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THE ATTRACTIVENESS OF POLITICAL MARKETS: IMPLICATIONS FOR FIRM STRATEGY

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We conceptualize democracies as marketlike processes where demanders and suppliers of various public policies interact. Firms may enter political markets to seek new or to maintain existing policies that affect their current business operations or future opportunities. We contend that a firm's decision to become politically active is influenced, in part, by the attractiveness of the political market, and we outline conditions that make political markets more or less attractive for firms to compete in to advance their interests.

Why do firms engage in explicit political activities? Researchers find that firms highly dependent on government regulation or contracts for economic survival (Masters & Keim, 1985; Pittman, 1977), larger firms (Salamon & Seigfried, 1977), and those operating in more highly concentrated industries (Masters & Keim, 1985) will be more politically active. Firms are most likely to engage in political activity when the government[1] significantly affects their business.

This logic may help explain why, for example, steel companies are so politically active (Schuler, 1996). The steel industry is highly dependent on the government for sales and for protection from foreign competition, it is highly concentrated, and it typically is composed of large firms. We do not know, however, why some steel firms are active at certain times and not others. In the United States, for example, modern producers like U.S. Steel became heavily involved in political lobbying in 2001, and a 30 percent tariff on steel imports in the United States passed in 2002. What made U.S. Steel decide to significantly increase its political efforts in late 2001, while many of the older integrated steel companies had been politically active for years?

We contend that the decision to become politically active at any specific time does not depend solely on the impact of public policy on the firm but also on how attractive the political market is. Porter (1980) argues that industry attractiveness is key to explaining the entry of firms into some markets instead of others and that industry attractiveness has a decisive impact on how firms compete and strategize. We apply the same logic to political markets. Firms will be more apt to engage in political activity when the political market is attractive because the likelihood of success is improved.

Our purpose in this article is to explore competition within advanced democracies (i.e., political systems with popularly elected officials and multiparty competition [Downs, 1957]) by explicating the concept of a political market and delineating the conditions that make a particular political market more or less attractive for firms. Competition within markets is a central consideration in strategic management, yet this idea has not been extended to the analysis of firm activities in political arenas. Viewing the public policy process as a competition among self-interested actors has given birth to a field of research in economics (Dixit, 1996; Mueller, 1989; Persson & Tabellini, 2000), as well as in political science (Majone, 1996). A few corporate political strategy scholars have also used this conceptualization (e.g., Baron, 1995; Boddewyn & Brewer,

[1] By "government" we mean a set of elected, appointed, and career officials who are formulating and implementing public policies at a particular point in time (Downs, 1957).

1994; Hillman & Keim, 1995), but there is opportunity for further advancement.

Specifically, this literature has not provided an analysis of the degree of attractiveness of political markets, which, we argue, is warranted to account for the "why" and "when" of corporate political activities. While internal firm resources and capabilities likely also play an important role in the decision to enter political markets (e.g., the resource-based view), we concentrate on the elements of the external environment that define attractive political markets. Although this limits the scope of our inquiry, we feel it is warranted to provide the depth of analysis needed to characterize, derive implications about the nature of rivalry, and provide an evaluation of the attractiveness of political markets.

We structure the paper as follows. First, we present the conceptualization of political markets by reviewing its origin from political economy and identifying the relevant suppliers and demanders. We also discuss political exchange before describing the nature of competition on the demand and supply sides of political markets. In these sections we propose the conditions under which political markets will be more or less attractive for firms to compete in. While we follow the model of Porter (1980), who analyzed attributes of industry markets, our effort differs substantially from his. The dimensions that make political markets attractive are fundamentally different from those studied in economic markets, and our analysis implies several counterintuitive results that suggest fundamental differences between political and economic markets. On the basis of our framework, we also provide a new explanation of the timing of political strategies or why firms might act as followers or leaders (Lenway & Rehbein, 1991). Finally, we discuss the implications for firm strategy and suggest directions for future research.

THE PUBLIC POLICY PROCESS AS A MARKET

Viewing the public policy process as a market is a perspective with roots in the discipline of political economy. Key to this perspective is Buchanan's 1986 Nobel Prize work explaining how different decision-making rules affect the processes by which individuals make collective decisions (Buchanan, 1968, 1975, 1986; Buchanan & Tullock, 1962). Buchanan's work built on earlier work (Bentley, 1935; Truman, 1951) emphasizing competition among organized interest groups as a primary driver of public policy outcomes in democracies.

An important contribution of this work is the conceptualization of the political process as exchange between actors. Buchanan notes that

> markets are institutions of exchange; persons enter markets to exchange one thing for another. *The relevant difference between (economic) markets and politics does not lie in the kinds of values/interests that persons pursue, but in the conditions under which they pursue their various interests. In the absence of individual interest, there is no interest* (1987: 246; emphasis added).

This last point may warrant elaboration. In this view of the public policy process, there is no concept of "the public interest" or "the public good" independent of the aggregation of individual interests. Rejecting any organic concept of the public interest enables us to view the public policy process as one in which different and often competing interests interact. Each group or faction advocates different policy proposals based on some aggregation of their individual interests (Hillman & Keim, 1995).

This view unpacks much of the emotional content that often clouds discussions of policy options that may be favored by different groups or segments of voters in a democratic society. Schumpeter notes that "there is no such thing as a uniquely determined common good that all people could agree on or be made to agree on by the force of rational argument" (1942: 251). Nelson and Winter similarly note that the "actual public that is interested in policy choices and outcomes has a diverse, divergent makeup and interests that are at least in partial conflict" (1982: 376) and that "analysis cannot make a 'public interest' out of a set of divergent private interests" (1982: 383).

As Buchanan notes, "To predict behavior, either in governmental bureaucracy or in privately organized . . . institutions, it is necessary to examine carefully the constraints and opportunities faced by individual decision makers" (1988: 7). That is, individual decision makers in government agencies, ministries, cabinets, or legislatures can be modeled as self-interested actors in the same way that competitors, consumers, investors, or suppliers are viewed by scholars studying management, marketing, or finance. Stigler (1971); Peltzman (1976, 1987); Maloney, McCormick, and Tollison (1984); and Peltzman, Levine, and Noll (1989) were among the first researchers to empirically support this view of regulatory decision makers. McCormick and Tollison (1978) and Crain and Tollison (1980) found evidence to support this view of legislators in the United States, while Grier, McDonald, and Tollison (1995) extended the analysis to the use of executive vetoes. Thus, incentives and constraints matter to actors in a political market, and the parallel to an economic market is straightforward.

Most economists define markets around products (e.g., Sherer, 1990; Stigler, 1955). For an economic market, the concept of a product is relatively straightforward, commonly referring to goods or services. The market boundary analogy in a political market is a public policy issue, such as a potential regulation pertaining to some aspect of the production or use of a product or service. Each public policy issue will have its own set of demanders and suppliers and its own competitive dynamics. The overall economic/political "marketplace" comprises multiple, diverse "markets" that encompass the range of products/issues. Thus, we use the term *political market* to refer to an individual market defined by a political issue and the term *political markets* or *political marketplace* to refer to the multiple markets and the political system overall. We now turn to the demanders and suppliers in political markets.

Demanders and Suppliers

Hillman and Keim (1995) present a simple portrayal of the demanders and suppliers of public policy. On the demand side are individual voters, interest groups, firms, political parties, and sometimes other governments, either foreign or subnational. As in an economic market, individual actors have different demands for various public policy outcomes, just as they have demands for Greek food, digital technology, or national suppliers of parts. Individuals' public policy demands are organized through various aggregation mechanisms, such as interest groups, business or trade associations, and/or other coalitions of organized voters. While corporations themselves do not have a vote, like other interest groups they can act to aggregate the interests of their stakeholders. Interest aggregation mechanisms differ across institutional settings, but in democracies operating in most modern economies, there is competition among groups, associations, and coalitions seeking to influence political decision makers. Our focus here is on firms, but our discussions of competition will naturally include interaction with other demanders. Other demanders may be allies and coalition partners or rivals, and relations with other demanders may change across issues and over time.

Suppliers of public policy are those in government who make public policy decisions (Hillman & Keim, 1995). These suppliers can include prime ministers, presidents, and their staffs; elected members of parliaments or legislatures and their staffs; members of the judiciary; and any number of appointed, elected, or career bureaucrats who staff government agencies. Suppliers can operate at national (e.g., Germany), subnational (e.g., Bavaria), or supernational (e.g., European Union) levels. While members of the judiciary are important players in upholding or overturning government policies, because of the different legal environments across nations, we focus here only on two types of suppliers of public policy: (1) "bureaucrats," who are the career members of agencies, bureaus, and ministries, and (2) "elected officials," who include appointees made by elected parties or individuals.

Exchange in Political Markets

Viewing the political marketplace as a collection of individual markets implies that exchange is at the core of the interaction between demanders and suppliers (Benson, 1975; Dixit, 1996; Hillman & Hitt, 1999; Persson & Tabellini, 2000; Salisbury, 1969). In an economic market, currency or goods and services are exchanged for other goods or services. Hillman and Hitt (1999) contend that demanders can participate in a political market by offering information, votes, and financial support.

Elected officials seek the votes necessary to gain office and remain in office, either through direct constituent votes or through party support. They also seek information on policy preferences of voters and the resources to finance and carry out their election campaigns. Although bureaucrats do not have the need for votes that elected officials do, cabinet members, for example, need legislators' votes to pass their agendas. These votes usually reflect the preferences of voters who support the legislators and their party. The preferences of the public and organized interest groups can also affect future budgets, the range of jurisdiction, and the prestige of agencies or bureaus. Thus, both constituent support and information are important resources for bureaucrats. Finally, bureaucrats may respond to financial incentives such as paid speaking engagements, travel, and other forms of pecuniary assistance.

Votes and financial support are goods that are hard to differentiate across demanders, other than in quantity (i.e., dollars are dollars and votes are votes; the only differentiator is how many). Information, however, may be considered more heterogeneous than either votes or financial support in that the quality of analyses, reputation of the provider, and so forth may vary. Thus, as in an economic market, the basis of exchange in a political market can be conceptualized along similar lines.

The relevant comparisons drawn between economic and political markets can be found in Table 1. With the basis of exchange now sketched out, we turn to a more detailed analysis of competition within both the supply and demand sides of the political marketplace. While firms operate only on the demand side, the nature of competition on the supply side also has implications for successful business strategies.

COMPETITION IN A POLITICAL MARKET

We have posited that firms operating in a political market may offer information, money, and/or votes. Legislative or bureaucratic suppliers may offer information and/or policy positions. The attractiveness of a political market, however, depends on the nature of competition on the demand and supply sides of such a market. The attractiveness of a political market has multiple dimensions. Decisions to become politically involved should include assessment of all of the dimensions we consider next.

Demand-Side Competition

As in economic markets, the attractiveness of any given political market is a function of the degree of rivalry among demanders (Porter, 1985). Rivalry in political markets affects the quantity of votes and/or financial support needed and/or the quality of information offered to influence policy. In this sense, rivalry in the political market is the same as rivalry in the economic market affecting price and quantity parameters. When there is a high degree of rivalry among demanders of policy, other things being equal, the chances of success for any individual demander are greatly reduced. Therefore, attractive markets for public policy from the perspective of a particular firm or coalition of firms with similar interests will be those characterized by low rivalry among demanders.

While the argument for low rivalry on the demand side is fairly intuitive when viewed from the perspective of a firm attempting to shape public policy (e.g., the fewer competitors, the better), what is perhaps counterintuitive for the political market is that high rivalry on the demand side also may be undesirable for political suppliers. In an economic market suppliers are often thought to benefit from competition among demanders (e.g., their customers). However, in a political market high rivalry on the demand side creates important constraints for suppliers. For example, high rivalry among demanders makes creating a public policy that meets the interests of one group likely to disappoint or alienate other groups with different interests. Wilson

TABLE 1
Comparison of Economic and Political Markets

Characteristics	Economic	Political
Definition/boundary	Substitute goods/services	Political issue
Demanders	Customers	Citizens, firms, interest groups, voters, other governments (foreign or subgovernments)
Suppliers	Firms, individuals	Elected and nonelected politicians, bureaucrats, legislators, members of the judiciary
Product	Good, service	Public policy, regulation, deregulation
Nature of exchange	Money, other goods (barter)	Votes, information, financial support

concludes, when comparing firms' political practices around the world:

> Monopolistic rather than competitive groups suit the needs of interventionist states because they not only speak more authoritatively but are less likely to be constrained by divisions of opinion among their members. . . . Monopolies can give interest group leaders the freedom from the control of their members they need to form alliances with the state (1990: 17).

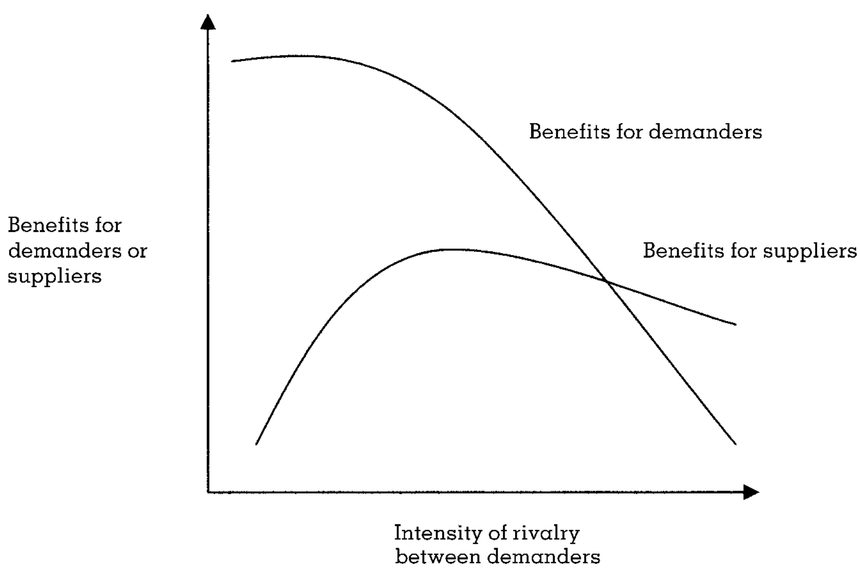
When there is low rivalry on the demand side, suppliers of public policy often can be more effective in meeting the preferences of demanders, whereas when demand-side rivalry is high, suppliers of public policy face an increasingly difficult task in creating public policy that is responsive to the set of active demanders. The effect of rivalry on the demand side is summarized in Figure 1.

We now discuss under what conditions demand-side rivalry is likely to be low. Three relevant characteristics of a political issue are indicative of low rivalry among demanders: (1) whether the issue is an election or nonelection issue, (2) the nature of the costs and benefits of the issue, and (3) whether the issue is new or pertains to an existing regulation or policy.

Nonelection issues versus election issues. Virtually every citizen has preferred positions on some public policy issues. Some feel strongly about such issues as pharmaceutical prices or genetically modified foods, whereas others feel strongly about the solvency of Social Security or the practice of abortion. Few individuals, however, have strong preferences or are knowledgeable about *all* decisions made by elected officials or a government agency during an entire legislative term or fiscal year of operation. Instead, most voters are rationally ignorant (Aranson, 1990; Downs, 1957; Riker & Ordeshook, 1973) about most public policy issues because it is expensive to gather information about individual policy details, and the benefits of incurring such expenses are usually small. Regardless of how much one individual invests in information gathering, the probability that his or her individual action will affect the outcome of most public policy decisions is essentially zero. Such a cost-benefit calculus does not provide a rationale for most voters to incur significant information costs.

The assumption of the rational ignorance of voters has an important implication regarding the nature of competition on the demand side of

FIGURE 1[a]
Effects of Rivalry on Demand Side for Demanders and Suppliers



[a]This mechanism is similar if the suppliers of regulation are bureaucrats instead of politicians. In effect, they can profit from competition on the demand side to a certain extent. That can be a way for them to show that the problem they are dealing with is important, and then either expand their regulatory control (Majone, 1996) or increase the budget they get for their bureaus (Niskanen, 1971).

a political market. While individuals may not be concerned with most policy issues considered by the legislature during a year, each citizen may have a few issues that are salient for him or her. Even if some individuals have interest in a particular issue, gathering information about the issue (e.g., when it will be decided, by whom, what a candidate's or party's position is on it, who voted for/against it) is costly. Therefore, only issues highly salient to a significant segment of the voting population will receive sufficient attention from the media to provide inexpensive information to individual voters (Keim & Zeithaml, 1986). We refer to these few issues that appeal to significant numbers of voters as *election issues* because they are likely to be the key issues debated during elections.

Because of their salience, election issues are those issues for which the most competition is likely to take place on the demand side of the political market. Media attention, campaign speeches, and advertising create inexpensive information that increases rivalry among demanders. Because the cost of becoming informed is greatly reduced, more demanders are able to participate in the political debate over election issues. For all other issues (i.e., nonelection issues), demanders can expect relatively fewer rivals, because the cost of knowing when or if an issue is being considered is higher. Therefore, firms are likely to have a relative advantage in shaping decisions on nonelection issues because of the reduced rivalry among demanders. Consequently, this makes a political market more attractive for them. Thus, we assert the following.

> *Proposition 1: Political markets for nonelection issues are more attractive for firms than markets for election issues.*

The nature of the costs and benefits of issues. While, in general, demand-side rivalry will be lower for nonelection issues than for election issues, the distribution of costs and benefits associated with specific nonelection issues can also influence the amount of rivalry among demanders (Lowi, 1964). We present a simple matrix based on the work of Wilson (1980) in Figure 2. On the vertical axis, benefits of a policy proposal are described as concentrated or diffused. Benefits are diffused when a large number of people or groups enjoy a small benefit if the proposal is passed, and they are concentrated when a small number of people or groups enjoy a large benefit if the proposal is passed. Costs, represented along the horizontal axis, are similarly distinguished—either diffused or concentrated. Wilson used this matrix to identify the kinds of behaviors that were likely to occur in different kinds of political environments. We make a different argument here, arguing that this representation also has implications for the characterization of the relative attractiveness of political markets.

FIGURE 2
Nature of the Costs and Benefits of Issues

		Cost	
		Concentrated	Diffused
Benefits	Concentrated	1	2
	Diffused	3	4

Policy issues can fall in any of the four cells of the matrix. Consider issues in Cells 2 and 3 first. Organized interests often will have an advantage when supporting issues that lead to concentrated benefits for their supporters and widely diffused costs for their potential opponents. For example, trade barriers protecting domestic sugar producers would provide concentrated benefits to sugar producers through the reduction of foreign competition. Yet, despite the fact that these trade barriers may reduce competition and lead to higher prices, this type of public policy issue may not have much opposition, because these costs would be spread across a large number of consumers. Because the dollar magnitude of the increase in consumer prices likely would be a relatively insignificant part of an individual customer's budget, opposition would likely not be strong (Schattschneider, 1935). Similarly, firms can often be successful opposing issues where the costs are concentrated among their members and the benefits widely diffused across a large segment of the population (Cell 3) because of the same logic. In both of these cases, the political markets are attractive in that potential demanders are likely to face less opposition.

A firm will face tough opposition, however, when advocating an issue in Cell 3. In this case, the firm will likely face strong opposition from people for whom costs are concentrated, whereas the diffused benefits among a large number of individuals will make support difficult. For example, firms lobbying to deregulate highly regulated industries such as utilities face these conditions. On the one hand, opposition is likely to be strong from existing monopolies, their employees, and unions, who may suffer lay-offs or the loss of privileges from competition. The benefits of utility deregulation, on the other hand, would be widely diffused across residential and commercial users in the form of lower prices. These conditions make the demand side of the political market unattractive for potential new entrants, and as a result, have considerably delayed utilities deregulation in many developed countries (Vietor, 1994). Thus, the attractiveness of Cell 3 is dependent on advocating or opposing the issue.

In Cells 1 and 4 political markets are more consistently unattractive. Rational ignorance and the costs and benefits of collective action are important factors in explaining the competitive dynamics at work here. In Cell 1, where both benefits and costs are concentrated, organized interests may be engaged in limited but intense rivalry on both sides of the public policy issue. A proposal for differential taxation for stock versus mutual insurance companies is an example. In this example, these opposing groups are likely to engage in fierce competition, since the benefits/costs are highly concentrated but the issue attracts little attention from other actors. Issues for which both benefits and costs are widely diffused, as in Cell 4, may be those issues that attract broad interest during elections, such as national defense or Social Security payments (Wilson, 1995).

Proposition 2a: Political markets are more attractive for firms when advocating issues with concentrated benefits and diffused costs or opposing issues with concentrated costs and diffused benefits.

Proposition 2b: Political markets are less attractive for firms when advocating issues with concentrated costs and diffused benefits and advocating/opposing issues with concentrated costs and benefits or diffused costs and benefits.

New issues versus existing regulations and policies. Kindleberger (1970) asserts that a firm's political power might be retained longer than its economic power because political changes are less frequent than economic or market changes. Modern research in institutional economics has underscored that public policies are generally stable over time. This can be explained by the fact that members of a democratic society, being risk adverse, build constraints on policy change that increase the difficulty and cost of upsetting the status quo (Shepsle & Weingast, 1981). Therefore, when various interests compete on the demand side of the political market, those seeking to maintain the status quo are often more successful than those seeking to change existing laws or regulations (Wilson, 1989). Current policies often have well-established groups that make investments and develop specific capital based on existing policies. Current government programs often have stronger, better-organized constituencies than advocates for change can muster, because members of such groups have a vested interest in maintaining the status quo.

This bias toward the status quo in a political market is thus due both to better-organized groups on the demand side resisting change and to supply-side rivalry (Truman, 1951; Wilson, 1995). The complex process that often characterizes public policy making means that failure could come at any one of multiple steps. In the United States, for example, this means that successful policies need to make it on to the agendas of both houses of Congress; through the congressional committees; then usually through a conference committee process, congressional approval, and finally presidential approval. Proposals to alter existing regulations or policies will encounter opposition from affected groups every step of the way. Failure at just one step in the process preserves the status quo; change, however, requires that each and every step be negotiated successfully (Wilson, 1989). Therefore, it is often very difficult to change existing policies or regulations. A new issue, however, generally means a different political market—one often without such entrenched interests, which makes it easier to get a new regulation or policy adopted in that rivalry is significantly reduced.

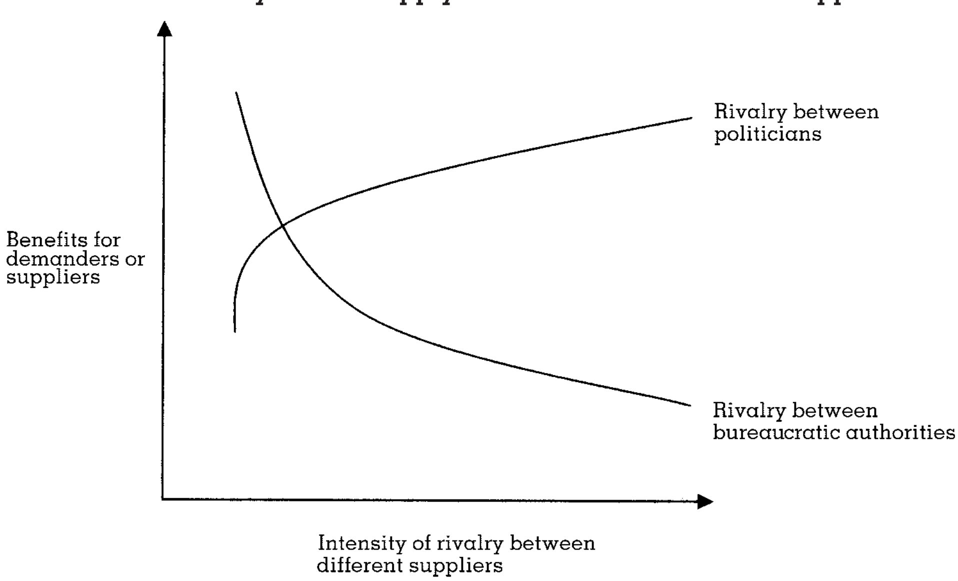
> *Proposition 3: Political markets are more attractive for firms when defending existing regulations or policies or when advocating/opposing new issues than when challenging existing regulations or policies.*

Supply-Side Competition

Just as on the demand side, competition on the supply side of the political marketplace can greatly affect the attractiveness of a political market. However, unlike the economic marketplace, where competition between suppliers is generally good for buyers, rivalry on the supply side of a political market is much less straightforward. As mentioned above, we limit our discussion to two types of suppliers of public policy: bureaucrats and elected officials. The nature of the incentives and roles of these two different types of suppliers has implications for the level of rivalry on the supply side.

As in an economic market, rivalry between elected officials generally increases the attractiveness of the political market for firms. High rivalry between bureaucratic suppliers, however, makes a market less attractive because it generally reinforces the status quo. Figure 3 summarizes the effects of rivalry on the supply side, both for rivalry among officials and bureaucrats. Opposite effects for firms can be expected in terms of political market attractiveness.

FIGURE 3
Effects of Rivalry on the Supply Side for Demanders and Suppliers



We now explore the conditions under which these situations of low rivalry among bureaucrats and high rivalry among elected officials occur. Two relevant characteristics of political issues are indicative of low rivalry among bureaucrats and high rivalry among elected officials: (1) issue scope and (2) partisan identification.

Competition among bureaucrats: Issue scope. Although elected officials often decide the broad characteristics of public policy, specific policy details and day-to-day implementation generally are left to the discretion of one or several bureaucratic authorities or agencies. With environmental policies, for example, agencies often decide the level of acceptable pollution standards, even though the broad objectives of the policy have been decided by elected officials (Vogel, 1986). Prices charged by utility companies in many countries similarly are controlled by bureaucrats and not directly by elected officials.

In such instances these authorities are the relevant suppliers of public policy. Bureaucrats often have the power to provide public policies to demanders since they benefit from information asymmetry (Miller & Moe, 1983) and have more discretion because their decisions are often very technical and difficult for outside observers to understand. This allows them to favor some interests versus others.

The market conceptualization assumes that suppliers of public policy attempt to maximize their preferences under some constraints. In the case of elected politicians, we assume their preferences are related to attracting the resources necessary in order to be elected or reelected (Downs, 1957). The preferences of bureaucrats, however, are more difficult to determine. In public choice models of bureaucracy, researchers generally assume that officials try to maximize the size of their agency, measured by various parameters such as budget (Niskanen, 1971) and scope of jurisdiction (Majone, 1996). The expansion of an agency's scope is akin to what Lewin (1991) terms *bureau-shaping,* wherein bureaucrats attempt to gain control over more interesting and important tasks. Not only are the increased responsibilities perhaps more interesting but the expansion of jurisdiction may also mean an increase in the agency's prestige, the salaries of the bureaucrats, the perquisites of the office, the output of the bureau, and overall power (Niskanen, 1971). Majone argues, for example, that the European Commission is trying to maximize not its size or budget, per se, but "its influence, as measured by the scope of its competences" (1996: 65). Consequently, competition often exists among agencies for jurisdiction over issues (Wilson, 1990).

The motivation to expand the scope of issues or jurisdiction of an agency is not unlike the motivations some managers face when considering diversification. In addition to having managerial salaries and perquisites generally improve along with the size of the firm (e.g., akin to the budget of agencies), job security may be improved when the firm enters into multiple business lines (Amihud & Lev, 1981). Therefore, when bureaucrats compete to expand their jurisdiction into different issue arenas, they are engaging in a form of "issue diversification" that will presumably add to the prestige, stature, and security of the individuals who make up these agencies or ministries.

These efforts to expand the scope and/or size of bureaucratic agencies generally increase rivalry for this part of the supply side (Self, 1985). Therefore, issues with a broad policy domain, defined as those that span multiple bureaucratic agencies' jurisdictions (Heinz, Laumann, Nelson, & Salisbury, 1993; Shaffer & Hillman, 2000), are more likely to elicit intense rivalry among bureaucrats. Since no one agency has full regulatory power, this rivalry reduces the likelihood of changing the policy status quo and makes a political market less attractive for demanders like firms. Also, even if the issue is new, the rivalry among multiple agencies means it will be much more difficult to have it resolved in a favorable manner. Rivalry among bureaucrats on the supply side is likely to be less, however, when firms advocate issues with a more narrow policy domain, or for those that deal directly within the scope of an individual agency.

> *Proposition 4: Political markets are more attractive for firms when advocating/opposing issues with a narrow policy domain than markets for issues with broad policy domains.*

Competition faced by elected officials: Partisan identification of issues. Competition for elected officials is based on getting elected and reelected. The threat of being challenged during the next election is continuous for elected officials until retirement or until the end of a statutory limited term. Rivalry for elected officials can also affect the attractiveness of the political market and the ability of a firm to shape public policy. When there is rivalry (i.e., a candidate or incumbent is opposed), each candidate has the incentive to be responsive to the needs of organized interests because of their desire for election. After being elected, the elected official retains the motivation to be responsive to organized interests because of the threat of competition in the next election. However, when a candidate runs unopposed (i.e., there is low rivalry), he or she lacks the same incentive to be responsive to the needs of organized interests.[2]

In many ways, low rivalry for elected officials is akin to a monopolist situation in the economic marketplace. Because there are no other potential suppliers, the supplier is unlikely to be as responsive to the interests of demanders as it would be when faced with competition, making the political market less attractive for demanders. Therefore, when participating in a political market, the greater the number of potential elected officials that are interested in and can be persuaded to support a given issue, the better.

One characteristic of an issue that affects the degree of rivalry among elected officials is its partisan identification (Budge & Keman, 1990; Heinz et al., 1993). When an issue is uniquely identified with a particular party's ideology, it minimizes the potential number of suppliers for the public policy issue (Wilson, 1995; Zeigler & Peak, 1972). For example, research involving fetal tissue or genetically modified foods may be of particular interest for pharmaceutical or life science firms. Such issues, however, are often uniquely associated with the ideological positions of certain political parties. Parties with a strong prolife position or "green" parties are likely to uniquely identify with these issues, whereas other parties are not. This unique partisan identification often leads to low rivalry in that it minimizes the number of potential suppliers of these public policies.

However, issues that are without unique partisan identification are more likely to generate rivalry, because these issues can garner support from multiple suppliers (Wilson, 1995). Issues regarding care for the elderly in developed countries, for example, usually attract support from multiple parties. Thus, this type of issue is more likely to have multiple suppliers than a more uniquely partisan-identified issue and, therefore, to constitute an attractive political market.

> *Proposition 5: Political markets are more attractive for firms when advocating/opposing issues without unique partisan identification than markets for issues with unique partisan identification.*

Interactions Between Demand- and Supply-Side Competition

So far, we have attempted to provide new answers to the question of *why* firms engage in political strategies. We have argued that firms do so when the political market is attractive, and we have delineated conditions that may make political markets attractive, both on the demand and the supply sides. In addition, our framework can shed some new light on the question of *when* corporations may engage in political activities. With few exceptions, the corporate political strategy literature has left the question of timing unstudied.

The few researchers who have considered this question have focused on two considerations related to the timing of a firm's political action. First, the costs of getting organized will determine why a firm might decide to be a leader—that is, invest now in political activities—or to wait—that is, be a follower (Lenway & Rehbein, 1991; Yoffie, 1987). When the costs of organization are high (Olson, 1965), firms may wait for another actor to engage in political strategies first (Schuler, 1996).

The second consideration related to the timing of political strategies derives from the concept of an issue life cycle (Baron, 2000; Keim, 2001). Issues often begin with some event, such as publication of new research, a public protest,

[2] We do not mean to assert that the mechanisms of exchange (votes, information, and financial support) are any less important to candidates running unopposed. Indeed, some may thwart rivalry by amassing great resources in these forms. Our argument is based on the relative responsiveness of these individuals to the providers of such resources when compared to those facing rivalry for election/reelection.

or some other occurrence that may attract some attention. If existing groups or a political party adds the issue to its policy agenda, the issue may continue to attract attention. Politicians may, in response, add the issue to their agenda and introduce new legislative or regulatory proposals pertaining to it. Eventually, new public policy related to the issue may be adopted and enforced. The important idea is that the opportunities for a firm to influence a public policy issue decrease as an issue moves through the life cycle—that is, from its origin to legislative discussion, passage, regulatory rule making, and enforcement. This means that, after a certain point, a firm may lose its opportunity to have an impact on a particular public policy.

These two explanations shed some light on the timing of political strategies. However, they both neglect the attractiveness of the political market at the time a firm is considering political activities. If the political market is attractive for an issue, a firm might decide to bear higher organization costs, because this firm knows that its chances of getting a desirable public policy outcome are higher. In this case the firm might enter early and become a leader, rather than remain a follower. Similarly, a firm might decide to wait before engaging in political activities not because the issue is at its early stages but because the political market is unattractive. Our framework therefore provides a new explanation for the timing of corporate political activities.

We consider not only the case in which both demand and supply are attractive but also when one or the other is not. One of the benefits of waiting versus investing now in corporate political strategies is that there might be some changes in the attractiveness of the demand or the supply sides of the political market. This information is revealed only over time. A firm might therefore wait to keep its options open, rather than commit to a political strategy early that might prove unsuccessful. Exploring the interaction of the demand and the supply sides generates four different scenarios, as indicated in Figure 4.

Of the four possibilities, a firm will be most likely to enter a political market early if both the demand and the supply sides of the political market are attractive.

FIGURE 4
Supply- and Demand-Side Interaction in the Political Market

	Attractive demand side	Unattractive demand side
Attractive supply side	Leader strategy	Leader strategy
Unattractive supply side	Follower (wait until another actor engages in political activities or until conditions on the supply side change)	Wait and see (wait to see if existing initiatives die by themselves)

Proposition 6: When both the demand and the supply sides of the political market are attractive, firms will tend to adopt a leader strategy in the political market.

If the demand side is unattractive but the supply side is attractive, a firm may also act as a leader, but for different reasons. Firms will engage in political activities early to prevent competing interest groups from exploiting the opportunity to raise the saliency of a political issue and to attract the attention of public opinion and policy makers (Keim & Zeithaml, 1986). An example is when the U.S. Chemical Manufacturers Association, led by Union Carbide, vigorously communicated its "Responsive Care Program" initiative, which went further than existing environmental regulations. This was a way for these firms to prevent the adoption of more stringent environmental practices, knowing that the demand side was increasingly unattractive because of repeated actions of environmental groups to raise the saliency of the issue (i.e., trying to make it an election issue), while the supply side was attractive, owing to the jurisdiction of a single bureaucracy—the EPA—on an issue with a narrow policy domain (Barnard, 1990).

Proposition 7: When the demand side of the political market is unattractive *but the supply side is attractive, firms will tend to adopt a leader strategy in the political market.*

When the demand side of the political market is attractive but the supply side is not, political actions are likely to be blocked or delayed and, thus, to be unsuccessful. In this case, a firm will wait and become a follower later, if another actor takes the leadership and if conditions on the supply side become more favorable. This is what happened in the United States with the most efficient steel producers, when they decided to lobby in favor of protectionist measures as mentioned in the introduction. Even though the demand side was attractive, the supply side was not, which encouraged these producers to delay. They finally engaged in strong lobbying when the supply side became more attractive in late 2001.

Two elements contributed to this change on the supply side. The most important was an increased rivalry among elected officials. Political analysts stated that as many as six House seats in the 2002 election could hinge on the fallout from a protectionist decision in the steel industry and six seats was the number it would take for Republicans to keep control of the chamber. In the previous U.S. presidential election in 2000, the steel belt provided a crucial battleground, especially in Pennsylvania, where George Bush lost by 5 percentage points to Vice President Al Gore. The steel-oriented state of West Virginia, however, allowed Bush to score a crucial upset in 2000, making him the first nonincumbent Republican to carry the state.

The second element that made the supply side of the political market more attractive was the increase in interest from the U.S. International Trade Commission (ITC), a bureaucracy with a quasi-monopoly on this narrow policy issue. Aggressively lobbied by the least efficient producers in the steel industry, the ITC found, in December 2001, that the U.S. industry had sustained serious injury from imports and recommended that the President impose some combination of import quotas and tariffs, ranging from 15 percent to 40 percent, depending on the type of steel. This second element convinced the most efficient steel producers that political action was now worthwhile and that following the least efficient steel producers was a sound strategy.

Proposition 8: When the demand side of the political market is attractive but the supply side is not, firms will tend to adopt a follower strategy in the political market.

Finally, when neither the demand nor the supply side is attractive, the firm can postpone its engagement in political activities and adopt a "wait and see" strategy. The firm, in this case, does not have much to gain by early entry and will wait for conditions on the demand or supply side to change. This was the situation facing Burroughs Wellcome Co., developer of AZT, the first drug commercialized for the treatment of AIDS. In the late 1980s the company found itself under pressure from various activists, who considered the $8,000/year price for AZT unfair. The activists' protests, especially those of Act Up, made the demand side of the political market unattractive by increasing public attention on the issue. The supply side also grew increasingly unattractive as several politicians from each party voiced sympathy with the activist groups. However, because AZT was granted approval by the U.S. Food and Drug Administration and the company had successfully deflected the questions of members of Congress in the past, Burroughs Wellcome delayed a political action response, something often considered puzzling for observers (Emmons, 1994).

Proposition 9: When neither the demand nor the supply side of the political market is attractive, firms will tend to postpone their engagement in the political market.

DISCUSSION AND FUTURE RESEARCH

We have argued that the political marketplace can be conceived of as a collection of political markets where demanders of public policy interact with suppliers, much like economic markets. Analyzing political markets can provide new explanations about why and when firms decide to engage in political activities. We argued that success in a political market is partly determined by market attractiveness and that attractiveness is an important determinant of why firms engage in political strategies. The attractiveness of a political market is a function of the level of rivalry on both the demand and supply sides. As in the economic marketplace, attractive political markets for a firm to enter are those with low rivalry on the demand side. Low rivalry between bureaucrats on the supply side or high rivalry between elected officials on the supply side also makes political markets more attractive (i.e., the probability of success is enhanced). This is contrary to the assumptions of economic markets, wherein more supply-side competition is always better for buyers.

We proposed that the following attributes make political markets more attractive: nonelection issues, issues with concentrated benefits and diffused costs or concentrated costs and diffused benefits, defense of existing regulations rather than challenge of them, creation of new issues as opposed to challenge of existing regulations, issues with a narrow policy domain, and those issues without unique partisan identification. Table 2 presents a summary of these ideas.

We argued that when both the demand- and supply-side attributes of a political market make it attractive, firms will be more likely to engage in political strategies. We also studied cases where one or both sides are unattractive and posited a link to timing of the firm's political strategies. We asserted that firms will be leaders in political markets—that is, act regardless of what other actors do—not only when both the demand and the supply sides are attractive but also when the demand side is unattractive while the supply side is attractive. However, when the demand side is attractive but the supply side is not, firms will wait for other actors to enter first and will become followers. Last, when both the demand and the supply sides are unattractive, firms will tend to wait. These arguments are important, in that the timing of political strategies has been relatively understudied by corporate political strategy scholars, despite the attention paid to the importance of timing in economic markets (e.g., first-mover advantages).

We think our effort makes important contributions to strategic management and the subset of literature on corporate political strategies. First, although the concepts of market competition, the attractiveness of markets, and competitive dynamics are at the core of strategic management research, few of these ideas have been used to examine the political environment in which firms operate. The conceptualization we present here allows us to push forward the structural analysis of competition in the political arena. This means not only the competition between demanders of public policy but also competition between suppliers, as well as the interaction between the two sides of the political market. This effort follows in the tradition of Porter's (1980) efforts to describe the characteristics of attractive economic markets and to provide a new explanation of why firms engage in

TABLE 2
Features of Competition in Political Markets

Attractiveness	Demand Side	Supply Side
Attractive political market	Low rivalry among demanders Nonelection issues Issues with concentrated benefits and diffused costs Issues with concentrated costs and diffused benefits Defending existing issues/status quo Advocating new issues	Low rivalry among bureaucrats Issues with narrow policy domains High rivalry among elected officials Issues without unique partisan identification
Unattractive political market	High rivalry among demanders Election issues Issues with concentrated benefits and concentrated costs Issues with diffused benefits and diffused costs Challenging an existing regulation or existing policy	High rivalry among bureaucrats Issues with broad policy domains Low rivalry among elected officials Issues with unique partisan identification

political activities. This new explanation was warranted, since existing explanations of this phenomenon have had mixed support in empirical studies (Zardkoohi, 1985). Future empirical studies can now explore whether the attractiveness of the demand and the supply sides of political markets explain a part of the variance so far unexplained.

We hope to motivate additional inquiries into the nature of political competition and suggest some related areas for future research next. First, empirical testing of the arguments we present here would make an important contribution. While existing empirical studies in political economy and political science have provided confirmation of the underlying assumptions of the market analogy (e.g., the self-interested motivations of bureaucrats and elected officials), further studies that explore the effects of rivalry on the success of a firm's political efforts would be insightful. Data such as Lenway and Rehbein's (1991) or Schuler's (1996) on why firms decide to file a request for unfair trading, for example, may allow for empirical testing of our propositions. Another setting that would fit the empirical investigation of our analytical framework is deregulated industries (telecommunications, electricity, postal services, etc.).

We hope our arguments also lead to further research on the timing of corporate political strategies. We have provided some new insights on this issue, but they represent a first step. To more fully explore this question, researchers could examine the ease of delaying political strategies and the reversibility of such. Concentrated efforts in this area may result, for example, in a real options approach for political strategies,[3] something that has not been considered so far.

Our work also opens new areas of research in terms of how specific political strategies can be used in the different situations we highlight here, even those we characterize as unattractive. We suggested that firms will be at a disadvantage when trying to affect an election issue, for example, but future research could explore how a firm could compete in a highly rivalrous demand-side market. If an election issue is highly salient to the ongoing efforts of a firm (e.g., deregulation, health care reform, or educational reform), its saliency may necessitate firm participation, despite increased rivalry. How a firm can more effectively compete in unattractive markets when necessary is an area for future research.

While firms only compete on the demand side of the political market, we have also argued that supply-side rivalry can affect the success of a firm's efforts. How firms can affect supply-side competition is also an area for future inquiry. For instance, by supporting the creation of a new regulatory agency or supporting multiple candidates for election, firms may alter the competitive dynamics.

More generally, we think that many other efforts, both theoretical and empirical, can be based on the analogy between political arenas and markets. We have constrained our focus for this initial step and, in doing so, have not addressed many issues related to political markets (e.g., entry barriers, product substitutes, strategic groups, or multipoint competition). A directly related question is how firms engage in political strategies. Pursuing the analogy with economic markets, there are many complementors (e.g., industry groups, peak associations, or lobbyists) firms could rely on to conduct political strategies that can be examined in future analyses.

We have argued that strategic management researchers can provide a richer understanding of firm performance by considering firm participation in the political marketplace and the integration of economic and political markets. Although we have not undertaken such an effort here, we see this as a desired outcome of this line of inquiry. In this spirit, we encourage future research modeling the integration of the economic and political markets in order to formulate and implement strategy (Baron, 1995).

Our effort here has been largely to portray central tendencies in rivalry on both the demand and supply sides of the political marketplace, regardless of the institutional setting. In a large body of literature, researchers have explored the effects of institutional arrangements on corporate political strategy (Murtha & Lenway, 1994; Ring, Lenway, & Govekar, 1990; Rugman & Verbeke, 1993). The robustness of the curves described in Figure 3 (i.e., slopes and shapes) may vary in situations where suppliers can act as agenda setters or as veto players. How the propositions we advance would be

[3] We are indebted to guest editor Peter Ring for this suggestion.

modified for specific institutional arrangements is another promising area for future research.

Finally, as noted in our introduction, we have restricted our examination here to the external characteristics that affect the attractiveness of a political market. We do not look inside the firm. We made this decision in order to provide depth over breadth. As research in the strategy discipline has shown, competitive advantage in the economic marketplace is derived not only from industry attractiveness but also from internal firm resources and capabilities (i.e., as represented by the resource-based view of the firm).

We believe that internal resources and capabilities are important determinants of success in the political marketplace and that future research should include not only market attractiveness but also internal political resources and capabilities. Following our approach, researchers could examine political resources as they affect exchange between firms (and other demanders) and suppliers of public policies. This could also lead to a definition of capabilities as the way by which firms mitigate transaction costs and facilitate contract making in political markets. Those clarifications should facilitate analysis of how rare, replicable, or imitable these political resources and capabilities can be. This should also lead to more investigation of how economic and political resources and capabilities can be integrated, as well as the potential costs of integration. Last, this should encourage discussion and empirical investigation of how these political resources and capabilities are developed by firms. Opportunities for future research based on this concept of a political market are numerous and, we hope, inviting.

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