveals an awkward fit between a straightforward application of the RBV framework and what we know about corporate political activities. For instance, empirical works show that politically active firms invest significant amounts of money in political activities, especially through lobbying or campaign contributions (Milyo et al., 2000). Hence, none of these activities are based on hard-to-imitate resources, even though they can lead to profitable outcomes. Consider the case of US sugar producers highlighted by Stratmann (1991), in which a '$3,000 sugar PAC contribution maps into a yes vote with almost certainty'. Without sugar industry contributions, the final vote on the sugar amendment to the 1985 agriculture bill would have been 203:210, effectively ending the sugar subsidy. With contributions, the subsidy survived: the final vote was 267:146.

Similarly, De Figueiredo and Cameron (2006) reported that, at the US federal level, annual lobbying expenditures in the late 1990s totalled US$1.5 billion, a large portion of which was derived from firms. Obviously, these expenses relate to the use by firms of external lobbyists or communication agencies, a practice that is also commonplace for many businesses (De Figueiredo and Tiller, 2001). Hiring external lobbying services, however, cannot be classified as the development of hard-to-replicate resources, since any firm can use these services.

Another type of political behaviour commonly observed in the empirical literature is participation in industry associations (McGrath, 2003). Again, this kind of membership can hardly be categorized as a hard-to-replicate resource or even a resource that is very specific to the firm. Any firm with some connection to the industry and a willingness to enter this association will probably be allowed membership. Firms that find their industry association provides access to sufficient political resources may find it unnecessary to develop their own political resources. Again, this is a puzzling result from the perspective of the RBV. Answers to this question have already been proposed, of course – especially the capacity of collective action to affect public policy decisions and the strength of industry associations in solving free-rider problems (Olson, 1965) – but are unrelated to the idea of hard-to-replicate political resources.

There are in fact few examples of firms in the literature that have succeeded in political arenas because their political capabilities were difficult to imitate. The closest element to the straightforward RBV argument in the empirical literature relates to political connections. As argued by Faccio (2005), having former politicians on a firm's board of directors or part of the organization seems to have a significant effect on the firm's ability to obtain favours from governments. These are certainly resources that might be hard to imitate for competitors. However, are the imitability criteria really the reason why political connections matter? The answer to this question is far from obvious, as many different arguments could be made as to why political connections might help firms in political arenas (Hillman, 2005).

## The resource-based view and theorizing regarding firms' political strategies

Issues with a straight application of the RBV to corporate political activities are not limited to empirical observations, but extend to theoretical arguments. The RBV assumes that firms compete against other players in political environments as they would do in traditional economic/market environments. This starting point, in fact, fits well with the long tradition of research in Public Choice and Institutional economics which has modelled the relationships between public policymakers and economic actors as a market (Buchanan and Tullock, 1962; Mueller, 2003; Stigler, 1971). Building on this, Bonardi et al. (2005) develop a framework explaining why and when firms, as potential demanders of public policies, will decide to engage in political activities. In this framework, politicians exchange policy favours for resources from organized interest groups to improve their electoral prospects. Valuable resources can include votes from supporting interest groups or other resources, such as financial resources and information, which can indirectly influence election outcomes (Hillman and Hitt, 1999).

When firms' political activities are modelled this way, however, several theoretical problems with the RBV claim emerge. First, in political markets, suppliers of public policies (e.g. politicians and bureaucrats) will not benefit from competition among demanders in the same way that actors in economic markets will benefit. In effect, a critical dimension of competition in economic markets is to foster differentiation, especially through innovation. Consumers have many different objectives when they buy a certain product, which explains why differentiation and innovation can be so valuable. Hence, hard-to-replicate resources play a crucial role in the success of a firm. In political markets, on the other hand, policy-makers are highly constrained by their re-election objectives. To achieve re-election, politicians need to obtain certain benefits, such as vote promises or financial support, from demanders of public policies. In other words, the most valuable benefits that firms or interest groups can provide to policy-makers, in the context of political market competition, are not differentiated products but rather relatively homogeneous sources of support. Quantity or volume might therefore be more important in political markets than differentiation or innovation.

In a similar vein, another characteristic of political markets that makes them radically different from economic ones is their stability. Democratic institutions define the rules of the game played in political markets and are designed to provide stable political systems (Shepsle and Weingast, 1981). Changes in the political landscape are therefore much less frequent and less rapid than in markets in which firms constantly compete on new products and innovations. Hence, innovation and market dynamics are critical elements of the logic supporting the RBV.

Another characteristic of political markets is that the items being offered on these markets, i.e. public policies, often have public goods characteristics: even if actors have not engaged in lobbying activities, they will benefit from the adopted policies. If there is competition, it will often be among industry associations, competing for policy-maker attention, rather than among individual firms.

Last, political markets are characterized with much variety regarding potential demanders of public policies. Whereas in economic markets the focus of the competitive game is among firms, competition in political markets is much more diverse. Firms can sometimes compete with other firms, but will often have to deal also with consumer interest groups, environmental activists, unionized employees, etc. In this context, it is rather unclear whether one actor's ability to imitate the resources of another actor is what determines the end result of the competitive game. The real difficulty, at the theoretical level, is in fact to find ways of comparing the relative effectiveness of resources provided by players of totally different natures (Bonardi and Keim, 2005).

To summarize, and despite the appeal of a direct application of the RBV logic to any competitive setting, several empirical and theoretical problems emerge when one tries to apply this logic to political environments and firms' political strategies. For future research to stay focused on this direction is not only ill-founded, but also would prevent authors from looking at important questions that are in fact pending regarding firms' political strategies.

## So, where do we go from here?

Clearly, the arguments developed in the preceding sections do not imply that political resources cannot be a useful concept to study corporate political activities. In fact, recent empirical results suggest that explanations based on the concept of resources could bring fruitful insights to the study of firms' corporate political activities. For instance, Martin (2000), in her study of US health policies, suggests that firms develop specific political resources – which she calls 'capacity' – and that these resources lead firms to different policy positions and different political strategies altogether. Similarly, Bonardi et al. (2006), looking at US utility firms and their ability to influence regulatory decisions suggest that these firms have different degrees of ability, experience and reputation, and that these matter. In the same way, Holburn and Zelner (2010) show that the political capabilities developed by firms in their home environment can be used when they enter international markets. These findings are consistent with the idea that there is a large heterogeneity among firms regarding the assets they can use in political settings, as well as the knowledge and skills some of them possess (Henisz, 2003). So, the question remains: How should the traditional RBV framework be adapted to allow for a real exploration of the nature and role of corporate political resources?

My core proposition in this essay is that future work on political resources needs to be strongly anchored in a theory of how political environments work. There are in fact different theories that might qualify there. Among these, various sociological or political science approaches such as Krasner (1972), March and Olsen (1989), or Landy and Levin (1995) could provide rich insights. In this essay, however, I focus on an economic approach based on the concept of political market (Buchanan and Tullock, 1962; Stigler, 1971), which I think is particularly well suited since, like the RBV, it puts the emphasis on competitive and supply–demand dynamics.

Note that my goal here is not to fully develop a theory of corporate political resources building on the concept of political markets, but rather to give some primary directions to encourage future research. These directions are summarized in Figure 1, which considers a basic political market representation involving a focal firm requesting a policy change and competing against various other interests, and several suppliers of public policies (politicians, regulators, bureaucrats). As is now traditional in this type of set-up, the firm can use campaign contributions, votes or information to try to push the policy change in its favour. So, where are the opportunities to leverage the concept of political resources? Five boxes can be found in Figure 1 corresponding to various avenues that are worth exploring.

## *1. Nature of political resources*

The first major theme that should be studied is the basic question of what constitutes a firm-specific political resource. Answers to this question have been very fuzzy so far. First, if one agrees that three major types of political resources are money (i.e. campaign contributions), information and votes, how do firms create and utilize these resources? Providing financial resources is relatively straightforward, but getting organized to provide votes and information is certainly more complex. Where do the data/information that firms use in a political market come from? Are there internal processes that firms set up to generate this information?

The question is even trickier when it comes to promise votes to policy-makers. Firms do not vote and CEOs probably rarely ask their employees to vote for a certain candidate. So, how do certain firms develop this resource? Some previous research has investigated how firms could build a constituency to influence the policy-making process (Lord, 2000). However, it remains unclear when this behaviour becomes a real political resource, i.e. a capability that can be deployed for different issues and in different political environments (Holburn and Zelner, 2010).

This question leads naturally to another relative to other types of resources, beyond those considered in the existing literature, which should be considered. Take the example of the French company EDF, one of the world leaders for nuclear energy. EDF has been tremendously successful, both in France and in Europe, at influencing policy choices regarding the use of nuclear energy instead of other sources. Which resources have helped to achieve these results? Beyond its large regulatory affairs department and beyond specific information regarding this type of energy useful

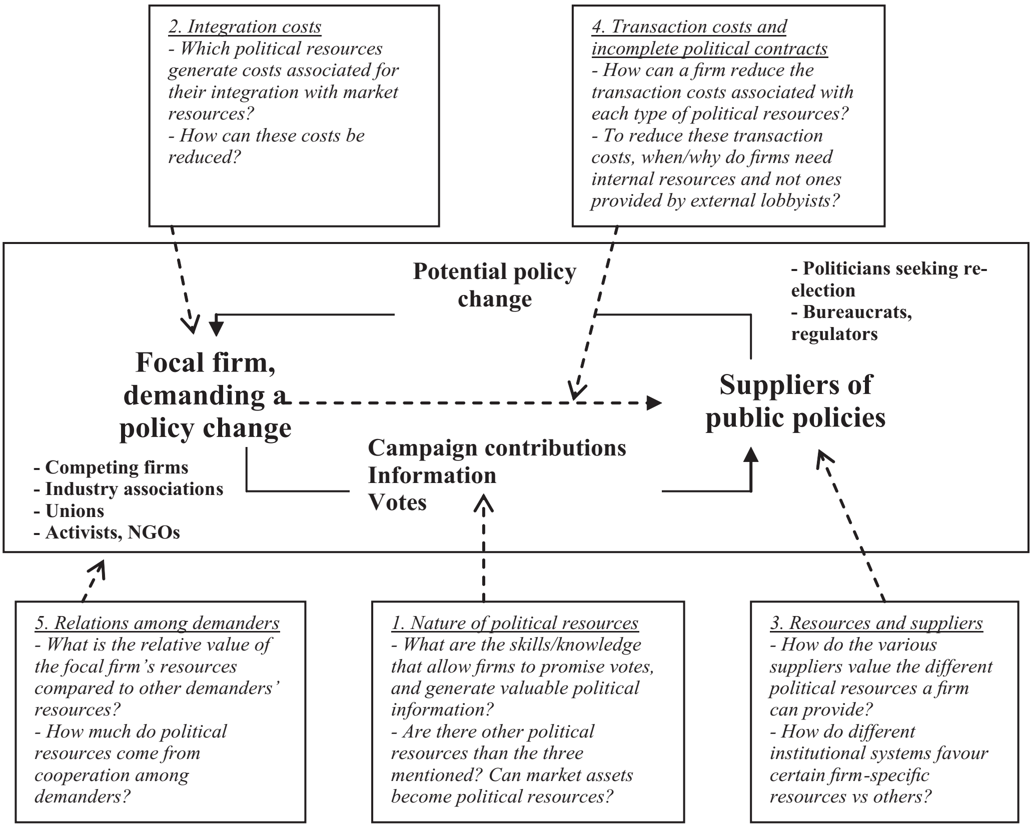


**Figure 1.** Moving towards a full theory of corporate political resources

in lobbying campaigns, there are in fact plenty of other resources that the company might have leveraged to shape policy to its advantage. For instance, EDF is part of a broad industrial strategy developed by the French government, which also includes other large companies such as the reactor producer Areva. EDF also counts 158,000 employees, 40,000 daily customers and 58 existing nuclear plants. These are certainly very valuable political resources, which might help politicians to get re-elected or bureaucracies to advance their agendas. Many of a firm's economic assets can therefore constitute political resources, and need to be analysed as such.

## *2. Political resources and the costs of integrating market and non-market strategies*

Following the argument above, an important characteristic of political markets is that they are generally not independent on economic markets (Baron, 1995). What is potentially exchanged between firms and policy-makers in political markets will have an impact on what firms can do in economic markets (Bonardi, 2008). Take the example of a firm's decisions to hire or lay off employees. These are likely to have very different implications for relationships between firms and policy-makers (Bertrand et al., 2004). As unemployment has become a major issue plaguing economies in developed countries, firms can use a 'lay-off freeze' as a political resource. There are many examples in which market decisions made by firms might generate political resources beyond those already studied in previous work.

However, this type of political resource triggers new, interesting questions. The dependence of political resources on economic assets comes with trade-offs (Bonardi, 2004). Firms need to make sure that what they offer policy-makers will not have an overly negative impact on their other business activities. In other words, firms have to deal with integration costs when they integrate market and political activities. These costs also need to be carefully studied. It might help explain why, in certain cases, firms end up building their political strategy on campaign financing, even if money seems to be an easy-to-imitate resource, because of low integration costs compared to other – potentially more effective politically – political resources.

### *3. Suppliers and political resources*

Many different suppliers of public policies can be involved in political transactions with firms (Holburn and Vanden Bergh, 2008). Politicians have been extensively studied in the Public Choice literature, especially as primary receivers of campaign contributions, but this is much less the case for bureaucrats and regulators of all kinds (Mueller, 2003). How do these different suppliers of public policies value the various kinds of political resources mentioned earlier? More generally, how do different kinds of institutional systems (Hillman and Keim, 1995), in which politicians, bureaucrats or regulators have different kinds of authorities, impact the nature and value of these political resources? These are important questions that have never truly been investigated. Note that, for this area, richer insights from political science or sociology, by allowing detailed comparisons of various institutional systems, could be extremely useful.

### *4. Transaction costs in political markets and political resources*

Another opportunity to leverage the concept of firm-specific political resources has to do with how firms can 'transact' with these resources effectively. As argued by North (1990) and Dixit (1996), political markets are characterized by very high transaction costs, which come from the fact that neither the interest groups nor the politicians/bureaucrats can be sure that what is transacted is really going to be delivered. Political markets are based on promises on both sides with few binding components, which makes potential contracting in political environments very incomplete. A critical aspect of the research on firms' political resources should therefore relate to how firms can develop idiosyncratic ways of reducing ex post uncertainty and hold-up problems in their relationships with policy-makers.

The follow-up question that emerges from this is: since political contracts are incomplete, how can firms provide credible commitments that they will actually deliver to the policy-makers what they have promised? One might think, for instance, that firms can use their reputation to resolve some issues related to transaction costs and incomplete contracts, which are inherent in political markets. Similarly, the role of social networks to solve imperfect contract problems in political markets should be considered. This might make the link with the political ties literature cited earlier.

Note also that the different kinds of political resources that firms can leverage should generate different credibility and contracting problems. Votes will come only through vote promises, and therefore generate high credible commitment problems. Similarly, information also leads to a credibility problem, but more related to the credibility of the information. On the other hand, money is what creates the least contracting problems, which, again, might explain why it is still used relatively often. The credibility of the promise to which a certain resource is attached is therefore a critical dimension to be taken into account in a theory of political resources.

Another type of question relates to how firms might obtain the knowledge to reduce transaction costs or the necessary credibility to be heard in political markets. As political markets are spotty and can change considerably over time, how can firms effectively learn and internally develop resources to gain access to and influence policy-making? Do they truly have to develop this knowledge and this credibility, or could they contract with lobbying firms? How are political boundaries determined? What are the political resources that can be outsourced and those that could be developed in-house?

### *5. Political resources and relations with other demanders of public policies*

The demand side of political markets is generally composed of many different players, some of which are firms. One important question to address, therefore, is what the relative value of a firm's set of political resources is, compared to the resources provided by other demanders of public policies (such as different types of interest groups, unions, environmental activists, etc.) (Bonardi and Keim, 2005). In that context, resources that each actor uses to convince policy-makers might be so different in nature that the 'imitability' criteria suggested by the RBV might be irrelevant. When Monsanto competes against activists regarding the legal ban of genetically modified food, both organizations use capabilities and arguments that are so different that the question is not to know whether activists will be able to imitate Monsanto's political resources, but rather whether the activists' actions can make any of Monsanto's resources completely ineffective. New criteria need to be identified to understand this type of firm–interest group competitive dynamics.

Similarly, competing in political markets often requires a fair amount of cooperation among multiple demanders with different objectives, i.e. collective action (Olson, 1965). Some critical behaviours include, for instance, participation in industry associations through which a firm's political positions on various issues are articulated. In this setting, one interesting question is to determine how much of a firm's political resources come from cooperation with others and how much is purely firm-specific. Social movement theory can be helpful in this context as well, as the mobilization of collective resources is a key part of the social movement approach (Davis and Thomson, 1994). Moreover, what determines the arbitrage between cooperatively built and purely firm-specific resources?

## Conclusion

The main argument developed in this essay is that the future of the political resources concept requires a relatively drastic adaptation of the RBV approach as it has been used for economic environments. Resources that are rare, hard-to-imitate and non-substitutable do exist in political environments; however, explaining why certain firms are more able than others to shape public policies generally requires to look beyond these traditional RBV criteria.

From the preceding discussion, for instance, political resources that (1) are based on some of the firm's critical economic assets, (2) do not raise too high integration costs, (3) fit with the specific needs of key suppliers of public policy, (4) can generate credible commitments and (5) cannot be made ineffective by competitors' political strategies should be particularly important to account for a firm's success in its political strategy.

I do not claim, however, that this framework is complete. As should be clear from the last section of this essay, many questions remain to be answered. The work ahead is well cut-out for scholars interested in pursuing this line of research.

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## Notes

1. This essay is not meant to be a criticism of the RBV itself. I just argue that RBV insights to analyse a firm's sustainable advantage in economic markets cannot be directly transposed to political environments.
2. Within the RBV framework, I concentrate on what can be considered as the most specific aspects of this approach, i.e. the imitability or replicability criteria. The two other criteria (value and organization) are more general and less distinctive features of this framework.

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