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Top management teams and corporate political activity: Do top management teams have influence on corporate political activity?

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ABSTRACT

This study explores how senior executives affect firms' propensity to engage in political activity. I propose that firms' participation in the political process depends on their senior executives' involvement in political activity. I examine this framework using data on the campaign contributions of 151 U.S. manufacturing firms during the years 1999–2002. The results suggest that senior executives' involvement in a particular political activity affects their firms' commitment to that political activity, contingent on CEO tenure and top management team heterogeneity.

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1. Introduction

Increasing complexity and uncertainty in the competitive environment have made it difficult for firms to rely solely on market-oriented strategies. Recently, they have started acknowledging the potential benefits of nonmarket strategies for their competitive advantages (Bonardi, 2008), using a number of activities and tactics to influence public policies (Baron, 1995; Ozer and Lee, 2009). Prior literature has established the importance of corporate political activities, defined as the proactive actions of firms to influence public policy environment in a favorable way (Baysinger, 1984) (for a review, see Hillman et al., 2004). Increasingly, scholars have focused on the question of why firms pursue corporate political activities (Esty and Caves, 1983; Getz, 2002; Grier et al., 1994; Hart, 2001; Mitchell et al., 1997; Schuler, 1996). Research on the engagement of firms in political activity is growing, but prior studies have mainly focused on broad industry-level influences on corporate political activity. Specifically, research on political activity in political science and economics argues that firms engage in political activity due to outside pressures (Olson, 1965; Stigler, 1971). These studies have been grounded in several theoretical perspectives which include interest group theory (Dahl, 1961; Lowi, 1969), public choice theory (Buchanan and Tullock, 1962), and collective action theory (Olson, 1965). These theories assume that firms engage in political activity as a response to activities of other firms/groups in the political arena. As a result, research driven by these theories treats "business" as a single coalition and contends that "business" works collectively as a social class to secure its own interests (Epstein, 1969; Getz, 1997).

While these studies provide compelling arguments that industry-level factors influence corporate political involvement, they do not take into account how executives shape their firms' commitment to particular political actions. Their focus on macro-level factors and treatment of "business" as a unified class prevents the consideration of executive influence on firms' propensity to shape their political environment. However, a firm's involvement in political activity may be fundamentally driven by executives' decisions. For instance, senior executives decide the amount of resources allocated for corporate political activity (Griffin and Dunn, 2004; Wilts, 2006). Senior executives may also recognize public policy issues and interpret their salience to corporate interests (Wilts, 2006). Therefore, the firm's engagement of political activity can be a reflection of interaction between the firm's senior executives. Accordingly, corporate political activity can be actively shaped within the firm.

These two perspectives differ in terms of their assumptions about whether senior executives significantly influence their firms' participation in political activity or whether macro-level factors are more influential and limit the influence of senior executives. Although the role of macro-level factors on corporate political activity has been widely studied, the influence of senior executives on corporate political activity has only received very limited attention. Thus, little is known about the role of the top management team (TMT) (defined as all top-level executives including the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), and executive vice presidents) (Finkelstein and Hambrick, 1996) on their firms' political activities. Accordingly, the purpose of this study is to examine whether the TMT members' involvement in political action directly affects their firms' commitment to political action.

This study makes several contributions to the corporate political activity literature. First, it builds on upper echelons theory (Hambrick and Mason, 1984) by incorporating the TMT into corporate political

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activity research as a factor affecting corporate political involvement. This illustrates that TMTs take proactive roles in shaping and controlling their political environment. Second, this study contributes to a deeper understanding of how TMTs can opt to manage their political environment. Rather than relying on public affairs managers, TMTs may consider corporate political activities one of their strategic choices in the decision-making process. Third, this study shows that CEO tenure and TMT heterogeneity moderate the relationship between TMT involvement in political activity and firms' commitment to political activity, extending the existing literature on corporate political activity by arguing that there may be intra-firm variations in firms' commitment to political action. The hypotheses of this study are empirically tested using a unique dataset from the financial contributions of 151 U.S. manufacturing firms and their senior executives to political action committees (PAC) during the time period from 1999 to 2002.

2. Theory and hypotheses

Prior studies argue that business–government interactions represent a strategy to achieve competitive advantages by creating new capabilities (Baron, 1995). The base argument is that the government often shapes firms' competitive environments, and since firms are affected by government policies they will attempt to influence the policy-making process in their favor. As a result firms implement various corporate political activities to help handle the uncertainty in their competitive environment by gaining access to political processes and influencing public policy (Epstein, 1969; Hillman et al., 1999).

While previous studies of corporate political activity provide insights into the antecedents of firms' engagement in political activity (see Hillman et al., 2004 for a review), there has been a lack of attention to the impact of TMTs on firms' decisions to invest in political activities. This paper diverges from the previous literature on corporate political activity by specifically considering the influence of TMT characteristics.

In recent years there has been an increasing emphasis on the influence of TMTs on decisions such as strategic change (Boeker, 1997; Mueller and Barker, 1997; Wiersema and Bantel, 1992), diversification (Tihanyi et al., 2000), international expansion (Lee and Park, 2006), acquisitions (Jensen and Zajac, 2004), and innovation (Kor, 2006). This stream of research hinges on upper echelons theory (Hambrick and Mason, 1984), which is based on the assumption that a firm is a reflection of its TMT and that TMT members' cognitions, values, and perceptions subsequently influence both strategic decisions and firm performance.

This study is an extension of the upper echelons perspective on the relationship between TMTs and corporate political activity. There seems to be an agreement in the literature that corporate political activity decisions may influence firm performance (Shaffer et al., 2000), and as a result corporate political activity may be of interest to TMTs. The underlying premise of this study is that corporate political action has become a strategic issue for TMTs and TMTs' involvement in political action could be an alternative explanation of firms' engagement in political action.

2.1. TMT involvement in political activity

Drawing on upper echelons theory, I propose that TMT involvement in political action may play an important role in influencing firms' strategic decisions on political activity. One of the major functions of the TMT is to manage the firm's interface with its environment (Finkelstein and Hambrick, 1996), and it is plausible that the TMT may play a prominent role in the firm's commitment to political activity intended to manage the political environment.

It is possible that there may be different opinions among TMT members with regard to the firm's participation in political activity. Disagreements on whether or not to engage in a political activity and if so which activity to implement are likely to occur; agreement among TMT members may not form easily (Clawson et al., 1998). For instance, Gordon et al. (2007) show that corporate executives differ in terms of their willingness to contribute to campaign contributions, indicating the divergent motivations of executives in political activities. Presumably corporate political activity requires not only a shared perception, but also a shared commitment among corporate executives.

Within corporate political activity literature there has been an emphasis on the involvement of TMTs in political activity; much of this work explored the linkage between TMT involvement and the effectiveness of these activities. For example, Lord (2003) argues that the involvement of TMT members in constituency-building activities indicates the priority of public policy concerns for their firm's performance and increases the alignment of the firm's corporate political activity with its marketplace strategy. Similarly, Wilts (2006) asserts that the extent to which managers identify themselves with their firm both structures corporate political activity decisions and enhances their willingness to represent corporate interests. He also contends that TMT members play a significant role in the recognition of public policy issues and the interpretation of their salience to firm interests, as TMT members make resource allocation decisions with regard to particular political activities (Hart, 2004). Developing a firm's political activity requires consensus among the TMT members on the relevance of the corporate political activity to firm's performance and survival (Chataway et al., 2004). Accordingly, TMT members' willingness to become involved in political activity stems from their recognition of the importance of political activity to their firms' success; their involvement in political activity is not an individual choice, but a representation of their corporate interests.

H1. TMT involvement in political activity will be positively associated with a firm's corporate political activity.

2.2. CEO tenure

The strength of the proposed relationship above is likely influenced by additional factors, and I propose that CEO tenure moderates the effect of TMT involvement in political action on a firm's corporate political activity. CEO tenure has been consistently recognized as a prominent factor in the strategic decision-making process (Barker and Mueller, 2002; Carpenter et al., 2001; Musteen et al., 2006; Walters et al., 2007). Hambrick and Fukutomi (1991) suggest that CEOs enact strategies they are more comfortable with and which have been previously effective in their early careers, avoiding risky strategies that may jeopardize their position. They also have limited task knowledge which makes it more difficult for them to invest in risky decisions; however, in the later phases of their tenure CEOs become more familiar with the strategic decision process and acquire greater task knowledge, expertise, and experience (Herrmann and Datta, 2002; Kim et al., 2009). As a result they tend to pursue strategies involving higher levels of risk and greater resource requirements.

Based on the above arguments, I propose that a long-tenured CEO influences the relationship between TMT involvement in political action and the firm's corporate political activity. A CEO with long-term tenure may have a better sense of how changes in the political environment impact the firm's strategies and over time may become more familiar with the public policy process. A long-tenured CEO could be more willing to make organizational commitments to political activities, playing a significant role in determining how many resources will be dedicated. Such a CEO can additionally motivate other TMT members to allocate the necessary resources for corporate political activities.

H2. CEO tenure will positively moderate the relationship between TMT involvement in political activity and a firm's corporate political activity.

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