

## **2 Literature on CSR, Lobbying and Responsible Lobbying**

### **2.1 Preview**

In this chapter, literature on CSR, lobbying and responsible lobbying is reviewed to provide the groundwork for the conceptual and empirical contributions that this study aims at. First, Chapter 2.2 elaborates on corporate responsibilities, i.e., the state of the art in literature on CSR, stakeholder theory, sustainability and the politicized concept of CSR. Chapter 2.3 provides a review of research on lobbying and the broader field of Corporate Political Activity (CPA); it includes a discussion of key social science theories that can be applied for lobbying studies and an examination to what extent these theories can be used in a responsible lobbying study. The final section (Chapter 2.4) delivers an overview on previous attempts to link lobbying and CSR and to analyze responsible lobbying.

### **2.2 Literature on Corporate Responsibilities**

The first scholarly attempts to provide a conceptual framework to describe corporate responsibilities towards society started in the U.S. in the 1950s. At that time the term “CSR” came up for the first time (*Carroll* 2008). Since then, scholars have continued to search to define what a firm’s social responsibilities are. The concept of CSR has grown and gained considerable popularity, but it remains a debated issue. Today, the literature on CSR reflects a well-established field, with a range of different approaches and a number of related concepts such as stakeholder theory and sustainability (*Garriga and Melé* 2004, *Schwartz and Carroll* 2008, *Melé* 2008). There is theoretical work including “economic/strategic” and “duty-aligned/ethical” approaches (*Gond et al.* 2009: 66, *Swanson* 1995), and a large amount of empirical, mostly quantitative studies (*Lockett et al.* 2006).

The following review of CSR literature deals with the challenge of reaching a common understanding of CSR (Chapter 2.2.1), introduces Carroll’s CSR pyramid as one of the most widespread concepts in the field (Chapter 2.2.2) and discusses three issues that are relevant for the responsible lobbying context (Chapter 2.2.3): 1. the justification of CSR on instrumental and moral grounds, 2. the relation between CSR and philanthropy and 3. the voluntariness of CSR. Next, three CSR related concepts are considered that deal with the relation between business and society and provide important insights as the basis for responsible lobbying research: stakeholder theory (Chapter 2.2.4), sustainability (Chapter 2.2.5) and the politicized concept of CSR

(Chapter 2.2.6). The section ends with a summary of key findings on corporate responsibilities (Chapter 2.2.7).

### 2.2.1 The Challenge of Defining CSR

CSR is an “essentially contested concept” (Okoye 2009) and no single definition has been agreed upon either by academics or practitioners of CSR (Carroll 1999, McWilliams *et al.* 2006, Valor 2005). Bowen (1953: 6) put forward an early definition of the social responsibilities of business as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”. Later definitions rather focus on the role of the firm instead of the single manager; for instance by describing CSR as “the firm’s consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm” in order to “accomplish social benefits along with the traditional economic gains which the firm seeks” (Davis 1973: 312). In its broadest sense, CSR “draws attention to a complex range of issues and elements that are all related to the position and function of the business enterprise in contemporary society” (Jonker 2005: 20). While many proponents of CSR consider meeting corporate responsibilities as a way to enhance the firm’s success, some critically oriented scholars deny there could or should be a direct link. This reveals for example the following definition, according to which CSR is “the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company” (Kok *et al.* 2001: 288).<sup>2</sup>

One way to examine what CSR means is analyzing its three components:

- “Corporate” points to the firm as a legal entity with an internal decision structure, a specific organizational culture and some form of moral agency that shapes the decisions made by those in the firm (cf. Crane and Matten 2010: 49). Yet, the concept of the nature of the “firm” is far from unified: Large parts of traditional management research (and also many CSR scholars focusing on economic performance) model the firm as a unitary entity standing apart from its larger context; other scholars understand the firm as a heterogeneous conglomerate being part of a larger community (Stormer 2003, Solomon 2004).

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<sup>2</sup> Financial and moral justifications of CSR are discussed in Chapter 2.2.3.1.

- “Social” refers in its basic meaning to society. However, “social” can be interpreted quite differently, e.g., as referring to the “wider societal good” (*Matten and Moon* 2008: 405), to the firms’ responses to changing social expectations or as the attempts to accomplish positive social change (*Aguilera et al.* 2007).
- The third part underlines the aspect of “Responsibility”. Following *Argandoña and Hoivik* (2009), there are four different elements of responsibility that go beyond a purely legal meaning:
  1. Responsibility as attribution, in the sense that an agent acted (or failed to act) in the past, and the resulting responsibility and its consequences are attributed to the agent.
  2. Responsibility as a duty, meaning the obligation for the present or the future to take actions that are necessary or appropriate.
  3. Responsibility as responsiveness refers to the sensitivity or willingness to respond to the needs or demands of others.
  4. Responsibility as accountability, in the sense that the agent is capable of accounting of and for an action or omission.

These four aspects all underline the fundamentally ethical meaning of CSR, but they have quite different implications and hence rather complicate the quest for a unified understanding of CSR.

Overall, examining the three components of CSR opens up new discussions rather than putting an end to the debate. However, even in light of the multitude of CSR definitions and the underlying differing understandings of what corporate responsibilities entail, it is possible to identify not only varying features and development over time, but also some common ideas. One of the common assumptions behind most of the currently spread definitions is that firms should pay attention to social and environmental issues and behave in an ethical manner (*Banerjee* 2008a: 62). CSR scholars also tend to share the idea “that business and society are interwoven rather than distinct entities” (*Wood* 1991: 695). Another aspect running through most definitions is the voluntary and discretionary nature of corporate social responsibility, as reflected, e.g., in the definition of CSR as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (*McWilliams and Siegel* 2001: 117).<sup>3</sup> Recent definitions stress the *impact* of

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<sup>3</sup> Chapter 2.2.3.3 focuses on the question whether CSR is indeed a voluntary approach.

corporate activities on society, e.g., *Crouch* (2006: 1534) sees CSR as “behaviour by firms that voluntarily takes account of the externalities produced by their market behavior”, whereas “externalities” are “results of market transactions that are not themselves embodied in such transactions”.

Efforts to establish a universal definition of CSR continue, but achieving one is difficult for various reasons:

1. An overarching definition of CSR may not be desirable, as it would have to be so broad that it would be “too vague to be useful in academic debate or in corporate implementation” (*van Marrewijk* 2003: 96).
2. There is not only a great variation of CSR understanding in the academic discourse, but also great differences regarding the practice of CSR. While some firms – especially those with an U.S. background – focus on philanthropic gestures, others take action in areas such as the environment, working conditions and human rights.
3. The way that firms interpret and respond to demands by society differs across nations and regions, as e.g., *Matten and Moon* (2008) reveal in their comparison of CSR in the U.S. and Europe. Due to the institutional differences a globally valid definition of CSR does not seem feasible.
4. CSR is a dynamic concept, changing over time: Definitions have been constantly refined, reflecting conceptual developments, changes in managerial practices and to some degree also managerial fashions (*Gond and Moon* 2011).

The last observation regarding the constant change of the CSR agenda can be exemplified by taking a look on the recently rising importance of issues such as justice and human rights that both had not played a significant role neither in practice nor in the literature. The idea of justice has been taken up by CSR scholars that have suggested both procedural (*Brebels et al.* 2011) and distributive justice (*Plachciak* 2008) as integral elements of CSR. Human rights are gaining relevance particularly for firms operating in diverse political and cultural environments. Human rights are not specifically located within the nation-state, but have been agreed upon in international covenants such as the Universal Declaration of Human Rights (*UN General Assembly* 1948), and many scholars discern an active role for firms in the protection of human rights (*Kobrin* 2009, *Cragg* 2000).

The mentioned difficulties that undermine efforts to come to a universal CSR definition do not relieve from the task to clarify the understanding of CSR that serves

as the basis for this study of responsible lobbying. The study follows the approach of leading scholars to conceptualize CSR as a broad, comprehensive umbrella term referring to all those debates that deal with the “responsibilities of business and its role in society” (*Scherer and Palazzo* 2007: 1096, cf. *Matten and Moon* 2008: 405), encompassing related fields such as stakeholder theory and corporate citizenship. Hence, not only key aspects of CSR will be discussed and clarified in the following, but also central concepts of stakeholder theory, sustainability and politicized CSR. However, first the study takes a look at the CSR pyramid developed by Archie Carroll. This course of action is recommendable, as many scholars have opted to deal with the diversity of the CSR field by applying Carroll’s concept. Knowledge on his classic approach helps to understand central debates in the field.

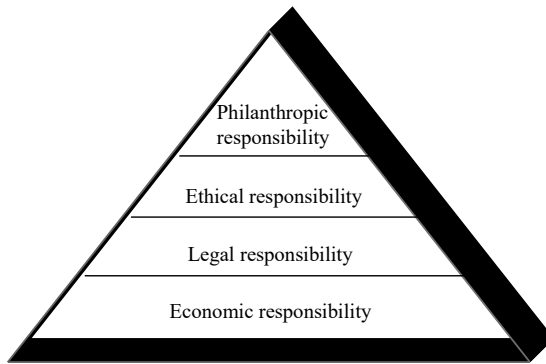
### 2.2.2 Carroll’s CSR Pyramid

Archie Carroll’s highly accepted and widely used CSR model conceptualizes four types of responsibilities for the firm (*Carroll* 1979, *Carroll* 1991, *Carroll and Buchholtz* 2012). Corporate responsibilities are presented as consecutive, interrelated layers within a pyramid: The model depicts economic responsibility as the basis for all subsequent responsibilities; whereas economic responsibility is defined as the responsibility to produce goods and services that society wants and to sell them at a profit. Legal responsibility refers to the obligation to fulfill the economic mission within the framework of legal and regulatory requirements. The ethical responsibility describes the obligation to do what is right, just, and fair. Discretionary/philanthropic responsibility is where an organization goes beyond its everyday expected duties, e.g., by making donations.

Carroll’s model is a pragmatic and in many contexts useful model for describing and explaining CSR, but several scholars have pointed to its limitations:

1. The static, hierarchical pyramid has been criticized as too simplistic to capture the complexity of CSR in practice (*Crane and Matten* 2010: 55).
2. According to *Carroll* (1999: 289), the four different responsibilities should not be fulfilled in sequential fashion, but each is to be fulfilled simultaneously; Carroll does not provide guidance for the case of conflicting demands imposed by layers, e.g., when legal and ethical or economic and ethical demands contradict (*Crane and Matten* 2010: 55).

3. Neither variations of CSR approaches across regions and nations are taken into account (*Visser 2006*), nor the pluralism of legal and moral systems that many globally operating firms are confronted with.
4. The model neglects the political role of firms that has to be recognized in light of a diminishing role of the nation state and increased power of firms (*Crane et al. 2008a*, *Scherer and Palazzo 2011*, *Matten and Crane 2005a*, *Scherer and Palazzo 2007*, *Moon et al. 2005*).



**Figure 1: The pyramid of CSR, adapted from *Carroll (1991: 42)*.**

The reproach that Carroll's model is oversimplifying and too static has to be put in perspective, considering that the CSR pyramid is complemented by the concepts of **social responsiveness and social issues**. Social responsiveness is a more dynamic, "action-oriented variant of CSR" (*Carroll and Buchholtz 2012: 44*) that captures a firm's willingness and ability to act. Social responsiveness encompasses various corporate philosophies and strategies to respond to social responsibilities, ranging from no response to proaction (*Carroll 1979: 501-02*). **Social issues** describe the ethical and social concerns business is confronted with (*Carroll 1979: 502-04*). In Carroll's view, social issues include topics such as discrimination, occupational safety, the environment and product safety. In an effort to come to an overarching concept, Carroll integrates the three components corporate responsibility, corporate responsiveness and social issues into a **corporate social performance (CSP)** model. The intention behind the CSP model is to better integrate economic concerns into the

framework<sup>4</sup> and to shift the focus on the results of CSR (*Carroll and Buchholtz* 2012: 47).<sup>5</sup>

The introduction of these additional elements, i.e., social responsiveness, social issues and the overarching CSP model, relativizes some of the mentioned criticisms, most notably regarding the simplistic nature of the CSR pyramid. Yet, some downsides still apply, especially the neglect of the diversity of CSR approaches and the political role of firms.

## 2.2.3 Key Issues in CSR Research

### 2.2.3.1 Justifications of CSR

CSR literature has generated both “economic/strategic” and “duty-aligned/ethical” perspectives (*Gond et al.* 2009: 66, *Swanson* 1995) that differ in their reasoning why firms should be socially responsible. Economic/strategic approaches, also known as “instrumental CSR” or the “business case” (the latter term will be used in the following), encourage CSR by arguing that behaving responsibly is in the best interest of the firm and will bring financial rewards (for critical reviews see *Kurucz et al.* 2008, *Margolis and Walsh* 2001, *Vogel* 2005b). Duty-aligned/ethical approaches, alternatively denominated as the “normative approach” or the “moral case” (the latter term will be used in the following), claim that firms should act in a socially responsible manner, because it is “the right thing to do” (*Garriga and Melé* 2004: 60) and because “moral reasoning ought to motivate management decisions” (*Quinn and Jones* 1995: 22).

The **business case** approach is essential for CSR research and practice, as firms in a competitive market must realize profits in order to survive in the long run. Managers aim at creating value and must consider economic arguments; hence the business case helps to promote CSR. The need to establish the business case is also supported by the fact that criticism of CSR is still widespread among business representatives (even in light of an evidently growing popularity of the concept). The claim of *Milton*

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<sup>4</sup> However, economic responsibilities are already included in the CSR pyramid. Hence, one could rather criticize the lack of distinctness of various elements and concepts instead of an oversimplification of Carroll’s approach.

<sup>5</sup> The concepts of corporate responsiveness and corporate social performance have been further developed by other writers (see *Wood* 1991, *Frederick* 1994, *Swanson* 1999, *Swanson* 1995). Many have struggled to establish CSP as an umbrella term for the various approaches in the field, but the concept has not managed to become accepted as a unifying paradigm (*Gond and Crane* 2010). Since CSP has lost much of its attraction and has been abandoned for new concepts, the term is not used in the further analysis.

*Friedman* (1970) that the only responsibility of managers is to increase profits has become one of the most prominent arguments against CSR. Critics arguing from a market-liberal perspective complain that CSR imposes unwarranted costs to the firm, leads to the negligence of the firm's core mission and reduces overall welfare (*Henderson* 2001, *Coelho et al.* 2003). The business case of CSR might help to mitigate this criticism, provided that actual indications for a positive link between a firm's self-interested goals and CSR are found. However, while CSR can promote the firm's self-interest, financial rewards are not necessarily gained in a direct, immediately observable way. *Kurucz et al.* (2008) identify four types of the business case in the literature:

1. Some scholars argue that firms should engage in CSR to reduce costs and risks that stakeholder demands may otherwise cause, e.g., through legal sanctions (*Parker* 2002).
2. CSR can also be seen as an opportunity to gain a competitive advantage (e.g., *Porter and Kramer* 2006).
3. Others focus on the possibility to enhance reputation (e.g., *Fombrun* 2005) and to provide the firm with legitimacy and acceptance in wider society (see, e.g., *Aguilera et al.* 2007: 845).
4. Another variety of the business case approach identifies the potential of win-win-situations with benefits for both the firm and society (e.g., *Wheeler et al.* 2003, *Pies et al.* 2009).

Critics of the business case point out that a purely economic perspective neglects normative questions and fails to recognize that CSR ought to be intrinsically motivated (*Margolis and Walsh* 2003). They warn that the business case involves the risk that firms selectively choose responsible actions if their profitability criteria are met (*Gond et al.* 2009: 68). Especially variants 1 and 2 of the business case approach (as described above) enhance the temptation to window-dress and to create a CSR façade (*Basu and Palazzo* 2008). Moreover, *Banerjee* (2008a, 2007) argues that CSR serves to legitimize and consolidate the power of firms; only grounding CSR on ethical motives can minimize the risk of undue use of power.

Based on that criticism of the business case, advocates of the **moral case** draw on fundamental values and moral duty to justify CSR (*Lane* 2010: 287). In practice, CSR may be an expression of the personal values of managers and employees (*Hemingway and MacLagan* 2004). Yet, the moral case has gained far less popularity than the business case (*Margolis and Walsh* 2003, *Lee* 2008, *Vogel* 2005b, *Windsor* 2001).



Some scholars have criticized that the ethical view produces broad, rather vague duties and does not correspond to the managerial way of thinking (*Quinn and Jones 1995*). On the other hand, advocates of moral case have countered that “in order to determine what can be done, we first need to know what ought to be done” (*Rasche and Esser 2006: 262*). One of the challenges of the moral case is to define the ethical base to provide guidance for corporate actors. Various ethical theories and philosophical concepts such as Kantian ethics (*Bowie 1999*) and virtue ethics (*Solomon 1992*) have been applied. Yet, the search for and prescription of universal values and rules implies the danger of advancing an “acultural and ahistorical neutral position” (*Scherer and Palazzo 2007: 1102*). The search for universal values becomes increasingly difficult: Our modern, diversified world is characterized by growing pluralism of values and norms. Firms are confronted with that pluralism from the outside – especially, but not only globally operating firms are faced with different cultures and ethical systems –, and within the organization.<sup>6</sup> Nevertheless, the argument remains that CSR would be an empty concept without a normative, ethical basis (see *Windsor 2001: 228*).

Both the business and the moral case provide important contributions to CSR, yet both have problematic aspects. The concepts have been mostly discussed as irreconcilable alternatives. But are the moral and the business case indeed incompatible? Calls for overcoming the divide between business and ethics can be found in a number of CSR publications (e.g., *Wicks 1996, Freeman 1994, cf. Sandberg 2008, Harris and Freeman 2008*). It has been rightly claimed that managers should strive for morally sound decisions and actions without endangering the viability of the firm (*Jones and Wicks 1999*). In practice, many CSR initiatives are based upon mixed motives of morality and ensuring the firm’s survival and success. However, the integration of the business and the moral case is not always unproblematic. While sometimes morality and profit do coincide, that is CSR engagement directly or indirectly enhances the profitability of the firm, in other cases the business and the moral case conflict and prescribe different actions (see, e.g., *Lane 2010: 287*). Results of empirical studies on the financial impact of CSR have been mixed (*Kapoor and Sandhu 2010, Orlitzky 2011, Orlitzky et al. 2003, Roman et al. 1999*): Some found evidence for a negative relationship between corporate social performance and corporate financial performance; others have revealed a positive or an inconclusive relationship.

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<sup>6</sup> One promising way to handle increasing pluralism would be to follow the proposition by *Palazzo and Scherer (2007, 2006)* to apply the concept of deliberative democracy to firms (see Chapter 2.2.6.2).

Explanations for these mixed results may be situational factors that are not well understood so far and different effects on short- and long-run performance (*Garcia-Castro et al.* 2011).

The feasibility of the integration of the firm's self-interest and normative considerations depends on which of the four above discussed variations of the business case is applied (*Kurucz et al.* 2008: 94). Departing from a focus on short-term profits and conceptualizing CSR as a way to safeguard the firm's legitimacy and long-term survival attenuates the risk of conflict and makes the firm's and society's interests compatible. By understanding value creation simultaneously in economic, social and ecological terms the business and the moral case may converge and mutual beneficial solutions can be found.

### ***2.2.3.2 CSR and Philanthropy***

Firms have been long been involved in philanthropic activities that range from donations to employee volunteering and charitable foundations. Philanthropy results from altruistic concern, but is often also strategically motivated, especially when corporate giving provides high visibility for the firm (see, e.g., *Campbell and Slack* 2007). The relation between CSR and philanthropy needs to be clarified, as the difference between both is sometimes blurred. Some academics equate CSR with philanthropy (see *Whitehouse* 2006: 281-82). Such an approach may be based on conceptual considerations, because it underlines the voluntary, discretionary character of CSR. The equation may have also practical reasons in case of empirical studies: Donations are directly measurable in contrast to many other CSR activities (*Campbell et al.* 2002: 30). Yet, limiting CSR to philanthropy implies a view that is too narrow. Philanthropy may be a useful way of showing responsibility for social and environmental issues, but CSR has to go beyond for various reasons: By confining CSR to philanthropy the question of where the resources to finance corporate donations originate would be completely neglected. A separation of daily business operations and responsibility harbors the danger that a firm earns profits in a questionable way and could still claim to be responsible because it donates to charity (*Lin-Hi* 2010: 86-87). A philanthropy-centered approach to CSR also aggravates the suspicion that CSR is mere window dressing (*Weaver et al.* 1999). A firm that takes CSR seriously has to deal with the question of how the everyday business practice impacts upon society and which negative externalities and effects on individuals and communities result from its operations (*Sethi* 2008: 90). Expressed positively, firms

need to support and enact certain core values in their business operations and implement CSR organization-wide.

### **2.2.3.3 Characterization of CSR as a Voluntary Approach**

CSR is often characterized as a voluntary approach (e.g., *van Marrewijk* 2003: 102, *Vogel* 2005a: 4, see also *Fifka* 2009). However, whether voluntariness is a valuable feature of CSR has to be considered carefully, especially in the context of responsible lobbying. Generally, the term “voluntary” may be understood in two ways:

1. “Voluntary” may refer to the general absence of pressure and coercion, e.g., by non-governmental organizations (NGOs) or consumers, to act responsibly.
2. Alternatively, “voluntary” can be understood in the sense of “not legally prescribed”. This is probably the prevailing understanding of the voluntary nature of CSR in the literature, with many scholars describing CSR as beginning “where the law ends” (*Davis* 1973: 313) or as actions “*beyond* obeying the law” (*McWilliams and Siegel* 2001: 117, emphasis in original).

Few scholars would support the idea that CSR is voluntary in the first sense, i.e., the majority agrees that CSR is influenced by expectations and demands from the inside and outside of the firm. For example, the widely acknowledged stakeholder theory points out the influence of various actors such as customers, employees, suppliers, communities; institutionalist theory emphasizes the need for firms to comply with the institutionalized expectations of the environment.<sup>7</sup> Judging from empirical observations, the activities of civil society actors have been major triggers for the rise of CSR (*Vogel* 2008, *Bendell and Bendell* 2007). Overall, the former understanding of “voluntariness” is not useful for this study, especially as public expectations may play an important role in driving responsible lobbying.

The second version of “voluntariness” (in the sense of “not legally prescribed”) needs further clarification and discussion. On one hand, there are good reasons to define CSR as going beyond legal prescriptions. Most importantly, defining corporate responsibilities as obeying the law would weaken the concept of CSR to almost meaninglessness. Meeting legal obligations is merely a minimal requirement. Firms need to observe the law, but their duties towards society go beyond (*Carroll* 1999). Moreover, globalization and the resulting insufficiency of national law in certain areas make it even more important to go beyond legal requirements and to engage in self-

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<sup>7</sup> For details on stakeholder theory see Chapter 2.2.4; on institutionalist theory see Chapter 2.3.3.4.

regulation, precisely because international law does not directly pertain to firms (Buhmann 2006, Scherer and Palazzo 2011, Albareda 2008). On the other hand, defining CSR as occurring beyond mandated obligations has its downsides, as such an understanding would imply the danger of wrongly depicting CSR and the law as too completely separate, independent concepts. Specifically, four aspects are problematic: 1. the resulting conflict with the corporate duty to critically evaluate laws, 2. the questionable effectiveness of CSR that is not mandatory, 3. the rising importance of CSR policy and 4. the questionable applicability for responsible lobbying. Each of these points calls for a short explanation:

1. If the beyond-the-law-approach leads to a complete separation of CSR and the law, this contradicts the corporate duty to critically consider the ethical substantiation of legislation. The duty to inquire into the morality of laws may be justified by natural law reasoning (Ostas 2001) or by the human rights approach that postulates “inalienable rights of all members of the human family” (UN General Assembly 1948) independently from state law. The beyond-the-law-approach makes it impossible to provide appropriate answers for firms that are faced with an environment of unjust law and law that violates basic rights such as the freedom of speech. The challenge of dealing with the legal requirements of dictatorships or authoritarian states has become obvious, e.g., in the case of the censorship demands Google faced in China (Brenkert 2009, Dann and Haddow 2008). CSR needs to provide guidance for firms how to deal with legal requirements that contradict ethical considerations and define when civil disobedience is appropriate (Ostas 2004).
2. The second argument against the beyond-the-law-approach is that the effectiveness of non-mandatory engagement for society may be limited. Many critics of CSR see the element of voluntariness as one of the major flaws of the concept, as they suspect that firms launch CSR programs primarily to forestall strict legislation (Sethi 2008: 94, Cragg 2005, Rowe 2005). Firms have started to define their own voluntary standards and have welcomed and supported initiatives like the UN Global Compact, but this does not necessarily mean that implementation has been effective or that “corporate behavior or impact has changed” (Graham and Woods 2006: 370).
3. In some regions, most notably Europe, CSR policy is on the rise and this development further relativizes the voluntary nature of CSR. Governments have started to promote CSR (Steurer 2010, Steurer et al. 2012, Albareda et al. 2007,

*Gond et al.* 2011), often by raising awareness, launching partnerships and platforms and by providing financial incentives, but recently also increasingly through more obligatory measures, e.g., by experimenting with mandatory environmental and social reporting (e.g., France, see *Damak-Ayadi* 2010). The tendency to move away from the focus on the voluntary character of CSR is also reflected in the changing approach by the European Commission: Its widely used 2002 definition describes CSR “as a concept whereby firms integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (*European Commission* 2002: 5); the 2011 communication does no longer include “voluntary” in its CSR definition, but instead the document emphasizes the role of public authorities in supporting CSR (*European Commission* 2011).

4. Finally, the definition of CSR as actions beyond legal requirements cannot be hold in the context of responsible lobbying. Lobbying deals with influencing policy-makers and shaping legislation. Therefore, conceptualizing CSR as going beyond the law makes it difficult to align CSR and lobbying.

Overall, although significant arguments exist that sustain the view that CSR needs to go beyond legal requirements, there is a high degree of ambiguity connected to the voluntary nature of CSR, in general and especially in the context of responsible lobbying. Hence, voluntariness is not treated as a key feature of CSR in this study.

## 2.2.4 Stakeholder Theory

Having discussed the academic understanding of CSR and major issues in the respective literature, this section elaborates on a closely related concept: stakeholder theory, which is an equally important basis for responsible lobbying research. Stakeholder theory began to garner serious attention in the 1980s, especially with the publication of *Freeman*’s seminal work (1984) that proposes a stakeholder approach to strategic management. The basic idea is that not only the interests of shareholders, but also the perspectives and needs of other key groups such as customers, employees, suppliers, communities and policy-makers should be taken into account in corporate decision-making (*Donaldson and Preston* 1995, *Freeman et al.* 2010, *Freeman* 1984). The term “stakeholder” refers to “any group or individual who can affect, or is

affected by, the achievement of a corporation's purpose" (Freeman 1984: vi).<sup>8</sup> The theory assumes that business success depends on the management of relationships with individuals and groups that have "a stake" in the firm (Freeman 1984: 25). Stakeholder theory is "action-oriented" (Freeman 1984: 53) and managerial, in the sense that it recommends attitudes, structures and practices (Donaldson and Preston 1995).

Stakeholder theory has met critical assessments of some management scholars: Namely the conflict with defenders of the shareholder view is well known (see Freeman et al. 2010: 202-06). The latter point to the difficulties arising from the demand that managers need to consider and balance various interests. For example, Jensen (2002) underlines the need for a single valued objective function and Sundaram and Inkpen (2004) defend the claim that the primary goal of the firm must continue to be the one that says "maximize shareholder value". Nevertheless, scholarly thinking and corporate practice has been influenced significantly by stakeholder theory. The study of responsible lobbying can benefit greatly from stakeholder theory, so that its basic characteristics need to be discussed.

In the following some essential issues present in stakeholder theory literature are elaborated on: the process of identifying and categorizing stakeholders, ways of interacting with stakeholders and the debate on instrumental vs. normative approaches.

### ***2.2.4.1 Identifying and Categorizing Stakeholders***

Due to limited time, resources and cognitive capacity, managers can hardly attend to all, possibly conflicting interests of various stakeholder groups. Thus, one of the key challenges of stakeholder management is to identify the most relevant stakeholders.<sup>9</sup> A typology of stakeholders as developed by Mitchell et al. (1997) provides guidance for analyzing stakeholders and defining a recommendable degree of attention. The authors identify three key attributes of stakeholders as the basis of a categorization:

1. power to influence, e.g., the stakeholder may depend on the firm, may have power over the firm or it may be a mutual dependency;

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<sup>8</sup> Freeman's definition is widely used; yet, the diversity of definitions and the faction between broad and narrow understandings of stakeholders have contributed to the often criticized vagueness and ambiguity of stakeholder theory (see, e.g., Orts and Strudler 2009, Fassin 2009).

<sup>9</sup> This approach is in line with Freeman (1984: 54-74) who recommends an iterative three-step-analysis to gain a better understanding: The first step is to identify and map the relevant stakeholders and their interests. The second step entails analyzing organizational processes that impact the stakeholder relationship. Finally, knowledge about the set of transactions and interactions between the firm and stakeholders is needed.

2. the legitimacy of the stakeholder's relationship with the firm, e.g., contractual relationships, legal or moral rights; and
3. the urgency of the claim.

The authors emphasize that these attributes are to be understood as dynamic variables that may change over time. Further, the attributes are socially constructed and therefore context dependent. Stakeholders may or may not be conscious of possessing these attributes.

The typology based on the attributes power, legitimacy and urgency has been widely discussed, critically evaluated and modified. The issue of legitimacy has been taken up by several scholars, e.g., by *Phillips* (2003) who distinguishes between normative legitimacy that is based on direct moral obligation and derivative legitimacy based on the power to help or harm the organization. Accordingly, normative stakeholders are those to whom the firm has a direct moral obligation, e.g., employees, customers, shareholders and suppliers, while the organization has no direct moral obligation to derivative stakeholders such as competitors, activists, terrorists, and the media. *Drisco and Starik* (2004) suggest proximity as an additional attribute, whereas proximity refers to spatial nearness, but also to similar ideas, approaches, and actions. Although the meaning of physical nearness has been put into a new perspective by globalization and modern communication technology, this additional attribute may be helpful to classify stakeholders whose values and agendas for action may differ considerably from that of the firm. *Drisco and Starik* utilize the attribute of proximity to propose the natural environment as another stakeholder in addition to the more traditional ones. This study does not follow this suggestion. Ecology represents an essential aspect of corporate responsibilities, but central ideas and prescriptions of stakeholder theory, e.g., establishing a stakeholder dialogue, are limited to human participants (see *Orts and Strudler* 2002, *Phillips and Reichart* 2000).

In practice, it is recommendable to undertake the process of identifying relevant stakeholders by moving from a broad, comprehensive understanding to a narrow, firm-specific definition of major stakeholders. A hierarchy should be set up that includes at least the dimensions power/influence and legitimacy. In case traditional stakeholder roles deliver no meaningful results an alternative approach may be preferable: *Crane and Ruebottom* (2011) call for departing from the purely economically oriented roles of stakeholders and consider stakeholders in terms of their social identities in addition to the traditional stakeholder categories such as employees, consumers, suppliers, community. The advantage of this approach is illustrated by the case of minority social

groups with specific racial, gender, religious-based or age-based social identities that may cut across several of the traditional stakeholder roles.

The processes of stakeholder identification and categorization should take into account that stakeholders are not only related to the firm, but have relationships among each other. Moreover, interests within a stakeholder group often differ (*Crane and Livesey* 2003: 41), e.g., in the case of differing perspectives of temporary and permanent employees, differing demands by policy-makers depending on party affiliations or speculative vs. long-term interests of shareholders. Such differences must not be neglected by oversimplification. Moreover, the stakeholder identification and categorization processes have to be continuously scrutinized.

Policy-makers are not always explicitly mentioned in stakeholder theory literature, but they are important stakeholders. Their decisions can affect business considerably. In turn, policy-makers are also affected by business – sometimes directly through lobbying, but also in a more structural sense, e.g., when the government has to deal with the effects of economic crisis and large-scale lay-offs. Management must undertake an organized effort to deal with governments and administrations in a strategic fashion (*Freeman* 1984: 17). However, the treatment of policy-makers as stakeholders is not undisputed. For example, *Fassin* (2009) agrees that regulators could count as stakeholders due to the policy-makers' ability to influence the firm; but claims that the firm has no moral responsibility for regulators, i.e., the second criterion of *Mitchell et al.* (1997) – referring to the legitimacy of the stakeholder's relationship with the firm – is not met. The assumption of a lacking moral responsibility cannot be held up: Policy-makers, especially democratically elected ones, have the task of representing and protecting the interests of wider society. When firms try to influence legislation they have a (moral) responsibility to ensure that the functioning of the democratic process is not periled and that the impact on the societal good is reasonable. Otherwise, the way would be paved for unrestrained lobbying without consideration of broader society.<sup>10</sup>

#### **2.2.4.2 Interacting with Stakeholders**

Not only the identification and classification of stakeholders, but also the design and management of interactions with stakeholders have caught scholarly attention. *Freeman's* (1984, 78) recommendation to “implement communication processes with

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<sup>10</sup> See also Chapter 4.2 for reasons to engage in responsible lobbying.



multiple stakeholders” has been taken up by scholars and practitioners and “stakeholder dialogue” has become a widely used buzzword.

*Morsing and Schultz* (2006) distinguish three types of communication strategies vis-à-vis stakeholders, based on *Grunig and Hunt’s* (1984) communication model:

1. The stakeholder information strategy aims at informing the public objectively e.g., through CSR reports. Management needs to be aware that the message is not passively received, even when the firm pursues an information strategy. Stakeholders actively develop meaning in a subjective process of sensemaking (*Weick* 1995), and thus the possibility to control information is limited.
2. The stakeholder response strategy refers to asymmetric two-way-communication: Stakeholders have the chance to respond to corporate actions, e.g., by participating at opinion polls or market surveys, but the firm’s purpose is mainly to demonstrate to stakeholders how the firm integrates their concerns. The firm does not change in response and there is an imbalance regarding the effects of communication in favor of the firm.
3. The stakeholder involvement strategy allows for symmetric two-way-communication: The firm invites concurrent negotiation with its stakeholders to explore their concerns. Stakeholders are involved, participate and suggest corporate actions. Mutual understanding is enhanced.

There is a certain gap between scholarly recommendations and practice regarding the choice of the appropriate communication strategy. Empirical studies indicate that generally firms rather use low-involvement forms of stakeholder relationship management (*Habisch et al.* 2011), although there are few examples of dialogical forms of communication and partnerships. Scholars have called on business to move to a stakeholder dialogue that takes the form of a “two-way process” (*Burchell and Cook* 2006: 155) and “interactive, mutually engaged and responsive relationships” (*Andriof et al.* 2002: 9). Communication theory regards symmetrical two-way-communication as superior in terms of ethics and effectivity (*Grunig and Grunig* 1992, cf. *Crane and Livesey* 2003: 46). As *Greenwood* (2007b) points out: Not every engagement with stakeholders automatically delivers some benefit towards stakeholders and is, therefore, an act of responsibility. By pursuing symmetric two-way-communication the process gains moral quality and it becomes more likely that the outcome is in the interest of all parties involved. Moreover, a genuine dialogue increases the firm’s sensitivity towards stakeholders, helps to manage risks and reduce the possibility of damaging publicity and reputation loss (*Burchell and Cook* 2006). At the same time,

the understanding of stakeholders regarding the “dilemmas facing the organization” increases (*Kaptein and Van Tulder* 2003: 208). But when stakeholders insist on a confrontationalist approach, establishing a dialogue becomes virtually impossible. Even a symmetric dialogue may lead to disappointments and frustrations of stakeholders when outcomes are not achieved or implementation of decisions fails (*Payne and Gallon* 2004). The involvement of multiple actors with sometimes conflicting interests implies the risk of a dialogue that confuses and obfuscates instead of enhancing understanding (*Crane and Livesey* 2003: 50).

Although stakeholder dialogue often lacks genuineness in practice, the idea of symmetric interaction, of mutuality and interdependence has been even further developed and extended. Some scholars propagate collaboration with stakeholders to build “stakeholders partnerships” (*Andriof and Waddock* 2002: 31). Multi-stakeholder networks like the UN Global Compact have caught attention as platforms for business and various actors of civil society and politics to collaborate. In these networks, firms are participants among a number of actors and are only partly in control of the process. Thus, the firm-centric approach to stakeholder management is put into question and the need to address complex problems and challenges in cooperation with stakeholders is underlined (*Roloff* 2008).

The idea of “stakeholder democracy” has been discussed as well, claiming that stakeholders, and particularly employees, should “participate in processes of organizing, decision making, and governance in corporations” (*Matten and Crane* 2005b: 6). The notion that stakeholders should be involved through formal, binding control mechanism is actually one of the early suggestions of stakeholder theory, formulated e.g., by *Freeman and Evan* (1990) who argue that stakeholders should receive voting rights. Recently the idea has been taken up under the headline “stakeholder consultation”, understood as the “right to participate directly in corporate decisions that affect stakeholders in direct proportion to their contributions to a corporation’s activities” (*Van Buren III* 2010: 219). The extent to which employees are incorporated in corporate decision-making varies considerably across regions. Ideas like “stakeholder democracy” seem rather unrealistic in some countries (e.g., the United States), whereas in others related concepts have been implemented already. For example, in Germany legal stipulations involve employee representatives in the decision-making of large firms. However, beside employees other stakeholders have not received formal voting rights yet.

### 2.2.4.3 *Instrumental vs. Normative Approaches*

The divide between the business and the moral case, i.e., between instrumental and normative approaches, that characterizes the broader CSR field (see Chapter 2.2.3.1) is also mirrored in stakeholder theory. One of the earliest attempts to identify the various approaches to stakeholder theory is the one by *Donaldson and Preston* (1995). They propose three aspects of stakeholder theory:

1. The descriptive approach centers on enabling an effective description and understanding of the firm and how it functions.
2. The instrumental view portrays stakeholder management and its link to the achievement of performance goals with a stress on traditional business goals such as profitability, stability, and growth.
3. The normative view interprets the firm on the basis of some underlying moral or philosophical principles and emphasizes how stakeholder should be treated.

Donaldson and Preston consider these three approaches as mutually dependent, but also warn from muddled research that results from confusing the approaches or failing to state which approach is taken. Since being “descriptive” is one of the core characteristics of any theory (cf. *Kaler* 2003: 73), this aspect of stakeholder theory has not evoked debates in academic literature, in contrast to the other two: The extent to which the instrumental and the normative view may be reconciled is a starkly contested issue.

A more recent overview of the two rival streams in stakeholder literature is provided by *Noland and Phillips* (2010): They call scholars defending the instrumental approach “ethical strategists”; these argue that neglecting stakeholder interests endangers the success of the firms. According to them, the engagement of stakeholders must be integral to a firm’s strategy (*Freeman et al.* 2004, *Freeman* 1984). In this view, creating value for stakeholders creates value for shareholders, e.g., through competitive advantages (*Jones* 1995). On the other hand, normatively-oriented scholars point to the risks of the instrumental approach: First, the instrumental approach resolves conflicts merely on the basis of calculating the maximum utility for the firm, with the effect that the interests of stakeholders are only incorporated to the degree that corporate performance is enhanced (*Reed* 1999: 468). Further, they criticize that the instrumental approach involves the risk that only the interests of powerful stakeholders are considered and that stakeholder dialogue becomes a product of the power imbalance between firm and stakeholders (*Scherer and Palazzo* 2007). Moreover, these scholars warn that a strategic approach that “emphasizes the

satisfaction of private over collective interest” leads to deception, coercion, or manipulation and hinders mutual understanding and consent (*Smith* 2004: 317, 19). In this view, an instrumental approach may be feasible in single cases; but in the long run it causes difficulties, especially when reaching interests is dependent upon the joint activity of the firm and its stakeholders (*Smith* 2004: 329). However, the divide between ethical strategists and defenders of the normative view may appear less wide when considering the following: First, ethical strategists, as the denomination already indicates, are not only concerned about strategy, but also normative issues (cf. *Noland and Phillips* 2010: 45-46). They dismiss a strict separation of strategic and moral decision-making (see, e.g., *Harris and Freeman* 2008), as propagated, e.g., by the shareholder value view. While *Freeman*’s 1984 publication might contain few moral arguments (cf. *Elms et al.* 2011: 13), his later contributions acknowledge that a normative basis of stakeholder theory is required (e.g., *Freeman* 1994). At the same time, normatively-oriented scholars like *Behnam and Rasche* (2009) accept that strategy making and ethical reflection are related processes, and recognize that there are ways to bridge the gap between discourse and strategy, e.g., by bringing stakeholders into strategic decision-making processes (*Zakhem* 2008). *Smith* (2004: 328) stresses that firms depend on functioning stakeholder relationships that allow for building trust, generate “consistency, stability, and ongoing confidence in business relationships” and thus ensure legitimacy. In such a sense stakeholder management may actually contribute to the firm’s success.

The conclusion to the debate between instrumental and normative approaches may be similar as in the case of the dispute between defenders of the business and moral case in broader CSR literature (see Chapter 2.2.3.1): The degree to which profit and morality are compatible depends on whether one expects immediate financial returns, or sees the potential contribution of stakeholder interactions more in terms of a better reputation, legitimacy or long-term win-win solutions.

### **2.2.5 Sustainability**

The research field surrounding corporate responsibilities has not only been extended by stakeholder theory, but also by the concept of sustainability. Ecological problems have become a major issue in the CSR debate and the term “sustainability” is increasingly used to describe environmental responsibilities of firms. The relevance of this approach becomes obvious by considering the growing number of corporate “sustainability reports” and initiatives such as the World Business Council for

Sustainable Development, a global association of more than 200 international firms that aims at creating a sustainable future for business, society and the environment. The popularity of the sustainability concept, but also the confusion around its exact meaning, is sufficient grounds to elaborate on it and its relevance for responsible lobbying.

The term “sustainability” is used in a variety of different ways in the public debate and scholarly literature (*Hopwood et al.* 2005). One of the most common definitions has been introduced more than 25 years ago and remains relevant until today: The World Council for Economic Development (WCED) – better known as “Brundtland Commission” – described “sustainable development” in its 1987 report as meeting “the needs of the present without compromising the ability of future generations to meet their own needs” (1987: 43). This definition underlines the consideration of long-term impacts of today’s actions and the notion of “inter-generational equity” (*Haughton* 1999: 235) as one of the core ideas of sustainability. The concept of sustainability has undergone considerable changes in its use (*Tounés et al.* 2011): It was initially discussed as an environmental concept, but has been gradually extended to include socio-economic issues (*Steurer et al.* 2005). The broadened scope is reflected in the widespread use of the triple bottom line concept that depicts environmental, social and economic aspects as equally important dimensions of sustainability. This trend is also observable in various policy papers. E.g., when the European Commission presented its sustainability strategy in 2001 it underlined it was “more than a purely environmental concept” (*European Commission* 2001a: 11), aiming at the full integration of the economic, environmental and social pillars (*European Commission* 2001b: 10). The widening scope seems justified in light of the high interdependency between the three dimensions, but some scholars have warned that “sustainability” loses its distinctness unless ecology remains the most fundamental aspect in the concept (*Lafferty* 2004).

Similarly to discussions on “morality vs. profit” in the context of CSR and stakeholder theory (see Chapters 2.2.3.1 and 2.2.4.3), a controversy surrounds the question to what extent the three dimensions of sustainability can be balanced. Conflicts between the dimensions may arise at the macroeconomic and the firm level (*Hahn et al.* 2010). Critics of the sustainability concept underline irresolvable conflicts between ecology, economic and social development and describe the notion of “sustainable growth” as an impossibility, as continued growth could not be sustained on a planet of limited resources (e.g., *Daly* 1993). Although the triple bottom line concept stipulates that

firms need not only to consider profitability, but also environmental quality and social justice in order to be successful (*Elkington* 1998), critical scholars point out that in case of conflicting demands, economic goals are mostly given priority in corporate practice (*Hahn and Figge* 2011). On the other hand, there is an increasing popularity of the idea of “sustainable growth”. To cite a prominent policy example, the EU’s 2020 strategy, an initiative introduced in 2010 proposing a ten-year growth strategy for Europe, includes the goal of achieving an efficient, green economy and thus enhancing competitiveness (*European Commission* 2010). Besides, many firms have started to engage in ecology, as growing regulatory pressure and public expectations have made meeting environmental concerns prerequisite to a firm’s success.

Drawing the line between CSR and sustainability was comparatively feasible several years ago, but the changing understanding of the concepts has resulted in a converging process (*van Marrewijk* 2003). Firms have started to use the notions CSR and corporate sustainability inter-exchangeable and even scholarly literature often fails to distinguish clearly (*Montiel* 2008). Today both are multidimensional concepts addressing economic, social and environmental aspects. Yet, differences remain, even if they become more nuanced:

- Initially, sustainability focused on the environment, while CSR was little concerned with ecology, as e.g., the lack of this dimension in Carroll’s CSR pyramid reflects (see Chapter 2.2.2). Although CSR nowadays incorporates ecology, the environmental focus retains its origin in the sustainability concept. At the same time, CSR is more explicitly concerned with ethics (as reflected, e.g., in Carroll’s CSR pyramid, see Chapter 2.2.2).
- The second historical gap refers to the corporate focus of CSR and the initially mere macroeconomic focus of sustainability (see, e.g., *Hanley* 2000). This difference is diminishing, but not vanishing: Sustainability is still more a concern of every individual and every sector of society than CSR, even though the term sustainability is being increasingly applied to the corporate level (*Steurer et al.* 2005).

Overall, even if CSR and sustainability are converging, some differences remain. Therefore, this study neither regards one of the concepts as superfluous nor will it use the terms interchangeably. Sustainability deserves specific attention as another aspect that responsible lobbying needs to incorporate.

### 2.2.6 A Politicized Concept of CSR

Recently, the political role of firms has increasingly met interest in the CSR field. Several scholars have started efforts to overcome the “denial of politics” (Hanlon 2008). A “politicized concept of corporate social responsibility” (Scherer and Palazzo 2011: 899) has been put forward, alternatively under the headline “corporate citizenship” (Crane *et al.* 2008a, *Matten and Crane* 2005a, *Moon et al.* 2005) or “political CSR” (Scherer and Palazzo 2011, Scherer and Palazzo 2007). This new stream in the CSR literature “is concerned to normatively prescribe, and positively describe and explain, the political duties and activities of corporations” (Whelan 2012: 711) and therefore provides an important contribution for responsible lobbying research.

In the following, two variants of the politicized concept are discussed: Corporate Citizenship, as propagated by *Matten and Crane* (2005a), and the deliberative approach, as developed by *Scherer and Palazzo* (2007, 2011).

#### 2.2.6.1 Corporate Citizenship (CC)

*Matten and Crane’s* (2005a) article has been ground-breaking in the CSR field arguing that in the changing environment of a globalized world, boundaries between the state, business and civil actors are blurred and some firms have begun to assume a state-like role. Their findings are based on an analysis of the application of the Corporate citizenship (CC) concept by scholars and practitioners. The term had been mainly coined by firms themselves to describe their responsibilities to society (*Néron and Norman* 2008). *Matten and Crane* (2005a) distinguish the limited, equivalent and extended view of CC:

- The limited view identifies CC with strategic corporate philanthropy.
- The equivalent view of CC conceptualizes CC almost synonymous to existing conceptions of CSR. According to this view, treating firms as “citizens” means that firms are called upon to acknowledge a broader social role and corporate obligations should be extended to include multiple stakeholders (e.g., *Carroll* 1999: 289, see also *Néron* 2010).
- The extended view that *Matten and Crane* (2005a) propose is based on an examination of citizenship from its original political theory perspective. They conceptualize CC as a description of the corporate role in administering citizenship rights for individuals.

The argument is that governments fail to provide citizenship rights ever more, and accordingly firms play an increasing role in enabling civil rights, providing social rights and channeling political rights (*Matten and Crane* 2005a: 174). Firms assume a political role in three different ways: 1. where government ceases to administer citizenship rights, 2. where government has not as yet administered citizenship rights and 3. where the administration of citizenship rights is beyond the reach of the nation state (*Matten and Crane* 2005a: 172). The extended concept of CC as proposed by *Matten and Crane* (2005a) is primarily descriptive, but it also points to new corporate responsibilities, specifically to questions about accountability and potential threats to democracy.

### ***2.2.6.2 The Deliberative Approach***

*Scherer and Palazzo* (2007, 2011) present another version of the politicized concept of CSR using the ideas of deliberative democracy with the goal of embedding the firm in democratic processes of defining rules. Deliberative democracy theory largely departs from liberal democracy that dominates in the Western context: The liberal conception views citizens as private persons who act out of self-interest and emphasizes their protection “from arbitrary rule and oppression by government, as well as from infringements upon individual liberty from other citizens” (*Stokes* 2002: 28). Deliberative democracy theory defends ideals of civic participation and calls for “making the routines of bargaining, campaigning, voting, and other important political activities more public-spirited in both process and outcome” (*Gutmann and Thompson* 2004: 56).

*Scherer and Palazzo* (2007, 2011) justify the need for using deliberative ideas in the context of CSR with concerns of a democratic deficit that arise from the growing engagement of firms in global governance. *Scherer and Palazzo* (2007) apply the ideas of the German philosopher Jürgen Habermas to the corporate context and call upon firms to engage in deliberation. They distinguish between Habermas’ earlier work – they call it “Habermas1” – and the more pragmatic later work, namely “Habermas2”.

- “Habermas1” is based on the idea of communicative action, which means individuals are not coordinated “via egocentric calculations of success, but through acts of understanding” and “pursue their individual goals under the condition that they can co-ordinate their action plans on the basis of shared



definitions of the situation” (Habermas 1984: 385).<sup>11</sup> Central in this thinking is the idea of the “ideal speech situation”, i.e., freedom of access, participation with equal rights, truthfulness of the participants, and “absence of coercion” (Habermas 1993: 56). Scherer and Palazzo (2007: 1105) contend that it might be unrealistic to assume all economic activities could be solved in processes of argumentation that are oriented toward mutual understanding and agreement. They doubt the possibility of taking the interests of all stakeholders into account without granting one or another of the group priority and warn from “losing the company’s ability to act” and endangering “its survival in a competitive environment” through unrealistic expectations.

- In Habermas’s later work, i.e., “Habermas2”, the focus is less on the purity of the philosophical argument, but on a close link to democratic procedures and practices. In terms of corporate decision-making, “Habermas2” allows for establishing a normative link to civil society discourses. This does not require that every issue needs to be solved through an *unlimited* democratic discourse. But administrative routine has to be suspended when a public discourse emerges, for example when NGOs push a given issue into public awareness (Scherer and Palazzo 2007: 1111-12). In that case, the firm should engage in a dialogue, justify its position, consider alternative arguments and convince in order to facilitate broadly accepted decisions and mutual understanding (Palazzo and Scherer 2006).

From the firm’s point of view, deliberation is a way to safeguard legitimacy, as firms operating in a globalized world become increasingly dependent on moral legitimacy that is “based on moral judgments and an exchange of arguments on whether an individual, an institution, or an action can be considered socially acceptable” (Scherer and Palazzo 2011: 915).

### **2.2.6.3 The Contribution of a Politicized Concept of CSR**

The politicized concept of CSR provides an important contribution to CSR by pointing to the political role of firms. It challenges the view that many defenders of liberal

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<sup>11</sup> If individuals do not aim at mutual understanding, rational agreement or consent, the interactions become rational-purposive action, i.e., action that is “premised on the attainment of certain ends not tied to consensus as such” (Smith 2004: 319). Rational-purposive actions come in two forms: Instrumental actions are “goal-oriented interventions in the physical world” (Smith 2004: 319); strategic actions aim at achieving a result with all means available and subordinate mutual understanding in order to achieve one’s personal goals (Habermas 1984: especially 85-101, 284-88).

democracy, neoliberal economists, management scholars and a number of CSR scholars share: the idea of a separation of political and economic realms (cf. *Ferraro et al.* 2005). Neoliberals such as *Milton Friedman* (1970) argue that the divide between the state and business is necessary, because policy-makers are trained for public policy issues whereas managers are trained for managing firms and both have responsibilities for their specific realm. The politicized concept of CSR underlines this distinction is far from reality, especially in today's globalized world. The calls for investigations of the political role of firms have been justified with the perceived growing corporate power and changing role of nation states. The argumentation is as follows: Due to globalization, deregulation and privatization the influence of business actors, especially multinational corporations (MNC), has increased in recent years (see, e.g., *Chandler and Mazlish* 2005, *Cowling and Tomlinson* 2005). MNCs extend their activities across nations and continents, earn immense revenues, and have considerable influence on people's lives and on policy-making. The complexity of modern society makes it often difficult for national governments to define appropriate measures for new challenges (*Crane and Matten* 2010: 68), and globalization and transnational corporate activities further weaken the regulatory impact of states (*Eroglu* 2010, *Scherer and Palazzo* 2011, *Crane et al.* 2008a: 58). This justification of the need for a politicized concept of CSR with the weakened role of states must be relativized to some extent. Even in light of repeated warnings by political scientists that the state is in retreat and the alleged "race to the bottom", regulation has not lost all its importance. According to the "California effect", liberalization has actually strengthened regulation in some areas by facilitating the "export" of stricter consumer and environmental standards into states with before relatively low regulation (*Vogel and Kagan* 2004). Moreover, the observation that power is draining away from states to business has been put in perspective: During the recent economic crisis a certain resurgence of states over markets could be observed. Nevertheless, the expectation towards firms to engage in self-regulation has grown and some MNCs have indeed taken over new, government-like roles (*Matten and Crane* 2005a). The lines between the state and business are blurring. Governments, international institutions, NGOs and firms, have started to collaborate to regulate issues globally (*Detomasi* 2007, *Kobrin* 2009). Hence, a political view of the firm in which firms are not seen as purely economic institutions, but as actors firmly located within the political arena, seems justified.

A key strength of politicized CSR is that it allows for opening up a “debate on the conditions, prerequisites, typical patterns, and limitations of corporate participation in power sharing in society” (Crane *et al.* 2008a: 29). This approach helps to understand reality, in the sense that it contributes to clarifying in what way firms are taking over roles in administering citizenship rights, and provides a normative basis for evaluating corporate actions. The deliberative approach points to the significance of moral legitimacy and places corporate political activities in processes of democratic will-formation and control (Scherer and Palazzo 2007). A major shortcoming of this literature is the neglect of lobbying, yet basic insights such as the importance of deliberation and mutual understanding can be derived and applied to the responsible lobbying context.

### 2.2.7 CSR: Summarizing Key Findings

As this section has shown, CSR is a highly contested concept. There is no prospect of reaching a final definition or solving the controversies surrounding a number of core issues. In its broadest sense, CSR awakens sensitivity to a “complex range of issues and elements that are all related to the position and function of the business enterprise in contemporary society” (Jonker 2005: 20). Each firm needs to transform general business responsibilities into concrete programs and actions; this includes addressing the claims of stakeholders and considering sustainability.

Some of the central findings of the previous section are now summarized to provide an overview of the main ideas that serve as the basis of the further analysis.

- *CSR is an ethical obligation, but must take instrumental reasoning into account.* CSR is meaningless without a normative basis, but instrumental justifications are needed, as managers’ decisions and actions are based on profit-focused motives. The links between ethics and economic performance have caused manifold controversies among scholars in the CSR field, including stakeholder theory and sustainability. Firms, stakeholders and society as a whole benefit best if instrumental and moral aspects are reconciled, but this is not always easily achieved. Ideally, firms aim at win-win-situations, i.e., value creation for the firm, stakeholders and society. Moreover, instead of focusing on short term financial performance, the impact on the firm’s legitimacy, long-term success and survival needs to be considered.
- *Business and society are interwoven entities.* According to Kurucz *et al.* (2008), recognizing the integrated role of business in society is prerequisite for

overcoming the divide between the business and the moral case. This suggestion might come as a surprise, because understanding the firm as part of the larger community should lie at the core of the CSR concept. One of the basic functionalities of CSR scholarship is to define and explain the relationship between business and society (see, e.g., *Werther and Chandler* 2011: 4). Yet, dominant management research is still mainly based on the idea of a separation between the economic realm and society. Even CSR literature has deficiencies in that respect: Although the need to merge business into society has been rhetorically accepted by most CSR scholars, the meaning and consequences of giving up the separation thesis have not been fully understood, as the attempts to define CSR as voluntary engagement, as mere philanthropic activities or as public relation tools show. Recent calls to move from “alienated CSR” to “embedded CSR” reveal this shortcoming in large parts of the CSR literature (*Sun et al.* 2010).

- *CSR is more than philanthropy.* While donations can be a part of CSR, it is increasingly recognized that CSR must relate to core business operations and incorporate negative externalities. CSR must be implemented organization-wide and encompass all business functions, including lobbying.
- *The bias towards voluntariness is problematic.* Generally, CSR activities are understood to go beyond what is required by the law. Yet, firms have the responsibility to critically consider the substantiation of laws and to help to build a legal framework that ensures a just, democratic, sustainable society and economy. Moreover, voluntariness can curb effectiveness and there is a trend towards CSR policy developed by governments. Besides, separating CSR and the law would not make sense in the context of responsible lobbying.
- *CSR is a broad, comprehensive umbrella term.* CSR encompasses related fields such stakeholder theory and sustainability. All these approaches can be regarded as complementary, mutually reinforcing concepts that overlap at several points, but each provides a distinctive contribution. Stakeholder theory contributes to a better understanding to whom a firm should be responsible to. It provides a valuable framework for recognizing the demands of key groups and managing them in a strategic way, and underlines the necessity to establish and maintain high-quality stakeholder relationships. But meeting stakeholder demands describes only one aspect of CSR, as responsible actions do not only result from external demands, but also from organizationally embedded

intrinsic motivation (*Basu and Palazzo 2008*). CSR and stakeholder theory are mostly firm-centered approaches. In order to be able to understand and fulfill their responsibilities beyond the interests of few stakeholder groups, firms need to consider the objectives and values that are centered outside the firm, at the societal level. The sustainability concept helps to build “a bridge to important global societal issues” (*Wheeler et al. 2003: 16*) and to raise attention to long-term impacts of today’s actions on society and the environment.

- *The political role of firms gains importance.* The politicized concept of CSR raises attention to the effects of globalization, blurring lines between the state and business and the growing weight of the political role of firms. It emphasizes the necessity to embed the firm in deliberative processes. Although this stream in the literature does not take lobbying sufficiently into account, it is a useful starting point for studying responsible lobbying, as it points to new corporate responsibilities, to questions about legitimacy, accountability and potential threats to democracy through increasing corporate power.

Building on the key findings from the previous section, the definition of CSR that underlies this study can be found: *CSR is understood as an umbrella term that refers to the responsibility of firms to consider the societal good in a long-term perspective, i.e., to pay attention to social and environmental issues and to ensure morally sound decisions and actions.*

## 2.3 Literature on Lobbying

In the following, lobbying scholarship is reviewed with the aim of gaining an understanding of the nature of lobbying that may serve as the basis of responsible lobbying research. The section starts with a discussion of terminology and a provision of a lobbying definition (Chapter 2.3.1). Next, Chapter 2.3.2 provides a brief overview on main issues that research on Corporate Political Activity (CPA) and lobbying has dealt with. Chapter 2.3.3 elaborates on social science theories that have been applied to CPA/lobbying research.

### 2.3.1 Terminology

Over the past few years, lobbying has increasingly drawn academic interest from a variety of disciplines such as political science, organization theory, management studies and communication studies. The range of approaches has led to some

terminological confusion (Anastasiadis 2007: 9) which is further aggravated by the inconsistent use of related terms. The choice of terminology largely depends on the academic (or practical) background of the author. Political scientists often prefer “advocacy” (e.g., Mahoney 2008) over “lobbying” and use the term “interest groups” to describe organizations “that try to influence government” (Berry and Wilcox 2009: 5). Management scholars have developed the overall concept of Corporate Political Activity (CPA) which can be defined as “any deliberate firm action intended to influence governmental policy or process” (Getz 1997: 32-33) and covers amongst others lobbying and financial contributions. Practitioners tend to use terms such as “governmental relations” or “public affairs” to describe their field (e.g., Broom and Sha 2012: 35), i.e., more neutral terms that do not struggle with a doubtful public image like lobbying. This study sticks to the term “lobbying” even in light of the terminological preload: The study aims to integrate insights from various disciplines and thus a term is necessitated that a range of actors is familiar with. In contrast to the mentioned alternative expressions such as advocacy or CPA, the notion “lobbying” is used in various disciplines, by practitioners and the wider public alike. Yet, “lobbying” is often associated with a quite differing understanding so that a clear definition as the basis for this study must be provided in order to avoid any confusion.

Before defining what “lobbying” exactly entails in the context of this study, looking at some of the numerous existing definitions of lobbying provides a good starting point. They reveal a high degree of diversity. One of the earliest efforts to characterize the issue has yielded the following result: “Lobbying is the stimulation and transmission of a communication, by someone other than a citizen acting on his own behalf, directed to a governmental decision-maker with the hope of influencing his decision” (Milbraith 1963: 8). This definition of lobbying is still used in current scholarly publications, yet at least some aspects are out of date. For example, the part “acting on his own behalf” seems irrelevant in light of the fast growing lobbying consultancy business. The understanding of lobbying can be very broad and almost synonymous to the definition of CPA by Getz cited above. This is the case, e.g., in the description by Berry and Wilcox (2009: 6) of lobbying as “just about any legal means to influence government”. A similarly encompassing definition is the one developed by the EU Commission that sees lobbying as “all activities carried out with the objective of influencing the policy formulation and decision-making processes” (European Commission 2006: 5). As the examples cited so far show, most definitions place importance on the intent of the action, i.e., influence on policy-making. Other authors

focus on the activities involved, as in the case of *Banigan* (2005: 46) who states: “Any paid communication with a public office holder on behalf of a client or employer may be considered lobbying. This would include consultations on the development of a legislative proposal, the introduction of a bill or resolution, the making or amendment of a regulation, policy or program, or the awarding of a grant, contribution, tax credit or other financial benefit”.

Choosing the appropriate lobbying definition depends partially on how one understands the link to related activities such as financial contributions. The approaches in existing studies vary on that aspect. For example, *Brasher and Lowery* (2006: 3) view Political Action Committees (PACs) – that play a central role in the U.S. by pooling campaign contributions – as “a specific lobbying strategy focusing on electoral influence”; but most other publications distinguish lobbying from contributions. The majority of scholars that deal with lobbying from a management perspective models lobbying as part of the overall CPA. The approach by *Hillman and Hitt* (1999) is widely applied: in this view, CPA covers three type of strategies: information (amongst others lobbying), financial incentives and constituency-building. Lobbying is defined as the “provision of information to policy makers by individuals representing the firms interest” (*Hillman and Hitt* 1999: 834). This study follows this approach insofar that lobbying is treated as a part of firms’ overall CPA, separated from other political activities such as financial contributions. Yet, it is recognized that all of these activities are closely related and interdependent.

Lobbying involves the provision of information as a central element and as a distinguishing feature from other political activities. Information can take many forms such as statistics, facts, arguments, forecasts, threats, and commitments. But even in light of the key importance of information, lobbying is not to be regarded as a mere one-way provision of information, but as a communications process that aims at interaction and exchange (see *Jaatinen* 1997). In this respect, the study departs from many CPA studies that neglect that communication does not only involve a sender and a message, but also a recipient; they tend to oversee that providing information is only effective if the recipients, i.e., policy-makers, listen to the sender, i.e., the firm representative.<sup>12</sup> Based on these considerations, the definition of lobbying applied in

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<sup>12</sup> „Sender“, „message“, „recipient“ are accepted as central elements in basic communication models, see, e.g., *Schramm* (1964). These models are seldom applied to lobbying research, but could provide interesting insights (see also Chapter 2.3.3.5). Besides, the theory of sensemaking (cf. *Weick* 1995) points out that the receiver of a message, i.e., the policy-maker, actively develops meaning under the influence of the respective world view and the concrete situation at hand.

this study is the following: *Lobbying is any communication process between individuals representing the firm interest and policy-makers, stimulated by the firm representative<sup>13</sup> with the intent to influence policy-making.*

### **2.3.2 Main Issues in Lobbying Research**

The range of disciplines dealing with lobbying makes it difficult to fully profile the literature, but previous reviews on CPA and lobbying research provide a good starting point for an overview (Hillman *et al.* 2004, Lawton *et al.* 2013, Shaffer 1995, Getz 2002, Getz 1997). In the following a brief overview is given on the issues that CPA and lobbying literature has primarily dealt with: motives and antecedents, strategies and tactics, key actors, success and institutional differences and comparisons.

#### **2.3.2.1 Motives and Antecedents**

A considerable part of the CPA/lobbying literature has dealt with the motives of firms to be politically active. The overall reason for firms becoming involved in politics is the power that governments have over firms (Hillman and Hitt 1999: 826). Policy-makers may alter the size of markets through direct purchases, affect firms through entry and exit barriers and antitrust legislation, impact the access to scarce resources or impose environmental regulation. Firms may have an interest in minimizing the cost of regulation upon strategy and business models. However, not only actual or imminent constraints motivate firms to lobby, they may also proactively seek for government favors.

Understanding why some firms engage in lobbying in order to influence policy-making, while many others do not, has been a central venture in research. Government policies, whether in place or proposed, are rarely completely exogenous (Boddewyn and Brewer 1994). Principally firms can choose between three alternatives to deal with government intervention (Keim 2001: 591):

1. They can remain passive and react as laws or regulations are changed.
2. They can try to anticipate changes and shape their decisions and actions accordingly.
3. They can actively seek changes in formal institutional arrangements, e.g., through lobbying.

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<sup>13</sup> It is the firm that has the interest in starting the communication process and thus stimulates it, although lobbying happens not only proactively, but mostly in response to plans by policy-makers to draw legislation.



The question arises why only some firms opt for the latter alternative, whereas others take a less active approach. Economic-based approaches have modeled lobbying as the outcome of a cost-benefit-analysis. In this view, a firm seeks political decisions that will maintain or raise revenues, maintain or reduce costs and/or maintain or improve competitive advantage (*McWilliams et al.* 2002). Economic-based models focus on industry and firm characteristics in order to explain a firm's decision to engage in lobbying (cf. *Schuler and Rehbein* 1997: 146). However, a whole range of antecedents must be considered to be able to understand why firms become politically active. *Hillman et al.* (2004) developed a model of CPA based on existing research and identified four categories of antecedents: firm, industry, issue and institutional factors. Firm level antecedents include firm size, dependency on government, firm slack, diversification level, foreign ownership, firm age, formalized firm structures and managerial influence. On the issue level both issue salience and issue competition are decisive factors. Industry and institutional factors are not further broken down.

### 2.3.2.2 Strategies and Tactics

Strategies and tactics are another main topic in CPA and lobbying literature. *Hillman and Hitt* (1999) model a complete decision tree of CPA (see Figure 2), according to which the firm needs to choose between a transactional and a relational approach, between individual and collective action and between specific strategies. These three decisions are briefly explained:

- A transactional approach to CPA is characterized as long-term and issue spanning, while a relational one refers to a more adhoc and issue specific approach. *Hillman and Hitt* (1999) identify the following variables as facilitating the relational approach: higher perceived or actual dependence on government policy, a corporatist environment (that integrates interest groups in a coordinated way and emphasize consensus on policy, as it is the case in Germany for example) and single-business or related-product diversification that entails a narrower focus on political issues.
- Once the firm has decided between a transactional and a relational approach it needs to choose between individual and collective action. Since *Olson's* (1965) seminal work on collective action,<sup>14</sup> much literature has dealt with the issue under what conditions firms lobby individually or in collaboration with others,

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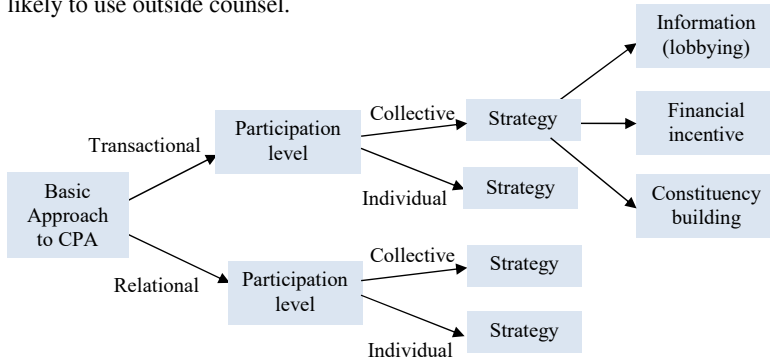
<sup>14</sup> Olson's contribution to lobbying research is discussed in Chapter 2.3.3.1.

i.e., via business associations or in issue-specific coalitions. While industry associations have historically played a dominant role, firms have recently carried out a great deal of lobbying on their own behalf (*Streeck et al.* 2006). Lobbying still is a “collective enterprise” when firms cooperate with diverse actors such as peer firms, NGOs or trade unions to form issue-specific coalitions (*Klüver* 2013). According to *Hillman and Hitt* (1999), firms are more likely to use collective participation, when they possess fewer financial resources and/or other intangible resources, when they operate in corporatist countries, and when they have chosen a transactional, i.e., issue-by-issue approach to CPA.

- The final decision is that between three types of political strategies: information, financial incentives and constituency-building. As mentioned above in the course of the discussion on terminology, *Hillman and Hitt* (1999) interpret lobbying as a tactic within the information strategy, whereas alternative information tactics are “reporting research and survey results; commissioning research/think-tank research projects; testifying as expert witnesses and in hearings or before other government bodies; and supplying decision makers with position papers or technical reports” (834). However, this approach of separating lobbying from other information tactics seems too narrow for this study; especially since the aim of the study is to investigate lobbying in the EU. *Hillman and Hitt*’s article refers particularly to the U.S. context, while the European understanding of lobbying is generally broader, as they contend. Hence, an understanding of lobbying that includes all mentioned information-based activities is preferable; this is in line with the definition of lobbying provided above, and previous research on lobbying in the EU (*Anastasiadis* 2006: 14).

Another aspect that is related to the choice of strategies and tactics is deciding whether lobbying should be conducted by inhouse lobbyists or external consultants. The latter are hired to perform lobbying activities on behalf of a particular firm or association and may belong to a one-person office or be a part of a large firm specializing in similar activities. The question whether inhouse or external lobbyists are preferable is relevant in practice, but has received little attention in research. Yet, *de Figueiredo and Kim* (2004) have investigated these issues and conclude that when firms lobby on topics that are highly firm-specific and prone to sensitive-information leakage, they are more likely to use inhouse employees to lobby. However, when topics arise that are

more general to the industry and do not include sensitive information, firms are more likely to use outside counsel.



**Figure 2: Decision-tree model of CPA, adapted from Hillman and Hitt (1999: 837)**

### 2.3.2.3 Lobbying Success

The extent to which lobbying is successful is a crucial, yet intricate question. Part of the difficulties of tracing lobbying success result from different possibilities to measure success. It can be measured by examining the extent to which firms are able to influence policy-making, i.e., by analyzing past political decisions and assessing the efforts of various groups to influence these policy decisions (cf. Hillman et al. 2004: 847). Another approach is assessing “attributed influence” by relying on the self-assessment of lobbyists (Dür 2008b). Critical voices among the public seem to attribute considerable chances of success to firms, as they repeatedly warn from the immense influence of business lobbying on political outcomes due to their immense resources. Yet, research has shown lobbying success is a complex issue that cannot easily be predicted or explained. The common assumption that financial resources automatically equate to an advantage in influencing policy-making is at least relativized, as e.g., McKay (2012) finds little relationship between financial resources and policy success. Baumgartner et al. (2009) establish that resources explain less than five percent of the difference between successful and unsuccessful lobbying efforts. Other scholars have shown a number of factors are decisive for lobbying success, most importantly the institutional context, issue-specific factors and interest group characteristics such as actor type, resources, lobbying strategies and information supply (Dür and De Bièvre 2007). Efforts to determine under what conditions lobbying is successful continue.

### **2.3.2.4 Institutional Differences and Comparisons**

Scholars from a number of traditions focus upon how institutional differences, both formal rules and informal cultural norms and values, affect lobbying (e.g., *Keim* 2001, *Lamberg et al.* 2004). Empirical lobbying research had initially been dominated by a U.S. focus (e.g., *Epstein* 1969), but the field has evolved and has generated an increase in studies on non-U.S. polities like the EU. The subfield of comparative lobbying research has emerged (*Woll* 2006), especially examining parallels and differences between the U.S., the UK and the EU (*McGrath* 2005, *Mahoney* 2008, *Woll* 2008). Previous research has revealed differences in lobbying strategies and style, e.g., the European approach to lobbying is more consensus-based, as compared to the more aggressive and consummate U.S. style of lobbying (*Anastasiadis* 2006: 11). There are also common features, e.g., regarding the importance of contacts in government and with other actors and the essential of building trust and credibility (*Thomas and Hrebienar* 2009).

### **2.3.3 Social Science Theories Applied to Lobbying**

A large amount of lobbying studies is descriptive and atheoretical, but at the same time those studies that build on theory have applied a whole range of social science theories (*Getz* 2002: 308). The following section presents various theoretical approaches to CPA and lobbying research. The review builds on *Getz*' (1997) and (2002) seminal papers that focus 1. on the type of questions that are addressed by each theory and 2. on key variables that help explain and predict CPA. The approaches included in her 1997 review are interest group theory, collective action theory, public choice theory, transaction cost theory, resource dependency, exchange theory, behavioral theory of the firm, institutional theory, agency theory; the 2002 version amends game theory, business strategy and population ecology. For the following review, all of the theories covered by *Getz* are presented including recent examples of their application to lobbying research. Besides, new theoretical approaches are added; e.g., the resource-based view that is not incorporated in *Getz*' papers, but has become an influential approach to study CPA. This is still not a complete set of theories; other approaches previously applied to lobbying studies such as path theory (*Siedentopp* 2009) and constructivism (*Woll* 2008) are not considered, as the focus will be only on the most widely used theories.

For the purpose of this review, the various theories are assigned to specific disciplines, namely political science (Chapter 2.3.3.1), economics (Chapter 2.3.3.2), management

studies (Chapter 2.3.3.3), organization theory (Chapter 2.3.3.4) and communication studies (Chapter 2.3.3.5). Yet, the demarcation between disciplines is not clear-cut, e.g., the ideas of economists have had a great impact on political science studies on lobbying. While some theories are to be understood as alternative, incompatible approaches, others have common features and overlap to some extent. In empirical studies often two or more theories are used in combination in order to cover different aspects of lobbying. Key findings and the potential contribution of social science theories to responsible lobbying research are presented in Chapter 2.3.3.6.

### ***2.3.3.1 Approaches from Political Science***

Political science is the study of governments and public policies. Political scientists have dealt with lobbying in the context of discussing how non-governmental actors can be integrated in a political system. The assessment of lobbying ranges from a rather benign view by interest group theory to a more critical perspective, e.g., by deliberative democracy theory.

#### ***Interest Group Theory***

Many political scientists rely on interest group theory to examine lobbying. This approach is mostly equated with a pluralist conception that depicts policy-making as “an attempt to reach compromise between the competing goals of a multitude of interest groups” (Getz 2002: 308). *David Truman’s* classic work (1951) on pluralism argues that people organize when their political or economic interests are being adversely affect. Defenders of the pluralist view tend to see interest group activity as positive. *Robert A. Dahl* (1956), another important theorist of pluralism, finds that policy-making is enriched by self-interested interest group activity, as it reflects much wider forms of political participation than that of the work of professional policy-makers alone.<sup>15</sup> Pluralism does not assume that all groups have equal access to the policy process, as it has been often criticized (cf. *Smith* 1990). The assumption is that external and internal constraints balance the power of interest groups. External constraints refer to the counterweights of other interest groups; internal constraints are to be understood as the counterweights by other branches inside the government that are not under the influence of a specific interest group. Since many different interest groups compete and their conflicting interests can balance out each other, power in

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<sup>15</sup> In his late work, *Dahl* (1982) became more critical towards corporate power and recognized problematic aspects such as political power inequalities.

society is widely dispersed and good government is guaranteed, according to the pluralist view.

Pluralism was the dominant research paradigm in the 1950s and 1960s, but has lost some of its attraction since. Amongst the caveats are the neglect of the importance of institutional relationships and the role of ideas. Moreover, pluralism overlooks some of the risks associated with interest group influence, e.g., some interest groups may be prevented to have access for a long time (cf. *Smith* 1990). However, pluralism still contributes to understanding why firms lobby: The theory points to the need to assure that policy-making does not harm business interests and/or to assure the “business ideology” remains strong (*Getz* 2002: 309).

In recent years, a new version of pluralism, namely neopluralism, has emerged that “provides a much more contingent assessment of the nature and impact of the influence enterprise” (*Lowery and Gray* 2004: 171). Neopluralism pays a novel attention to uncertainty and recognizes that “the environment in which organized interests operate is a very complex one, one in which competition for survival is multifaceted and complicated by significant linkages and feedbacks between the stages of the influence production process” (*Lowery and Gray* 2004: 171). The view on interest group influence is benign as in the original pluralist work: The democratic link between constituents and elected officials is thought strong enough so that efforts to bias policy outcomes in a nondemocratic manner are both costly and rare (cf. *Brasher and Lowery* 2006: 1). The problematic aspect of underestimating unequal power to influence remains.

Even in light of criticism, (neo-)pluralist approaches have explanatory power – yet, they are especially convincing when applied to the political environment where they evolved, i.e., the U.S. In the European context, pluralism has been a less meaningful concept to explain interest group activities from the start. Political scientists have identified many European countries as corporatist systems that integrate interest groups in a coordinated and compromise-oriented way and differ from the U.S. system that is more open to individual interest group pressure (*Lijphart* 1999). In many European countries, few selected interest groups, most often trade unions and business associations, are formally involved in policy-making. In the EU, pluralist and corporatist elements co-exist (*Michalowitz* 2002). The term “elite pluralism” has been coined to describe such a system where access to policy-making is generally restricted to a limited number of interest groups with a high level of resources (cf. *Coen* 1997, *Eising* 2007).

### ***Novel Approaches: Policy Analysis and Deliberative Democracy***

The study of lobbying has been approached from a different perspective by novel approaches in political science. Policy analysis has especially focused on political change. Most notably, *Baumgartner and Jones* (1993) contribute to this stream of research by developing a “punctuated equilibrium model” according to which political systems are characterized by extended periods of stability which are disrupted by sudden, radical change. One of the main research endeavors in policy analysis has been measuring the influence of interest groups (e.g., *Klüver* 2013, *Eising* 2005, *Bouwen* 2004).

The impact of lobbying on the functioning of democracy has been questioned amongst others by deliberative democracy theory that has become an influential approach in political science.<sup>16</sup> This theory rests on the notion that authentic deliberation must precede any democratic decision and that “outcomes are democratically legitimate if and only if they could be the object of a free and reasoned agreement among equals” (*Coen* 1997: 73). The participation of non-governmental actors is endorsed, but this refers particularly to civil society, i.e., the “more or less spontaneously emergent associations, organizations, and movements” that transmit private problems, values and needs to the public sphere (*Habermas* 1996: 367). Deliberation underlines the need for citizens to exercise self-restraint and is opposed to the pluralist conception of competing, egoistic interest groups. As *Elster* (1986: 112) points out, “rather than aggregating or filtering preferences, the political system should be set up with a view to changing them by public debate or confrontation. The input to the social choice mechanism would then not be the raw, quite possibly selfish or irrational preferences [...] but informed and other-regarding preferences.” Deliberative democracy theory has been seldom explicitly applied to study lobbying. *Hendriks* (2011) contends that lobbying and deliberation are based on different modes of communication, as the deliberative model emphasizes public reasoning, whereas lobbying takes place in private. Yet, *Anastasiadis* (2010) shows that lobbying and deliberation are compatible and linking both can be fruitful from an ethical perspective (see Chapter 2.4.3).

#### ***2.3.3.2 Approaches from Economics***

Economics center on the economic activities of actors such as individuals, households and organizations, namely on the question how scarce resources are used to achieve

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<sup>16</sup> Deliberation has been touched upon in Chapter 2.2.6.3 in the context of politicized CSR.

specific objectives. A variety of theories from micro- and macroeconomics have been applied to lobbying. Some approaches such as public choice theory have been forwarded not only by economists, but in close interaction with political science, thus blurring the dividing line between the disciplines. On the other hand, especially microeconomists tend to take a more abstract, analytical approach and a firm-centered view compared to political scientists (*Mitchell and Munger* 1991). In the following, collective action theory, public choice and exchange theory, transaction cost theory and game theory are discussed.

### ***Collective Action Theory***

Collective action theory goes back to *Mancur Olson's* (1965) "The Logic of Collective Action" that proved to have a wide impact on lobbying research. His analysis is based on the concept of collective goods, i.e., goods to which the nonexcludability and the nonrivalrous consumption criteria apply. Since benefits of political activities are often a collective good, i.e., most legislative decisions benefit all the members of an industry, Olson deduced that most firms would not choose to undertake political activities. These firms would instead free ride on the efforts of others or simply accept the consequences of inactivity when weighing the costs and benefits of political activity. In this view, the problem of free riding is only attenuated when selective incentives or sanctions are foreseen. In small groups, e.g., more concentrated industries, the free-rider problem is thought to be less severe, because of 1. the higher propensity that some members are willing to bear higher individual costs to ensure that the collective good is provided and 2. due to peer pressure. Olson established a potent critique of pluralist thinking (see Chapter 2.3.3.1) by contesting that organized interests form naturally and putting the purely positive view on lobbying into question. *Lowery* (2007: 32) summarizes Olson's conclusion as follows: "Given variations in the severity of the collective action problem and access to resources through which to provide selective incentives, the population of lobbying organizations will almost certainly poorly reflect the distribution of interests in society. Instead, the interest system will be biased in favor of small groups with significant stakes in policy."

Today, collective action theory helps to explain why some firms engage in lobbying and others do not; and it supplies a lens for understanding the activities of business associations that might be used by individual firms to pursue their benefits (cf. *Getz* 2002: 309). However, empirical results have been mixed when evaluating the impact of collective action problems on the firms' decision to become politically active



(Rehbein and Schuler 1999: 146). Damania *et al.* (2005) suggest a new perspective on firms' ability to organize collective action by arguing that industries that face a greater number of regulations have an easier time forming a lobby group and sustaining joint lobbying efforts.

### ***Public Choice and Exchange Theory***

One of the basic tenets of public choice theory is that individuals (including firm representatives and policy-makers) are self-interested, rational actors that are motivated by utility maximization. Accordingly, policy-makers do not necessarily pursue the public interest. Firms are expected to be able to assess the impact of expenditures for CPA on economic performance (Baron 1995) and to act on the basis of these calculations. The relationships between policy-makers and economic actors are modeled as a market (*e.g.*, Buchanan and Tullock 1962). When firms perceive a potential benefit in regulation they enter the political market to "purchase" a specific policy; in case they see potential cost in regulation they strive for preventing it. In return, firms provide goods to policy-makers such as information or financial contributions. Hence, public choice theory offers an explanation why firms are politically active. "Rent-seeking" is an idea related to public choice theory: It describes how government actors provide privileges and thus cause waste (Tullock 1989). Political activities of firms are seen as a form of rent-seeking, as they aim to gain competitive advantage by influencing policy-making rather than through competition in economic markets (Buchanan *et al.* 1980). Stigler's (1971) theory of regulatory capture offers another component to the public choice field. He assumes that firms pursue political activities in order to maximize the rents that they receive through government policies, whereas government intervention is seen critical and not as being motivated to protect the public interest.

Modeling the public policy process as a market and lobbying as an exchange between policy-makers and the firm has become a widely applied approach in research. For example, Bonardi *et al.* (2005), draw on public choice theory to explain why and when firms engage in CPA. In their framework, interest groups offer resources, particularly financial resources and information, in an effort to maximize their own utility; policy-makers deliver policy favors in order to improve their electoral prospects. The exchange approach has also been applied in political scientists' studies on lobbying explaining the link between the influence of interest groups, resources and the policy-makers' demand for such resources (Kohler-Koch 1994: 170). *E.g.*, Dür (2008a)

examines the power of interest groups in the EU based on exchange theory and *Kliver* (2013) explains that the ability to provide goods that policy-makers require is the reason why the EU Commission is privileging certain interest groups over others.

### ***Transaction Cost Theory***

One of the basic ideas of transaction cost theory goes back to the seminal article by *Ronald Coase* (1937) where he argues that firms exist, because hierarchy is sometimes more efficient for organizing transactions than the market. The reason behind is that contracts reduce the cost of bargaining by making it infrequent. The idea of transaction costs became widely known through *Oliver Williamson* (1985: 552) who defined a transaction as something occurring “when a good or service is transferred across a technologically separable interface”. In its standard economic applications, transaction cost theory helps to explain why certain economic tasks are better performed internally by firms, while others are better contracted out. The main concern is to promote efficiency in firm governance, and “to match organizational forms (ranging from market to hierarchy) with the transactional ‘hazards’ facing the firm in making agreements with others” (*de Figueiredo and Kim* 2004: 884). Other hazards are relationship-specific investments and the ability of firms to appropriate the returns from other firms’ innovations and know how.

In the context of lobbying research, transaction cost theory has been applied to explain when firms lobby individually, lobby via associations or join a coalition to pursue political objectives (see, e.g., *Kaufman et al.* 1993, *de Figueiredo and Tiller* 2001). Further, transaction cost theory allows for determining conditions under which firms employ external lobbying consultants (*de Figueiredo and Kim* 2004: 884). This approach also points towards governance mechanisms that could reduce opportunistic behavior of consultants, e.g., by advance screening and looking at the consultants’ reputation *ex ante*.

### ***Game Theory***

Game theory views situations as games and deals with ways in which strategic interactions among players produce outcomes with respect to their preferences. Game theory can be applied to explore situations where the best course of action for each player depends on the actions of the others, whereas the outcome might not even have been intended by one of the players. Game strategies include coordination where all the players’ interests correspond, competitive games with opposed interests and mixed

games (Davis 1997). In the lobbying context, game theory can help to describe and anticipate lobbying behavior and policy outcomes. Baron (2006) builds on game theory to provide a theory of competitive lobbying in a majority-rule institution. In an indefinite lobbying process, legislators compare the offer of one lobbyist with the actual or anticipated offer of the other lobbyist to determine which to consider further; they put an alternative on the agenda for a final passage vote; and they vote for or against that alternative. Breton and Zaporozhets (2010) analyze the equilibrium of a sequential model consisting of a legislature and two opposing lobbies, particularly, they calculate the smallest budget that the first-mover lobbyist needs to win the game and the distribution of this budget across the legislators. Broscheid and Coen (2003) propose an informational model of lobbying to understand macro-characteristics of lobbying systems. Aitken-Turff and Jackson (2006) use game theory to examine the potential of using the positive elements of conflict and competition to lobby more effectively.

#### ***2.3.3.3 Approaches from Management Studies***

Management studies are concerned with the question how to achieve economic objectives effectively and efficiently. When dealing with political issues, management scholars focus on the firm and its management as anticipatory and proactive actors in the political market. Among the widely used approaches are agency theory and business strategy theory.

#### ***Agency Theory***

Agency theory centers on relationships between principals and agents that are hired to perform a service on the principals' behalf (Mitnick 1993). This type of relationship has been found in a number of organizational contexts, e.g., between shareholders and firm executives. The theory focuses on the issue of diverging interests between agents and principals: Especially when the principal is unable to verify what the agent is doing, agency costs arise. In the context of lobbying research, agency theory can be used to model political activities as aiming at transforming policy-makers into agents and reducing agency problems. For example, Keim and Baysinger (1993) consider the efficacy of political activities using agency theory. They argue interest groups compete to establish principal-agent-relationships with legislators. Public policy may be obtained from or supplied by legislators; in return legislators seek resources that may be used to produce votes in the next election. Firms can compete with others to the

extent that they are able to organize subsets of constituents and broker their interests to establish an agency relationship with legislators and/or provide other political resources desired by policy-makers.<sup>17</sup> *Lord* (1995) models the agency relationship between constituents and legislators as a framework to examine the influence of corporate grassroots political activities on the federal legislative process, whereas grassroots lobbying induces legislators to serve the interest of corporate principals by aligning the interest with a large number of constituents. *Ozer and Alakent* (2013) use the agency theory perspective to examine how corporate governance mechanisms affect a firm's political strategy, proposing that an agency problem may occur between owners and managers in regard to firms' approach to corporate political strategy.

### ***Business Strategy Theory***

A business strategy aims at furthering a firm's economic goals through positioning the firm and exploiting its competencies. Strategic management theories have long neglected links between the firm's broader business strategy and political activities. But research on political activities has shifted away from viewing CPA as short-term, tactical responses to external demands to a closer association of political activities with long-term strategic objectives; the necessity to integrate political activities and the firm's overall strategy has been recognized (e.g., *Bonardi et al.* 2005). *Baron* (1995) includes political strategy in the set of activities that comprise a firm's non-market strategy. Non-market strategy is defined as the component of a firm's business strategy that helps it navigate the non-market environment, whereas the latter refers to those interactions that are intermediated by public institutions. *Baron* (1995) argues that firms can develop distinctive competencies in non-market activities and that a firm's overall strategy must be congruent with the capabilities of a firm as well as both its market and nonmarket environments.

The resource-based view (RBV) has become highly influential in strategic management research and raises attention to the bundle of intangible and tangible resources at the firm's disposal, respectively the firm's capabilities, i.e., the capacity to deploy resources. The basic argument is: Firms that are able to develop and deploy unique, inimitable and valuable resources will earn above-average returns which may result in sustained competitive advantage (*Wernerfelt* 1984). Several scholars have applied RBV to studies on the political activities of firms. They posit that firms need

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<sup>17</sup> At this point the reasoning converges with exchange theory, as explained in Chapter 2.3.3.2.

specific political resources that prepare these firms to influence policy-making. Political resources range from organizational resources (e.g., inhouse office) to relational resources (i.e., relationships with policy-makers), public image and reputation to financial assets (Lawton *et al.* 2013: 90). Dahan (2005) distinguishes internal versus external resources, firm-level versus collective-level resources and ad hoc versus semi-permanent resources. Oliver and Holzinger (2008) adopt a dynamic capabilities approach to explain the strategies firms use to influence the political environment and the conditions under which these strategies are likely to be effective. However, the RBV analysis needs further development: Bonardi (2011) calls for modifications based on a good theoretical understanding of the specificities of political arenas which have so far been overseen.

#### ***2.3.3.4 Approaches from Organization Studies***

Organization theory concerns “the examination of how individuals construct organizational structures, processes, and practices and how these, in turn, shape social relations and create institutions that ultimately influence people” (Clegg and Bailey 2007: xiii). The contribution of behavioral theory, resource dependence theory and institutional theory on lobbying research are presented below.

#### ***Behavioral Theory***

Cyert and March (1963) laid the basis for behavioral theory 50 years ago by challenging two, until then generally accepted assumptions of the firm, namely the goal of profit maximization and perfect knowledge. The theory claims that firms operate in conditions of bounded rationality and that they tend to satisfice rather than maximize. In this view, the organizational structure, routine and resources affect goals, expectations and choices. Applied to lobbying research, behavioral theory helps to spot motives and antecedents of political activities. For example, Schuler and Rehbein (1997) draw on behavioral theory to identify firm-specific characteristics as a key to explain CPA. In their perspective, four elements affect the will and ability of the firm to filter environmental signals, namely organizational structure, resources, political experience and stakeholder dependence. Hadjikhani and Ghuari (2006) investigate lobbying activities of multinational enterprises in the EU, modeling lobbying behavior as an outcome of information asymmetry and as determined by the resources and knowledge of the firm, the government and peer firms.

The idea of organizational slack as an important driver of CPA originates from behavioral theory. Firms with higher slack – that can be operationalized, e.g., as a firm's debt-to-equity, current assets-to-current liabilities and free cash flows – are better able to gather information and gain managerial discretion (Getz 1997: 46). Higher levels of slack are thought to be linked to a higher degree of political activities, because slack puts firms in the position to do so. On the other hand, some scholars have argued that firms with low slack might see politically activities as the only solution to rectify their financial woes (cf. Hillmann *et al.* 2004: 840).

Contingency theory is a class of behavioral theory which claims that external and internal factors have an impact on organizational structure and management. In this perspective there is no best way to design an organization and the extent to which formal structures and the context fit has an influence on the effectiveness and efficiency of the firm (see e.g., Lawrence and Lorsch 1969). Jaatinen (1997) applies contingency theory to demonstrate that lobbying is highly situational determined and identifies factors such as lobbying competition and the support of mass media and citizens as influential factors.

### ***Resource Dependence Theory***

Resource dependence theory analyzes how external constraints influence the behavior of organizations. The seminal book by Pfeffer and Salancik (1978) focuses on the dependence of organizations on the environment, whereas dependence is perceived as undesirable, because it reduces the range of choices. Organizations can react by attempting to change external conditions or by building relationships to control or absorb uncertainty. Resource dependence theory is relevant in the lobbying context, because it points to the firm's dependence on government as a main motive to become politically active (Getz 1997: 313). Lobbying is not apt to reduce this dependence, but it lessens the likelihood of negative effects. Resource dependence theory has been applied, e.g., by Bouwen (2004) to investigate the logic behind corporate lobbying in the European Parliament. Resource dependence does not only refer to the relationship to policy-makers: The firm is also dependent on non-political stakeholders and this connection has been identified as a possible reason for firms not to become politically active (Schuler and Rehbein 1997). Pfeffer and Salancik (1978: 221) point out that firms might choose not to exploit their full power in order to avoid negative public reactions and to safeguard their legitimacy: "Organisations are limited in their exercise of political influence, often because they appear to be so powerful". The importance of

legitimacy has been recognized in recent years, not only due to the influence of resource dependence theory, but due to the ideas of institutional theory (which is discussed next).

### ***Institutional Theory***

(Neo-)institutional theory (DiMaggio and Powell 1983, Scott 2001, North 1990) underscores the importance of norms and expectations and emphasizes the adaptation of organizations to their environment. According to North, institutions are “the humanly devised constraints that shape human interaction” (North 1990: 3) and include both formal and informal institutions. Institutionalists claim that organizations must comply with the institutionalized expectations of their environment, otherwise the legitimacy – the “generalized perception or assumption that the actions of an entity are desirable” (Suchman 1995: 574) – and survival would be at risk. The adoption of expected structures and management practices creates isomorphism, i.e., similar processes and structures of one organization to those of another (DiMaggio and Powell 1983). Yet, especially the institutionalist tradition of the business systems approach has highlighted that firms continue to be influenced by various national institutional frameworks (Whitley 1999).

(Neo-)institutional theory helps explain why firms lobby: They aim at obtaining favorable institutional resources such as laws, public opinion and legitimacy. Moreover, firms that are experienced with political activities are likely to use CPA to address problems (cf. Getz 1997: 47-48). Besides, (neo-)institutional theory illuminates how external factors such local cultures, laws and history affect how firms act politically. E.g., Hillman and Keim (1995) explain variations in business-government relations among democracies based on institutional theory. Hillman and Hitt (1999) argue that one of the factors that affects the approach of firm to political action is a country's degree of corporatism or pluralism.<sup>18</sup>

### ***Organizational Ecology***

Hannan and Freeman (1977) introduced organizational ecology by linking organizational theory and population ecology, whereas the latter deals with the question how populations interact with the environment. Organizational Ecology states that organizations fight with similar organizations for resources and the environment

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<sup>18</sup> Political scientists usually distinguish pluralist polities from corporatist ones as alternative ways to integrate non-governmental actors in a democratic setting (see Chapter 5.3.1.2).

selects those for survival which are well adapted. These insights can be interpreted in the lobbying context, e.g., to explain how firms use lobbying to differentiate themselves from competitors, i.e., other groups that attempt to influence policy-making. *Gray and Lowery* (2000) use population ecology to examine lobbying communities, particularly how interest group populations are constructed and how they influence public policy. Niche theory is a related approach that helps to identify the resources that enable a firm to survive. As *Lowery* (2007: 47) explains: Due to competition over resources with others, every firm needs to construct a niche comprised of some portion of each of the resource arrays constituting its fundamental niche, i.e., space in which it might survive. *Lowery* (2007) uses this insight to model a multi-goal, multi-context theory of lobbying.

### ***2.3.3.5 Approaches from Communication Studies***

Communication studies centers on processes of human communication, i.e., the exchange of messages and meaning. Lobbying involves providing information and interacting with policy-makers, i.e., basic elements of communication. Nevertheless, lobbying has been relatively rarely dealt with by communication scholars. Few scholars such as *Berg* (2005, 2009) have attempted to connect lobbying and public relations (a subdiscipline which focuses on deliberate communication processes between an organization and the public). Communication theory can help to understand the process of lobbying, for example by pointing out that a sender of a message cannot control the receipt of the message completely, i.e., the firm cannot entirely determine how its information is perceived by the policy-maker. One of the basic public relations models that has been applied in lobbying studies is the one developed by *Grunig and Hunt* (1984), distinguishing three types of communication strategies: 1. one-way-communication that aims at disseminating information, 2. asymmetric two-way-communication that aims at persuasion and 3. symmetric two-way-communication that promotes mutual understanding.<sup>19</sup> *Jaatinen* (1997: 24) refers to this model by defining lobbying as “essentially two-way communication” that can be either asymmetrical or symmetrical lobbying, whereas the latter refers to “interaction in which a lobbyist persuades a political decision maker but the decision maker may also persuade a lobbyist”. *Jaatinen* argues that “organizations can get more of what they want by giving publics some of what they want” and sees the symmetric

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<sup>19</sup> The model has been applied in stakeholder theory as well (see Chapter 2.2.4.2).



two-way-process as “an ethical way of communicating”. Yet, *Kugler* (2004) analyzes lobbying case studies with respect to the model by Grunig and Hunt and concludes that communications were mainly either one-way or two-way asymmetric.

Further developing the application of communication theories (including linguistic approaches) in the lobbying context could be fruitful. For example, this could be undertaken by referring to discourse analysis, which focuses on the ways social and political domination is reproduced through communication. *Somerville* (2011) notes that applying the analysis of discourse to lobbying is an underdeveloped approach; this perspective could help to understand in what way lobbying privileges particular discourses over others and contributes to firms gaining a position of power.

#### ***2.3.3.6 Applicability of Theoretical Approaches to Responsible Lobbying Research***

Following the review of social science theories, this section deals with the question what each can contribute to the study of responsible lobbying. *Mantere et al.* (2009) have criticized lobbying research as encouraging a focus on economic benefits, thereby condoning unethical or sociopathic firm behavior. Indeed many of these theories – especially those that take a firm-centered approach – emphasize aspects such as self-interest, strategy and financial performance. Instrumental considerations are essential for responsible lobbying (especially from any practitioner point of view), but they must be coupled with normative ideas. Therefore, the following section considers the compatibility of these social science theories with an understanding of lobbying that incorporates a firm’s overall responsibilities towards society (cf. the preliminary definition of responsible lobbying in Chapter 1.1).

Table 2 provides an overview of the theories and their contribution to studies on lobbying and responsible lobbying.

Among the approaches from political science, **interest group theory** rightly points to the importance of a variety of opinions and underlines the legitimacy of voicing the firm interest and engaging in lobbying. But it underestimates the dangers of unrestrained lobbying to the functioning of democracy. Hence, merely relying on interest group theory is not a feasible approach for a responsible lobbying study. However, the distinction between pluralist and corporatist systems that is specified by interest group theory may play a role in responsible lobbying research, as these differences help to understand different condition under which responsible lobbying

can be realized. **Policy analysis** can be useful in the context of responsible lobbying to examine whether the influence of firms on policy-making is as disproportionate as it is often criticized. The ideas of **deliberative democracy** are generally considered contradictory to lobbying (e.g., *Naurin* 2007): Lobbying is seen as a self-serving activity, but deliberation requires self-restraint. Yet, *Anastasiadis* (2010: 50) shows the potential of linking both to achieve responsible lobbying, as deliberation “combines the ideals of participation and orientation towards the public good with the value of popular rule”.<sup>20</sup>

Among the contributions by economics, **collective action theory** challenges the benign view of lobbying and indicates the potential of a minority pursuing their interests more successfully than the majority. This risk can be interpreted as a threat to democracy and thus may be taken as a justification for the need to restrain lobbying, respectively to bring lobbying in line with corporate responsibilities. **Public choice theory** points to firms purchasing public policies, thereby threatening the consideration of the preferences of the majority in policy-making and the operation of efficient markets.

However, public choice theory sees “the public interest” only as the aggregation of individual interests. This makes the application of public choice theory as the basis for studying responsible lobbying difficult, as the latter is based on the premise that firms have responsibilities for the societal good. **Exchange theory** underlines the necessity of transferring resources for mutual benefit. This implies that firms have to consider the needs of policy-makers in order to gain influence and thus may not use unethical methods to shape public policy. The focus of **transaction cost theory** is primarily on efficiency, while issues such as the public interest or normative considerations are not considered. Yet, this theory helps to explain why firms lobby individually or collectively and why some firms internalize the lobbying function and others contract it out. The main concern of **game theory** is strategy and how to win the game. Such an approach could facilitate unethical behavior, e.g., when misleading other players is seen as an appropriate part of the strategy. However, when lobbying is understood as an iterative game, firms must anticipate revenge on the side of policy-makers for using unethical methods such as manipulation.

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<sup>20</sup> *Anastasiadis*’ (2010) approach is explained in Chapter 2.4.3.

Theory	Contribution to CPA/ Lobbying Research	Contribution to Responsible Lobbying Research
Interest group theory	Explains a firm's motivation to lobby: Firms ensure their self-interest is not harmed	Underestimates the dangers of unrestrained lobbying, but can help to understand differences between pluralist and corporatist systems
Policy analysis	Explains political change and the role of lobbying	Can help to measure the influence of business
Deliberative democracy theory	Rejects "traditional", unrestrained lobbying	Provides a normative contribution: Underlines the ideals of discourse, orientation towards the societal good
Collective action theory	Explains why firms do not lobby "naturally", large firms in concentrated industries are more likely to lobby	Points to the potential of a minority to organize and pursue their interests
Public choice theory	Explains motivation: firms want to purchase desirable policies	Questions the pursuit of the public interest by policy-makers
Exchange theory	Explains motivation and choice of tactics	Points to the interdependence between firms and policy-makers
Transaction theory	Explains when firms lobby individually or collectively and why firms internalize the lobbying function or contract it out	Focuses on efficiency
Game theory	Helps to describe and anticipate lobbying behavior and policy outcomes	Useful if the focus is on iterative games
Behavioral theory of the firm	Points to firm characteristics (e.g., slack) explaining which firms are likely to be politically active	Organizational factors can explain to what degree firms conduct responsible lobbying
Agency theory	Firms use lobbying to create agents among policy-makers	Focuses on efficiency, but can provide insights when considering all stakeholders
Business strategy theory	Points to political resources as prerequisite to influence policy-making	Facilitates focus on financial goals, but can lead the way to integrate lobbying, CSR and corporate strategy and points to responsible lobbying as a political resource
Resource dependence theory	Identifies dependence on government as a main motive	Helps to understand the importance of contextual forces
Institutional theory	Explains motivation: firms want to obtain favorable institutional resources	Underlines importance of legitimacy, can explain why different institutional conditions result in different degrees of responsible lobbying
Organizational Ecology	Explains tactics, e.g., how firms use lobbying to differentiate themselves from competitors	Limited, focuses on competition
Communication studies	Helps to understand lobbying as a communication process	Establishes symmetric two-way-communication as the ideal

**Table 1: Contributions of lobbying theories, table builds on Getz (2002)**

Among the approaches from management studies, **agency theory** is most often applied. The focus on the financial performance of the firm makes the theory not automatically apt for studying responsible lobbying (that requires considering corporate responsibilities for the long-term societal good). However, one step to make agency theory compatible with responsible lobbying is to consider not only relations between shareholders and managers or lobbyists/managers und policy-makers, but to take other stakeholders into account. Such an effort has been undertaken by *Hill and Jones* (1992: 132, 134) that integrate agency theory with the stakeholder concept to make managers the agents of all stakeholders. **Business strategy theory** and the resource-based view also imply a concentration on financial performance and instrumental considerations. Especially when the focus is on short-term profit, these theories can constitute conflict with normative considerations that are part of responsible lobbying as understood in this study. But the insight that an integration of lobbying and the firm's overall strategy is needed is highly valuable, especially if the integration includes CSR (see *Singer* 2013), as this is the only way to ensure that the objectives and decisions in each of these three fields do not contradict each other. The resource-based view states that firms can choose which lobbying capabilities to develop; responsible lobbying could be regarded as such a capability, as it helps to build credibility among policy-makers. Hence, responsible lobbying can be justified based on this approach.

Most approaches from economics and management studies assume rational choices and utility maximization. This aspect deserves attention, as some critical scholars have questioned whether rational actor theory is compatible with ethical considerations due to the alleged focus on short term, pecuniary objectives and the neglect of the origins of human motivations.<sup>21</sup> For example, *Roberts* (2003: 251) explains that rational actor theory only allows for an instrumental understanding of normative considerations: "Social relations appear as fundamentally competitive; at best there can be moments of calculated cooperation when reciprocal self-interests coincide. It is hard to get to ethics from within such assumptions." Yet, the rational choice idea can be understood in various ways, whereas one version upholds that rationality is essentially about

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<sup>21</sup> There has been a long, ongoing debate about the rational choice idea in social sciences (see, e.g., *Archer and Tritter* 2000). Some assumptions of rational choice theory have been criticized as unrealistic, such as the assumption of perfect information. However, newer models rely on probability to describe outcomes and include the assumption of bounded rationality.

consistency of behavior, not necessarily about maximizing (pecuniary) utility. A number of scholars see rational choice and ethics as compatible, provided that rational choice is interpreted as allowing for incorporating altruistic behavior and long term effects. For example, *Pies* (2000) uses rational-choice analysis to examine incentives for identifying, discussing and implementing normative objectives.

Regarding approaches from organization studies, **behavioral theory** can provide useful insights on motives, specifically by indicating the importance of organizational factors, e.g., corporate culture and organizational structure, which can influence the degree of responsible lobbying. **Resource dependence** points to contingencies and constraints that are imposed by external actors such as the government. The recognition of the firm's dependence on policy-makers can trigger firms to refrain from applying unethical lobbying methods, because firms need to keep the government's goodwill and trust. Yet, the focus on one-sided dependence can be misleading, as the power of large firms has become immense in the course of globalized economic activities. **Institutional theory** provides important insights for responsible lobbying, especially by underlining the necessity to safeguard the firm's legitimacy. Moreover, institutional theory helps to understand that different institutional conditions may result in different degree of responsible lobbying and can serve as the basis for a comparative responsible lobbying study. **Organizational Ecology** underlines the importance of environmental selection and can explain the founding and mortality rates of organizations. However, this focus does not drive actors to show sympathy to others or worry about their end of the bargain, which makes the theory little compatible with responsible lobbying that builds on ethical concerns and cooperation.

**Communication theory** could help to gain insights on the process of lobbying. The approach by *Grunig and Hunt* (1984) to model symmetric two-way-communication as the ideal form of communication can serve as the foundation for normative considerations on responsible lobbying. It comes close to deliberative ideas.

Overall, no theory suits all purposes of responsible lobbying research, as none covers all aspects. Hence follows:

- Especially deliberation and communication theory deliver the normative basis to define guidelines for responsible lobbying. If the firm succeeds in deliberation and symmetric two-way-communication, the lobbying process gains moral quality and it becomes more likely that the outcome serves the interest of all parties involved.

- Institutional theory points to the importance of legitimacy and can provide the rationale of responsible lobbying. However, responsible lobbying can also be justified on instrumental grounds, so that exchange theory, business strategy theory and the resource-based view become relevant.
- To research antecedents, a combination of theories is recommendable, such as behavioral theory that can provide useful insights by pointing to the importance of organizational factors and institutional theory that helps to understand the impact of external factors.

## **2.4 Literature on Responsible Lobbying**

There has been little academic attention to responsible lobbying, but the scattered previous attempts to investigate the topic are reviewed next. On the scholarly side, a few political scientists have discussed consequences for democracy and the public good and have proposed legal provisions to counter drawbacks of corporate lobbying (see e.g., *Holman* 2007); but these scholars have not dealt with the question whether self-restraints of business are needed or how lobbying and CSR can be linked. However, interest on responsible lobbying is rising, particularly among CSR and business ethics scholars. Besides, the first empirical studies that link CSR and lobbying have been conducted by NGOs and activists (see Chapter 2.4.3).

The following section elaborates not only on literature that uses the term “responsible lobbying” explicitly, but also on conceptual contributions on ethical aspects of lobbying (Chapter 2.4.1), lobbying studies in the context of environmental policy (see Chapter 2.4.2) and the few existing attempts to link CSR and lobbying research (see Chapter 2.4.3).

### **2.4.1 Ethical Aspects of Lobbying**

A small number of scholars have dealt with ethical matters of lobbying, i.e., with the question “what is appropriate practice and what is not” (*Weber* 1997: 71) when firms seek to influence policy-making. These scholars argue that lobbying needs to be restrained by ethical standards (e.g., *Hamilton and Hoch*: 1997) or go further and identify “an affirmative moral duty” for lobbyists to seek “reasonably balanced and just laws” (*Ostas* 2007: 33). *Weber* (1997: 75) underlines that a discussion of three issues is needed when linking lobbying and ethics: 1. appropriate goals, 2. appropriate

means to be used and 3. voluntary restraints on self-interested behavior. Another aspect that must be considered are the consequences of lobbying (*Yongqiang* 2008).

Various ethical theories have been discussed as suitable for guiding lobbyists, whereas some emphasize consequences, other identify duties to others as the appropriate foundation for reaching an ethical decision. *Keffer and Hill* (1997) advance the communitarian ideas developed by *Etzioni* (1993) as the suitable basis for making ethical lobbying decisions. They argue for “pluralism-within-unity”, i.e., they encourage intergroup competition in a democratic system, but call for a consideration of the common interests of the community. Another effort for laying out a framework of ethical rules has been undertaken by *Oberman* (2004) who takes “contestability of politics” as the supreme criterion in evaluating the ethics of lobbying. A contestable democratic system would allow for “mobilization of support for various positions; permit broad access; incorporate due process, openness, and timely consideration of issues; provide for the possibility of change; and be widely viewed as legitimate” (*Oberman* 2004: 251). *Oberman* (2004) identifies a normative obligation for firms to pay attention to the effects of their actions on contestability and to refrain from those actions that may damage it.

Some scholars have developed concrete rules of conduct and codes of ethics for lobbyists. *Hamilton and Hoch* (1997: 117) draw on a variety of ethical theories – including utilitarianism, Kant’s philosophy, rights and justice considerations, social contract theories and character ethics – to propose the following ethical standards:

1. Maximize good and minimize harm for those affected.
2. Don’t make exceptions for yourself.
3. Let others make their own choices.
4. Use the publicity test.
5. Respect human rights.
6. Insure a fair distribution of benefits and burdens.
7. Honor the social contract.
8. Act in accordance with your character and the company’s reputation.

*Hamilton and Hoch* (1997: 122) intend a translation of ethical theories “into a vocabulary that can be spoken in the board room”; yet, while many of these principles are indeed practitioner-oriented, a guideline such as “Honor the social contract” is of limited practicability. Moreover, the standards might constitute contradicting demands so that firms would need a guideline how to reconcile or prioritize.

The authors from the *Woodstock Theological Center* (2002: 17-19) discuss four ethical traditions: 1. Aristotelian virtue ethics, 2. rule-oriented ethics derived from Hebrew Scripture, 3. a prophetic tradition oriented to helping the poor and powerless and 4. a democratic tradition emphasizing individual equality. They suggest the following seven principles to guide lobbyists (*Woodstock Theological Center* 2002: 84-89):

1. The pursuit of lobbying must take into account the common good, not merely a particular client's interests narrowly considered.
2. The lobbyist-client relationship must be based on candor and mutual respect.
3. A policymaker is entitled to expect candid disclosure from the lobbyist, including accurate and reliable information about the identity of the client and the nature and implications of the issues.
4. In dealing with other shapers of public opinion, the lobbyist may not conceal or misrepresent the identity of the client or other pertinent facts.
5. The lobbyist must avoid conflicts of interest.
6. Certain tactics are inappropriate in pursuing a lobbying engagement.
7. The lobbyist has an obligation to promote the integrity of the lobbying profession and the public understanding of the lobbying process.

The Woodstock principles are comprehensive normative guidelines for choosing the means and designing the process of lobbying. Yet, only the first principle is apt to help to ensure appropriate content and this caveat is aggravated by the fact that concretizing the "common good" remains a considerable challenge.

Generally, guidelines for lobbyists based on ethical theories help to define what virtues and rules should govern lobbying efforts; they contribute to making morally sound decisions. Yet, *Anastasiadis* (2010: 55) criticizes the proposed standards for being too far away from reality and as "not practically relevant because they typically use a different perspective (moral/ethical) from the main thrust of the field (instrumental), without providing insight into how they could be reconciled". While this tension between normative and instrumental considerations can hardly be denied, there is considerable evidence that ethical guidelines have become a concern of practitioners and are not only an endeavor for theorists separated from reality. While *Hamilton and Hoch* (1997: 125) contend that "expecting ethical standards to be included in corporate lobbying strategy may seem hopelessly naïve", nowadays such efforts are gaining practical relevance. Public scrutiny heightens the pressure for morally sound corporate actions. Hence, many firms have explicitly accepted their responsibilities towards society and a growing number among them seeks appropriate lobbying behavior.



Growing awareness regarding the necessity of normative guidelines is also reflected in the fact that lobbying organizations engage in self-regulation.<sup>22</sup> Yet, the application of ethical theories comes with caveats: Concretizing ethical standards remains a challenge, especially if one takes the necessary step not only to consider the lobbying process, but the content, that is goals and consequences. Besides, ethical principles can constitute competing demands which can cause difficulties to decide exactly what conduct is suitable. Nevertheless, studies on ethical matters of lobbying provide a valuable contribution that responsible lobbying research can build on.

#### **2.4.2 Lobbying on Environmental Policy**

Responsible lobbying has been provisionally defined as lobbying in congruence with the corporate responsibilities towards society, i.e., it covers ethical, social and environmental aspects (see Chapter 1.1). Especially environmental policy has received considerable attention in the context of corporate lobbying. The worries over the ecological impact of modern society and economy and its consequences have brought forth environmental regulation in many countries, complemented by global policy efforts. Firms initially tended to resist legislation and achieving compliance still is an issue, but there is growing cooperation with policy-makers (*Rivera* 2010). While research on ethical aspects of lobbying is clearly normative, studies dealing with lobbying on environmental issues are primarily descriptive and/or explanatory. *Kolk und Pinkse* (2007) examine the political activities of MNCs on climate change legislation and conclude that firms mainly use an information strategy aimed at influencing policy-makers toward market-based solution, complemented by commitments to self-regulation. *Polk and Schmutzler* (2005) argue that, when an environmental policy can be implemented in different ways with various distributional consequences for the affected industries, the political strategies of each industry will be diverted from resisting regulation as such towards lobbying for industry-specific loopholes. *Levi and Egan* (2003) analyze the international negotiations to control emissions of greenhouse gases, focusing on the responses of firms in the U.S. and European oil and automobile industries. They suggest that the conventional demarcation between market and non-market strategies is untenable, given the embeddedness of markets in contested social and political structures.

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<sup>22</sup> On self-regulation in Europe see Chapter 5.3.1.2. However, codes of conduct developed by professional organizations focus primarily on the process of lobbying, i.e., transparency.

The contribution of studies on environmental regulation is of limited value for this study, as the focus is merely on one aspect of responsible lobbying. However, this research shows that not only public pressure on responsible corporate actions has risen, but also that a variety of response strategies have been developed by firms, ranging from completely rejecting stricter regulation to calls for stricter standards by firms that have embraced an environmental friendly business model. Moreover, lobbying on environmental issues reveals that rhetoric and public discourse are highly relevant when it comes to influencing policy-making: Sustainability has become an effective spin to put on any issue on the political agenda and make lobbying successful (Köppel 2012).

### **2.4.3 Literature Linking CSR and Lobbying**

Previous efforts to link lobbying and CSR have been mainly undertaken by practitioners. *SustainAbility and WWF* (2005) analyze how the world's largest firms report on their lobbying practices and find that although most firms strike a defensive tone, transparency around lobbying is increasingly accepted. The study deals with the conduct, not the content of lobbying. However, it also gives examples of disconnects between a firm's lobbying efforts and its broader values and principles. The authors recommend that firms should switch into a way of lobbying that sees CSR as a "strategic differentiator and recognizes the potential for public policy to drive higher standards in support of business activities and wider social and environmental objectives" (*SustainAbility and WWF* 2005: 20). *AccountAbility and The Global Compact* (2005: 11) present guidelines for responsible lobbying, whereas the latter is defined as "a greater coherence and consistency between businesses' [CSR] commitments and stated policies and actions in influencing public policy". A six-step "lobbying health-check" is proposed that covers the alignment with strategy and actions, materiality, stakeholder engagement, reporting, people ("who is lobbying") and processes. *Blueprint Partners et al.* (2007) analyze the role investors play in driving a more coherent and strategic approach between lobbying and CSR, concluding that many investors already consider the lobbying activities of firms they invest in.

Scholars have also started to recognize the need for conceptual and empirical research on responsible lobbying. An integrative view of CSR and lobbying has been recommended, e.g., by *Schepers* (2010). *Bendell and Kearins* (2005) find "the stance of corporations on policy issues, both public and behind the scenes, is becoming an

issue within the context of CSR and its effective management". The case study by *Williams* (2008) examines how far the lobbying activities of the UK tobacco manufacturer BAT are consistent with its explicitly stated corporate social responsibilities. The study's results are mixed, finding some of BAT's lobbying practices consistent with stated responsibilities, while others contradict them. *Slob and Weyzig* (2010) offer a condensed analysis of the relation between corporate lobbying and CSR policies; their case studies (amongst others from the pharmaceutical industry) indicate that consistency is often lacking.

Regarding theoretical work, *Singer* (2013) provides a valuable approach by developing an integrative model of CPA, CSR and the firm's competitive strategy. He combines these three aspects in a so-called "general strategic problem of the corporation" (GSPC) that involves six types of corporate activity: 1. social, 2. competitive and 3. lobbying activities, but also 4. its taxation strategy, 5. relations with NGOs and 6. political communications, whereas the latter "involve the advertising and propagating of political ideas to entire electorates, with a view to influencing governments and policies indirectly" (*Singer* 2013: 313). He considers the firm's political assumptions as a pivotal construct that influences each of these six activities.

The most comprehensive effort to link CSR and lobbying scholarship has been undertaken by *Anastasiadis* (2010, 2013). His empirical analysis deals with the auto industry's lobbying efforts on EU policy-making on carbon dioxide emissions; he finds that firms state seeking to act in a responsible manner and frequently have a good record of socially responsible activities, yet they meet with mistrust among policy-makers and civil society in the lobbying context. *Anastasiadis* (2010: 193) contributes to closing the research gap on responsible lobbying by conceptualizing trust as a prerequisite for firms aiming at engaging in the political process as morally legitimate actors. According to *Anastasiadis* (2010: 150) lobbyists wear different "masks" in the lobbying process depending on the nature of the relationships they have with policy-makers, mediated by the circumstances of their communication.

- When lobbyists wear the "ritual mask", they provide only the formal corporate position as it could appear in a press release and assume no mutual trust. This mask connotes a form of ritualized behavior.
- When wearing the "masquerade mask" there is no active deception; hints at confidential information are possible.

- The “domino mask” is worn when there is a good, long-term relationship between lobbyists and policy-makers and when each party believes that the other will keep discussions confidential.

Anastasiadis (2010: 150) argues that firms must become able to take off the ritual mask in order to gain trust. Anastasiadis (2010: 204-09) develops a model of evolution for the political environment, in which a deliberative approach acts as an engine of firm development towards moral legitimacy. He sets out a basic normative lobbying model with reference to firm-internal processes based on Habermas’ criteria for the ideal speech situation (Habermas 1998: 41-44).<sup>23</sup> Anastasiadis (2010: 214-218) establishes four main internal conditions for firms seeking to engage responsibly with lobbying:

1. *Nobody who could make a relevant contribution may be excluded.* Within the firm, this means that all affected departments must be involved in lobbying issues.
2. *All participants are granted an equal opportunity to make contributions.* This requires that firms establish systems that allow affected departments to engage on an equal footing.
3. *The participants must mean what they say.* The lobbyist must provide full, accurate information about the political environment, but should be able to expect to get frank information from other departments as well.
4. *Communication must be freed from external and internal coercion.* This principle means that no one person or department may dictate the terms of the discussion within the firm.

Deliberative processes liberate employees to dissent from the hegemony of dominant firm narratives, by allowing alternative voices. As firms evolve, lobbyists have a greater repertoire of “masks” to wear and the more likely the lobbyist is to be trusted.

Anastasiadis (2010, 2013) provides important insights on the interaction between lobbyists and policy-makers as well as on firm-internal processes. Yet, a number of aspects remain neglected, e.g., the potential claims of other stakeholders including NGOs, consumers and the media that may try to influence the firm’s political positions

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<sup>23</sup> This is a novel approach, as deliberation and lobbying are mostly seen as contradictory. Proponents of deliberation such as Scherer and Palazzo (2007: 1111) point out deliberation and lobbying involve different modes of communication: “Deliberation is based on the transparency of public discourse, and lobbying is based on the conspiracy of backdoor bargaining”. Besides, lobbying is generally characterized as a self-serving activity, but deliberation calls for exercising self-restraint, i.e., avoiding the immediate instrumental pursuit of the self-interest.

and could be involved in deliberative processes. *Anastasiadis* (2010: 239) calls for more detailed research on corporate-internal structures and processes and on the role of the individual lobbyist.

Overall, these previous attempts to link CSR and lobbying constitute important conceptual and empirical groundwork for responsible lobbying research, namely by contributing to a better understanding of current practice. Yet, these studies remain exploratory and provide only step-by-step contributions to fill a large research gap. Further research is needed, both on a conceptual level and empirical level. A template of responsible lobbying that grasps the complexity of the issue has not been achieved so far and knowledge regarding factors that facilitate or curb responsible lobbying is missing. Moreover, empirical research has merely focused on selected aspects (such as reporting) or specific case studies so that an encompassing picture of responsible lobbying practice is lacking.

## 2.5 Chapter Summary

This chapter started with a review of literature on corporate responsibilities (that is CSR, stakeholder theory and sustainability), paying particular attention to some of the most debated issues in the field such as the divide between the business and the moral case. While most CSR scholars deal with the non-political environment, the politicized concept of CSR reflects a new development by underlining the need for examining the political role of firms. Yet, lobbying is largely neglected even by this scholarship.

Judging from the review of literature on Corporate Political Activities (CPA) and lobbying, the general assumption is that firms lobby in order to get favorable public policies, to protect themselves from perceived threats or to exploit opportunities. Lobbying styles vary and can be either aggressive and confrontational or cooperative, whereas collaboration allows for mutual gains through exchange. Some firms lobby on an issue-by-issue, others pursue long-term political strategies (*Hillman and Hitt* 1999: 829, *Hillman et al.* 2004: 840), whereas especially in the latter case credibility and trust are important assets. In any case, lobbying is seen primarily as an egoistic activity, whereas the necessity of (self-)restraint is largely overseen.

*Weber's* (1997: 72) observation that the discussion of ethics and responsibility in the lobbying context is more pushed by "human rights organizations, activist shareholders, good government groups, and the press" than by business ethicists still holds to some extent. However, some studies by academics and practitioners on responsible lobbying

exist and a trend toward an integration of the CSR and lobbying discipline seems to be emerging.

The preceding review of CSR, lobbying and responsible lobbying literature provides a good platform for the further development of the conceptual foundations of responsible lobbying research. A normative basis for the appropriate content of lobbying builds on CSR theory and related approaches such as stakeholder theory and sustainability. As concluded in the review of the applicability of social science theories to lobbying research, deliberation and communication theory can serve as the basis to define guidelines for the process of responsible lobbying.

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