The Relationship between the Density of Fortune 500 Companies within a State and Their Political Donation in the Elections of Senators

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Abstract

Along with the growing interest in nonmarket strategy, more attention has been paid to companies' strategy in social and political dimensions. However, comparing to social strategy, the literature of companies' political strategy has fallen behind the literature of companies' social strategy. This study aims to explore the special context in the US senators' election, where each state elects two seats of senators regardless the size of population within the given state. Under this election format, senators need fewer votes in less populated states than those senators in states with more population. In order words, business located in different states may carry different levels and influences of political resources that the local candidates need. By incorporating with bargaining power theory, we suggest companies' and political candidates' bargaining power may vary across different stages of election cycle. Specifically, business's bargaining power may be higher before the election cycle. However, it drops significantly after the politician winning the election. Furthermore, it increases again when the next election cycle is approaching. Besides, candidate's congressional leadership overlapping with the company's interests and incumbent status will make the politician a competitive candidate to positively moderate the differences of companies' political donation. This study suggest that business may utilize nonmarket strategy to maximize its influence on the political arena in order to secure and facilitate a better competition environment.

Keywords: Nonmarket strategy, Political donation, US Senator, Bargaining Power

1. Introduction

Although companies have increased their interests in political acitivities, little has been known in this research domain (Baysinger, 1984; Korschun, Martin, & Vadakkepatt, 2020; Schuler, Rehbein, & Green, 2019). Built on the concept of the attractiveness of political markets, we would like to incorporate with the concept of the bargaining power (Bonardi, Hillman, & Keim, 2005; Coff, 1999) and the stakeholder theory (Freeman, 1985) to provide an empirical study regarding the relationship between businesses and their political interests within the context of the elections of senators in the United States.

We suggest that the political markets are dynamic in term of the bargaining power associated with candidates and businesses within the market (Hillman, Keim, & Schuler, 2004; Lux, Crook, & Woehr, 2011). For example, in physical market, Wal-Mart has greater bargaining power comparing to its suppliers, and the relationship is stable and less interchangeable. However, in the market of politics, candidates' bargaining power dramatically increases after their win their offices, and possibly decreases again when they are running the reelections (Schuler, 2002). Therefore, the relationships of bargaining power within the market of politics are more interchangeable and unstable than that of physical market. We will discuss more detail argument in later section. The dynamic framework, incorporated with the bargaining power and the stakeholder theory, of political market that We will proposes in this paper will help people more clearly understand the market of politics.

The importance of political action committees (PACs) has been under debate in recent years (Mizruchi, 1990). Milyo, Primo and Groseclose (2000) criticized that the conventional wisdom overestimated the importance of PACs. They provided the data of contributions in congressional elections and asserted that PACs contributions accounted for about 10% of total congressional campaign spending. However, we suggest that, after the implementation of regulation regarding political contribution in 1976, the number of registered PACs dramatically increased before 1978 and accounted for around 40% of the number of current PACs. This factor might imply that companies have been interested in interacting within the political arena, and, therefore, actively registered their PACs right after the new regulation.

In addition to the interests of companies in political arena, the contributions of companies' PACs may reflect the aggregative attitudes of the companies since the funds of PACs are donated collectively by managers and shareholders (Adams & Hardwick, 1998). An analysis of corporate donations: United Kingdom evidence. Journal of management Studies, 35(5), 641-654.). We suspect that, comparing to the issue-specific lobbying, the allocations of PAC funds will depend on companies' general political interests. Therefore, the general intentions reduce potentially biased political expenditures of companies.

If those are reasonable arguments to support that companies are interested in the political arena, and PAC contributions are a good measurement of companies' political interests, the next issue comes to why so little money is contributed by PACs to candidates? PAC contributions have been highly regulated and clearly disclosed. However, the expenditures of soft money and lobbying are much fuzzier in term of their boundary. To define expenditure being soft money and lobbying remains a great sense of art to frame the purpose and processes involved in this spending. Therefore, we suspect that companies may be able to alternatively reframe and hide certain amount of money associated with highly sensitive lobbying and soft money.

Therefore, our concern is that companies, in general, may avoid highly visible actions, in this case PAC contributions, comparing to soft money and lobbying. For example, in Milyo et. al. (2000) paper, they argued that political contributions, in some sense, are bribes. If companies want to remain the good standing with the public, do they want to show how actively they bribe the legislators? The reasonable answer is that most of companies do not want to be considered active bribers. As a result, little PAC contributions can be reasonably expected.

Consequently, in this research, we do not intend to argue the importance of PAC contributions. The purpose of this paper is to explore the behavioral patterns of companies through the lens of PAC contributions. The behavioral patterns identified here are whether companies perceive their bargaining power differently in the political arena and, therefore, response to their PAC contributions in different ways. In particular, our research questions aim to explore three research questions. Our first question tries to discuss the whether Fortune 500 companies will take advantages of bargaining power in the political marketing to make donation decisions and maximize their influences in the US senators' elections. Second, what are the moderating effects of a senator's congressional leadership and incumbent status may affect the Fortune 500 companies' donation behaviors on making political donation.

The election of a US senator is a special form of election. Every state has two senators, and does not depend on the numbers of residents to decide how many senators the states have. The elections of senators in less populated areas need fewer votes and resources to run the elections and win the offices. In addition, fewer Fortune 500 companies are located in less populated areas. As a result, the political importance of Fortune 500 companies may increase in less populated areas because those companies have a greater amount of employees, monetary resources, and professional knowledge in these regions. Their behaviors become harder to predict and these phenomena frame interesting scenarios for further investigation (Aggarwal, Meschke, & Wang, 2012).

Therefore, in the elections of senators, we are able to explore the behavioral patterns that distinguish companies' allocations of political contributions depending on their relative strength among local competing companies. Based on the bargaining power theory, there are two possibilities to predict companies' behaviors in the context of less populated areas with scarcer resources. Companies may easily become one of the senators' most influential constituents because of the huge amount of people they employ, monetary resources, and professional knowledge. As a result, they may donate less money because of their political resources that they can provide for senators.

On the other hand, companies may envision a greater cost and benefit effect, because of the political infrastructure making them influential players in the elections of senators. Therefore, in this interpretation, companies are more aggressively participating in political activities to further enhance their political influences.

2. Literature Review

As previously discussed, businesses have been interested in interacting with policy makers. Bonardi, Holburn, and Vanden Bergh (2006) argued that businesses purse political activities as nonmarket strategy performance. In particular, the political activities are influenced by the characteristics of a firm's regulatory and political environment.

In addition to the argument of nonmarket strategy, Burris (1987) emphasized that the new data available on PACs activities could provide an efficient route to investigate the relationship between business and its political contributions. Therefore, although Ansolabehere, De Figueiredo, and Snyder (2002; 2003) asserted that there is little money in politics, our intention in this paper is to find the behavioral patterns, as previously defined how do companies perceive their bargaining power in the political arena and how do them response to their power, through the lens of PACs contributions.

Since the interactions between legislators and businesses form a market-like platform to exchange their resources, we suggest that integrating theories in business may generate new ideas and points for understanding the market of politics. As a result, We based our theoretical arguments on the bargaining power (Coff, 1999) and the stakeholder theory (Freeman, 1985), and integrated them into the concept of political market (Bonardi et. al., 2005).

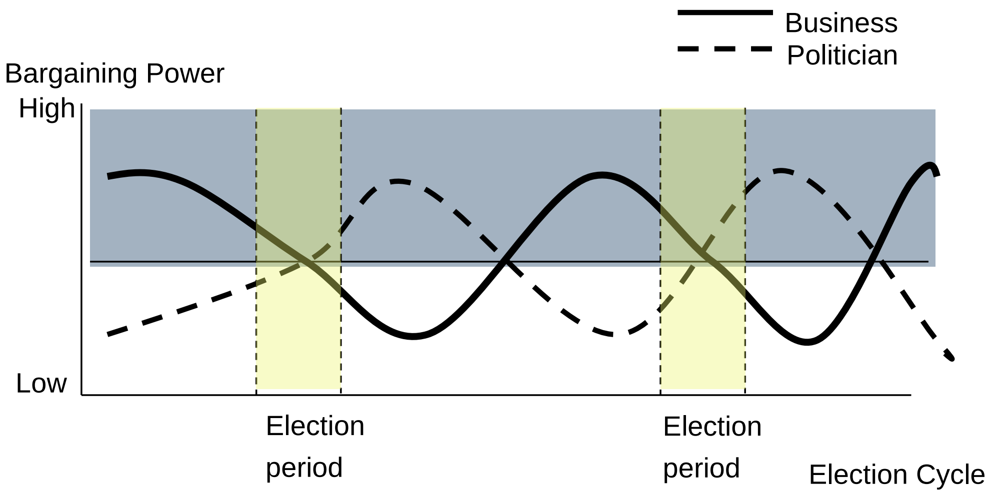

Figure 1: The dynamic relationship associated with businesses and candidates

When we examined the market of politics through the lens of bargaining power (Coff, 1999), we found that the bargaining power associated with candidates and business is dynamic across different time. Figure 1 shows the dynamic relationship of bargaining power within the market of politics. Candidates' bargaining power drops before running elections. However, after they win their offices, their bargaining power increases because of their authority. On the other hand, businesses' bargaining power increases because candidates need their support and donations. However, businesses' bargaining power drops after the candidates win their offices since they may need to consider a wide range of interests from different stakeholders not a single company's interests.

However, in the physical market, in which we are more familiar with, the relationship of bargaining power is relatively stable. For example, Wal-Mart is much more powerful than its suppliers and the relationship is unlikely to change in a certain period of time. On the other hand, the bargaining power associated with an individual buyer also relatively stable and implausible to change across different time. Nonetheless, in the market of politics, an individual may increase his or her bargaining power before election dates. Candidates are more willing to hear from their voters before their election dates. Therefore, this factor distinguishes the market of politics from the physical market, and implies that the market of politics may be involved more dynamic relationships than the physical market.

Linking the bargaining power theory to the stakeholder theory, we further try to offer a potential answer for a previously questioned issue from other scholars, why so little money in PAC contributions. A possible explanation is that since the dynamic relationship within the market of politics, uncertainty and unparallel expectations between voters and candidates make businesses prefer employing issue specific lobbying to ensure the profitability of their political investment.

As a result, we find that companies' political donations may be heavily related to their bargaining power in the political market. When their bargaining power is greater, they will believe that their PAC contributions have sufficient incentive to draw candidates' attention. However, when their bargaining power is lower, they will prefer utilize lobbying to secure their political positions.

As previously discussed, Fortune 500 companies can be one of the influential groups or stakeholders to affect the political market in the less populated states in the elections of senators. In particular, those less populated states are also more likely the states with less density of main offices of Fortune 500 companies located. In this research, we are interested in the interactions between the business and political arenas. We focus on the density of main offices of Fortune 500 companies within the same state to be our measurement of political environment.

Therefore, in the context of the elections of senators, one expectation is that Fortune 500 companies located in the states with less density of Fortune 500 companies located within the states will be more influential in the elections. The political environment favors those companies located in the states. The greater bargaining power makes the companies expect a higher cost and benefit effect. As a result, they are willing to make more PAC contributions in order to further enhance their political influences (Keim, & Zeithaml, 1986). As a result, we would to propose the hypotheses in this paper as following:

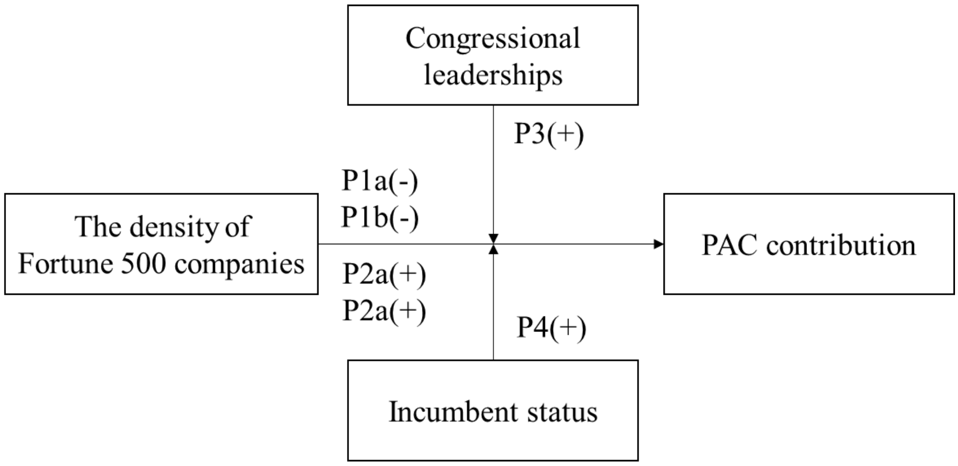

Figure 2: Conceptual Framework

Proposition 1a: There is a negative relationship between PAC contributions and the density of Fortune 500 companies within the same state.

More specifically, companies may aggressively make their PAC contributions before elections to show the candidates their supports.

Proposition 1b: There is a negative relationship between PAC contributions and the density of Fortune 500 companies within the same state before the dates of elections.

However, the other expectation is that Fortune 500 companies are one of the influential groups in less populated states. Additionally, not many main offices of Fortune 500 companies are located in those less populated states. The companies located in low density of Fortune 500 companies within the same state will tend to take advantage of the greater among of political resources. Instead of making PAC contributions, they take the advantage of their resources available for local candidates to wait for the outcomes of elections, and postpone decisions of political investment after elections (Lord, 2000).

Proposition 2a: There is a positive relationship between PAC contributions and the density of Fortune 500 companies within the same state.

More specifically, companies may passively make their PAC contributions before elections, but make their contributions when certain candidates win the elections in order to maximize their profitability of PAC contributions. Since companies in less density areas are senators' powerful stakeholders within the states, they can wait and see who win their offices, and make their contributions. Their bargaining power will force senators to respect and listen to them even though they only make their contributions after the senators win their offices.

Proposition 2b: There is a positive relationship between PAC contributions and the density of Fortune 500 companies within the same state before the dates of elections.

Since senators may serve in different board in congress, the consistence of businesses' and senators' political leadership may moderate the bargaining power associated with both businesses and senators.

Proposition 3: Senators' congressional leaderships overlapping the local companies' interests positively moderate the relationship between PAC contributions and the density of Fortune 500 companies within the same state.

Many researchers reported that incumbent senators receive much more donations than challengers. Therefore, in this research, we would like to test whether the status of candidates such as challengers, open seats, and incumbents moderate the bargaining power associated with businesses and candidates.

Proposition 4: Candidate's incumbent status positively moderates the relationship between PAC contributions and the density of Fortune 500 companies within the same state.

3. Discussion & Conclusion

The elections of US senators form an interesting format for testing the bargaining power among companies' PAC contribution and candidates. This research framework shed light on the interaction between business and political candidates. The levels of bargaining power between business and political candidate vary across different stages of election. Business may show their loyalty in early stage of election cycle, or take advantages of their political resources depending on the companies' strategic choices. Besides, candidates' congressional leaderships overlapping with business' interests and candidates' incumbent status may moderate companies' intension on making political donation.

3.1 Theoretical and Practical Implication

As the growing interests in nonmarket strategy (Baron, 1995), corporate social responsibility (CSR) has drawn greater researchers' attention. However, relatively little has been studied in the political-business relationships. This study applies bargaining power theory to estimate the dynamics between business and political candidates to examine the different levels of bargaining power across different stages within an election cycle. Additionally, candidates' congressional leadership and incumbent status serve as mechanisms to drive different patterns of companies' political donation (Hillman & Hitt, 1999).

For managers in the companies, where public policy plays a key role on affecting business' operations. Managers should pay greater attention to monitor the political ties with congress men by adopting different strategies to maximize their influences on the political arena (Quinn & Shapiro, 1991; Sun, Mellahi, Wright, & Xu, 2015). In addition, carefully reviewing their PAC contribution to build stronger connections with congressional leadership may improve the outcomes of their donation.

3.2 Limitation and Future Research

Although the form of the elections of US senators is an interesting scenario, there is almost no other election having the similar method. Therefore, the first concern will soon direct to the external validity of this research. Since most of other elections are based on the number of residents to decide the seats available for elections, the results of this research may be less effectively explaining the behavior patterns in other elections.

In addition to the concern of external validity, the membership of committees that senators hold in congress may vary companies' intentions of making contributions. For example, a high tech company may not be willing to make its PAC contributions to a senator serving as a member of banking committee even though the senator was elected from the company's state. This potential problem will jeopardize the results of this research, and potentially make this research finding nothing since it is hard to control senators' and companies' interests within the same states. Besides, since there may be many influential industries within the same state, senators may be unable to satisfy everyone or serve in different kinds of committees.

Fortune 500 companies are operating in multiple states. The senators within the same states may not either serve the best interests of the companies or get along with the top managers of the companies. As previously mentioned, senators may not be in the committees that is the best interest of local companies. However, senators from other states in the committee may attract the companies allocate more money to donate to them, and companies may neglect contributing to the locally elected senators. Additionally, top managers may have more chances to physically interact with senators within the same states. Personal relationships may become another issue that this research is unable to capture (Bond, 2007; Lu, Shailer, & Wilson, 2016). The concern is that whether the candidates and top managers develop extremely good or extremely bad relationships because they have more opportunities to know each other, and the more interactions between people the more likely people will have conflicts or develop close friendships. However, we are worrying about these two extreme friendships may cancel out the effects of each other.

Recent research showed that the importance of PAC has been overstated by traditional view of political contributions. This stream of research proposes that companies intended to pay more money on lobbying and soft money instead of PAC contributions. Although we did not intend to maintain the importance of PAC contributions in this research, our concern is that since PAC activities may serve just like an insurance for companies to have the privilege to knock the congressmen's doors when necessary. Their intentions of allocating resources to their PACs may not as we expected to maximize their expected returns based on their bargaining power. Therefore, the significant results may not easy to be found. Additionally, it may need more in-deep interview or survey to confirm the intensions of companies' political contribution, even though the research can identify the hypothesized relationships.

For future research, we would suggest test the independent variable of Fortune 500 companies' main markets instead of their main offices. Main markets may have critical value for companies to secure their political positions to exclude local competition. Therefore, if many similar companies compete within the same states, it will be an interesting scenario to further test their political reactions within the states.

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