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# STRATEGIC INERTIA THROUGH CORPORATE POLITICAL ACTIVITY: CONSEQUENCES OF A PATH-DEPENDENT PROCESS

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*The paper examines the inertial consequences of corporate political activity (CPA) over time. Path dependence theory is applied in order to explain the self-increasing development of CPA focusing on strategic inertia on a firm level. Partial least squares (PLS) methodology is used to develop a measurement model for path dependence through CPA. A unique and valid PLS measurement model is presented. Strategic importance represents the biggest impact factor in the model. Additionally, statements from interviews are examined for a clear picture of how exactly strategic inertia through CPA emerged over time. The empirical analysis is based on survey data primarily collected at 102 major German companies and in over 40 semi-structured interviews with experts in the field of public affairs. The results approve the proposed hypotheses on firm strategic inertia and in addition give new insights into today's CPA within the German market.*

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## INTRODUCTION

A recent example of the biggest German telecommunications company shows that a firm can be very well organized and successful on their non-market side of business by engaging into corporate political activity (CPA) and influencing political decisions on telecommunication regulation. But, at the same time their market side of business has tremendous struggle to keep its customer base satisfied. During the last year, hundred thousands of customers have quitted contracts and turned away to competitors. Which strategic consequences arise from this clear gap between the company's market and non-market side? Consequently, the management board should have decided towards the allocation of strategic and material resources away from further investment into CPA towards the genuine task of a businesses, namely to focus on its market side and invest into its customers needs. This paper with both a conceptual and empirical part will examine the following research questions: Which inertial consequences arise for businesses which keep its current non-market focus and even further invest into CPA? And does a one sided focus on CPA trigger a path depend process?

Research in the field of CPA has been mostly dominated by questions which, in normative terms, reflect the positive outcome of CPA. Research that applies a corporate perspective usually describes and explains why and how some political strategies or activities of one corporation are more effective than others. This paper takes a different approach by addressing a major gap in the CPA literature. The gap is addressed by looking at potential *negative implications* of CPA during long-term political engagement. These potential negative implications are examined by analysing inertial situations for the corporation which arise as a consequence of a high CPA level. By taking a path-dependence perspective and examining the

CPA level over time, we show these inertial and therefore negative implications. Drawing from the theory of path dependence, five path dependency indicators concerning CPA are operationalised. Partial least squares (PLS) methodology is used to develop a measurement model with these indicators. So far, mainly antecedents, types, outcomes, and organisation of CPA implementation have been the focus of CPA research (for an overview of the past research see Hillman, Keim & Schuler, 2004). But surprisingly, no standardised measurement tool for CPA can be found in the literature. The reasons might be methodological hurdles and a lack of data availability. In this paper, the empirical analysis for CPA is based on both quantitative and qualitative primarily collected data. Over 40 interviews with public affairs (PA) experts and a survey of 102 major German companies build the data base for the empirical analysis. The time frame for the empirical analysis is between 1999 and 2007, since many companies started to engage in CPA together with the relocation of the German capital from Bonn to Berlin in 1999.

### **LITERATURE AND THEORETICAL ORIENTATION**

The relation between market and non-market influences on the firm's strategic development and performance has been on the research agenda for quite some time. More recently, David Baron (1995) took a strategy formulation perspective and proposed an integrated strategy of market and non-market components. Brian Shaffer (1995) discussed the consequences of public policies for the competitive environment of the firm, a work which provides one explanation for political behaviour. Although equipped with different perspectives, most work in this field converges in the common estimation that the engagement in CPA results in positive effects for firm performance (Hillman et al., 2004). Consequently, research has been focused on different types of CPA strategies and their potential impact on firm performance (Boddewyn & Brewer, 1994; Hillman, 2003; Hillman & Hitt, 1999; Meznar & Nigh, 1995). Several empirical studies have demonstrated the positive impact of CPA on firm performance, although isolating the effect of CPA on performance is rather difficult (Hillman, Zardkoohi & Bierman, 1999; Marsh, 1998; Shaffer & Hillman, 2000; Shaffer, Quasney & Grimm, 2000). Up to now, only a few studies have been directed to the potential negative implications of CPA. For instance, Bonardi (2004) found asymmetric behaviours in CPA strategies and performances of former monopolies. Other negative implications of CPAs such as financial contributions to political parties or even bribery are not examined in this paper.

## CPA from a Resource Based View

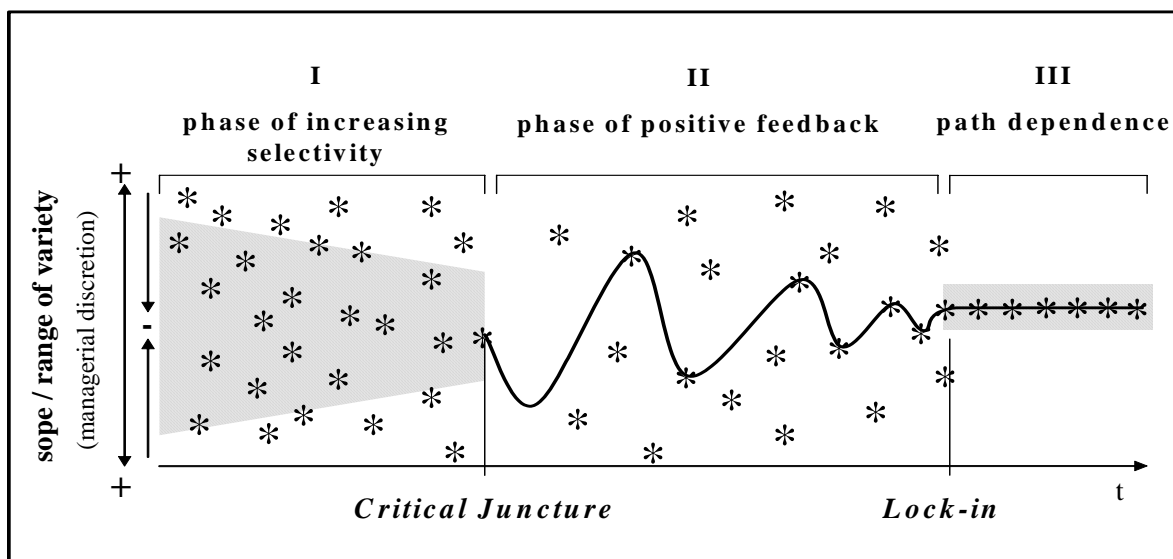
Non-market activities by firms can include, for example, engagement in CSR, community service programs, and CPA. In this study, the focus is placed on CPA, its measurement, and its inertial consequences. A *resource-based view* is taken as the theoretic orientation to deal with the development and measurement of CPA. CPA is defined as corporate attempts to shape government policy favourable to the firm (Baysinger, 1984). Two main reasons for CPA are the firm's desire to change the rules of competition and to improve its market position. The aim is to realise opportunities and create competitive advantage. One strategy problem associated with utilising CPA is the need for the firm to integrate CPA with its market strategy (Baron, 1995). Scholars have developed models challenging the choice for integration. For example, Hillmann and Hitt (Hillman & Hitt, 1999) developed a process model of corporate political strategy. In this model, firms take either a transactional or relational approach towards public authorities. If we accept the assumption that a firm has decided to engage in CPA, the question arises how it should allocate its resources to gain competitive advantage.

In recent publications such as (Dahan, 2005a, b) and McWilliams et al. (2002), the resource-based view offered a useful perspective to explain why CPA of one firm are more effective than the CPA of others. If corporate resources are defined as "(...) any means of development controlled by a firm" (Dahan, 2005a: 10), then the resource concept can be applied to corporate political activities. Earlier works have already mentioned the need for mobilising specific resources in order for a firm to influence public decisions successfully (Baron, 1995: 60; Boddewyn, 1993). Political resources therefore meet the definition of corporate resources. They are a means of development of the firm, by generating a favourable political-legal environment for it. In addition, the resources are not necessarily owned by the firm as long as it controls them. A typology of *political resources* can be found in Dahan (2005b: 47), where he differentiates them into expertise, financial resources, relational resources, organisational resources, reputation with other non-market actors, public reputation, support of stakeholders, and recreational skill. This list of political resources confirms that the resource-based view concept is relevant to the study of corporate political behaviour. Political resources represent the means to create a favourable political environment for the firm. But empirical tests of this concept are still lacking. Therefore, one key challenge of this paper is to operationalize political resources and the typology of (Dahan, 2005a) into variables and a standardised measurement tool.

## Path-dependence Theory

Since the second research question asks if CPA triggers a path dependent process, the second theoretic orientation in this paper is *path dependence theory*. Often used in metaphorical terms, the word “theory” here purposely implies a rather strict notion of path-dependence. This means that a (strategic) process over time can, at a final stage, lead to a lock-in situation, where change will be very hard or even costly (Arthur, 1994; 1989; David, 1985). Taking path-dependence as a rigorous perspective, it can be understood as a theory to explain emerging process-related phenomena, thereby focussing on self-reinforcing mechanisms and forming specific strategic practices (a combination of routines and resources) which eventually *can* lead to a lock-in situation (Sydow, Schreyögg & Koch, 2005). In other words, path-dependence tries to explain how strategic scopes narrow down over time. In the case of CPA, path-dependent developments ought to be found at the level of the firm and sector. Through the *historic evolution* of a firm, especially within former monopolistic markets such as infrastructure industries, and through *self-reinforcing* mechanisms, firms are vulnerable to losing their market focus. Thus, they fall back in competition if regulatory changes, such as the liberalisation within the European Union, take place. The six types of self-reinforcing mechanisms are economies of scale and scope (main focus: cost), direct and indirect network externalities (utility), learning (skills/capabilities), adaptive expectations and expectations of expectations (standardisation), coordination effects (interaction), and complementary effects (connectivity) (Koch, 2006). Figure 1 illustrates how a path-dependent process can be divided into three phases.

**Figure 1: Model of a Path-dependence Process**



Source: (Sydow et al., 2005: 18)

First, we find a phase of increasing selectivity, wherein the firm's management selects how many resources it allocates to either CPA or market activities. A second phase of positive feedback is responsible for a self-increase in CPA in contrast to market activities. And the last phase marks the path-dependence, where in my case it will be extremely difficult for the company's management to re-allocate resources from CPA to the market side. The transition from phase I to II is characterised by a critical juncture or some kind of critical event. In this study the critical event is in year 1999, when the German federal government moved to Berlin. The second transition is marked by inertia and, in its strictest notion, by lock-in.

The most prominent example of path-dependence was described by David (1985), when he explained why the QWERTY keyboard succeeded over alternative and, in his opinion, more efficient keyboard formations. For his direct criticism on the neoclassical view of ever efficient market solutions, he drew opposition from economists like Liebowitz/Margolis (1990). More recently, path-dependence examples can be found in Burgelman's (2002) case study of the Intel Corporation, in which he explained the development of a strategic inertia situation within a firm. Within the CPA literature, path-dependence has rarely been used explicitly. This might be connected with its implicit assumption of potential negative outcomes. Lamberg et al. (2004) and Skippari (2005) looked at CPA using a process perspective, wherein path-dependence was used as a rather metaphorical term. Wilts (2006) writes about path-dependencies in corporate routines and actors' knowledgeability about these path-dependencies. In summary, the theory of path-dependence in the context of this paper will be used to explain the escalating development and self-increase of CPA while, at the same time, the market activity of the firm and sector diminishes, causing a strategic inertia situation for the company.

### **Strategic Inertia as a Consequence of Path Dependent Processes**

Despite the attention given to the role of inertia in organizational and industry evolution (e.g., Hannan & Freeman, 1984), researchers have paid little attention to how inertia in a path dependent process comes about and may become a significant source of business disadvantage. This study addresses this gap. It seeks to shed light on the role of an increasing focus of a company towards CPA strategies that leads to strategic inertia in means of shifting its resources back towards a market strategy. Most important for the purposes of this paper, the evolution of strategic inertia associated with a path dependent process has implications for the balance between a market and non-market level of a company. We propose an increasing strategic balance shift towards non-market engagement through CPA, which potentially to

has negative outcomes for the company once a shift back towards a market engagement is needed.

The reasons for a company to keep a CPA focus are manifold. In general, almost every company is affected by regulation. Issues such as tax, labour, and environmental laws affect each and every business. Large-scale companies are naturally more affected than smaller businesses. Therefore, the management of each company has to consider dealing with these political issues at several points in time. Another reason why companies get involved into CPA is competition. If competing companies in a sector get involved into CPA and build up their own political interest networks, it is almost impossible for a company to opt-out and get not involved into CPA. Consequently, CPA units are being built into the organization. This type of counter reaction was described by North (1990), who explains how piracy emerges. He examines why the profitable alternative for everybody, that all ships opt for free seafaring, does not become reality. Instead each ship chooses piracy as their strategy, which at the end harms everybody. Translated into the CPA context, this explains why, in search for individual advantage, companies opt for involvement into CPA instead of everybody staying out of this investment, leaving all with the same regulatory conditions and competition. Thirdly, once a company has decided to build up a CPA unit and has it running for some time, drawing out of CPA will yield great sunk costs in terms of a loss of reputation and image on the political and stakeholder side. The laborious path of building a company's political reputation is quickly lost with a decision for draw back. Furthermore, companies who influence political decisions through CPA hope to gain economic advantage against their competitors, making it a rational decision to stay involved in CPA.

Theoretically, the negative consequences of the proposed strategic inertia on the company level described in this study are twofold. The main consequence can be seen in a low focus on the market side. In this respect the genuine duty of a company to serve the customers and market needs to its satisfaction is fading towards a minor priority. The second negative consequence can occur once a competitor with a high level of market focus enters the market, e.g. a foreign firm. If this competitor has also a high level of CPA, he will gain a superior market position, leaving the company with only a high CPA but low market level behind. Resources and strategic direction can not easily be shifted towards a market focus due to strategic inertia in the CPA focus of the company.

## **Hypotheses**

The hypotheses which derive from the theoretic discussion are:

- H. 1: The overall level of CPA on a firm level increases between 1999 and 2007.*
- H. 2: CPA has a positive impact on the construct of path dependence through CPA.*
- H. 3: The highest impact on the construct of path dependence through CPA has the factor of strategic importance.*
- H. 4: Self-reinforcement of CPA over time leads to strategic inertia on a firm level.*

## **METHODOLOGY AND DATA**

In order to empirically evaluate the above hypotheses, we will in one part show the development and measurement of path dependence through CPA. As Schuler (2002) and Hillman (2002) have pointed out in their reviews of past methodologies in the fields of PA, issues management, and political strategy, there has been progress in the understanding of these relationships and the gathering of data, but still more sophisticated methodology must be used. Thus, the development of a measurement tool will address a methodological research gap in this field. If successfully developed, it can also be effectively used by practitioners working in consultancy, PA, and government relations.

The study follows a sequential explorative research design described by Cresswell (2003). First, the explorative part was operationalised with semi-structured interviews. The interviews, each lasting between 60 and 120 minutes, were conducted with over 40 German practitioners working as heads of PA departments, PA and public relations agency managers, journalists, members of parliament, and administrative directors from federal administration and ministries. The broad selection of interviewees was chosen to receive an adequate picture and feeling of the whole PA field. Item generation and validation for the following survey was another reason for conducting the interviews beforehand. Methodological emphasis, however, was placed on the quantitative part of the research design, which was conducted as a survey. The survey was sent out to 218 German companies and addressed to people working as heads of public or government affairs departments in German companies. Since no public register for public or government affairs activities exists for Germany, the sample companies had to be selected by self research. The selection criteria were that a company either had to have a separate public or government affairs unit or at least one person who was solely responsible for public and government affairs issues. The sample includes all DAX 100 companies, but also large-scale unlisted companies. The return rate of the survey was



47% which makes this survey, to our knowledge, the most extensive one yet conducted in Germany focusing on the CPA of German companies.

The questionnaire was divided into five parts. Part one asked for general information on the company. The second part posed questions on functions and activities within the PA department. Part three focused on the organisation of PA activities. The fourth part drew on strategic issues. And the final part asked for personal information. Some items asked for both current and past evaluation (turnover with public institutions, position to which report CPAs, number of employees working for PA issues, and PA budget). These ex post observation variables guarantee the analysis of the CPA level over time. The reference time for ex post items was chosen to be 1999, because that year the German parliament moved from the former capital of Germany Bonn to the new capital Berlin. This move triggered many companies to start their own engagement into political activities. Previously, business associations played the major role in business-government relations in Germany (Streeck et al. 2006). They continue to play their strong role in Berlin, but today more and more companies individually engage in government relations (Leif & Speth, 2006).

The operationalisation to measure CPA will use the method of PLS and follow the suggestions of Chin (1998) and Lohmöller (1989). PLS is valued as a powerful method of analysis because of the minimal demands on measurement scales, sample size, and residual distributions (Wold, 1982). It can be used for both theory confirmation and to suggest where relationships might or might not exist and to suggest propositions for testing later. Compared to the well known factor-based covariance-fitting approach (LISREL) for latent structural modelling, the component-based PLS avoids two serious problems: inadmissible solutions and factor indeterminacy (Fornell & Bookstein, 1982). Since the iterative algorithm performed in a PLS analysis generally consists of a series of ordinary least squares (OLS) analyses, identification is not a problem for recursive models nor does it presume any distributional form for measured variables. PLS starts with the goal to help the researcher obtain determinate values of the latent variables for predictive purposes.

A PLS estimation process consists of three steps (Chin & Newsted, 1999): 1. Estimation of the weights, which are used to define the values for the latent variables. Four iterative steps are run until a convergence criteria is achieved. 2. Once the values of the latent variables (LVs) are set, factor loads and path coefficients are defined through OLS estimation. 3. Finally, mean values and location parameters for the latent and manifest variables are estimated. Since PLS makes no distributional assumption, traditional parameter-based techniques for significance testing/evaluation would not be appropriate. Instead, Wold (1980; 1982) ar-

gued that PLS should apply prediction-oriented measures that are also non-parametric. Therefore, the  $R^2$  for dependent LVs, the Stone-Geisser (Geisser, 1975; Stone, 1974; Wold, 1982) test  $Q^2$  for predictive relevance of the model, and the effect size  $f^2$ , to see whether the impact, of a particular independent LV on a dependent LV has substantive impact are applied. The interpretation of the  $R^2$  is identical to that of traditional regression. The corresponding standardized path estimates can also be examined and interpreted in the same way.

The effect size  $f^2$  can be calculated as  $f^2 = \frac{R_{included}^2 - R_{excluded}^2}{1 - R_{included}^2}$  where  $R_{included}^2$  and  $R_{excluded}^2$  are

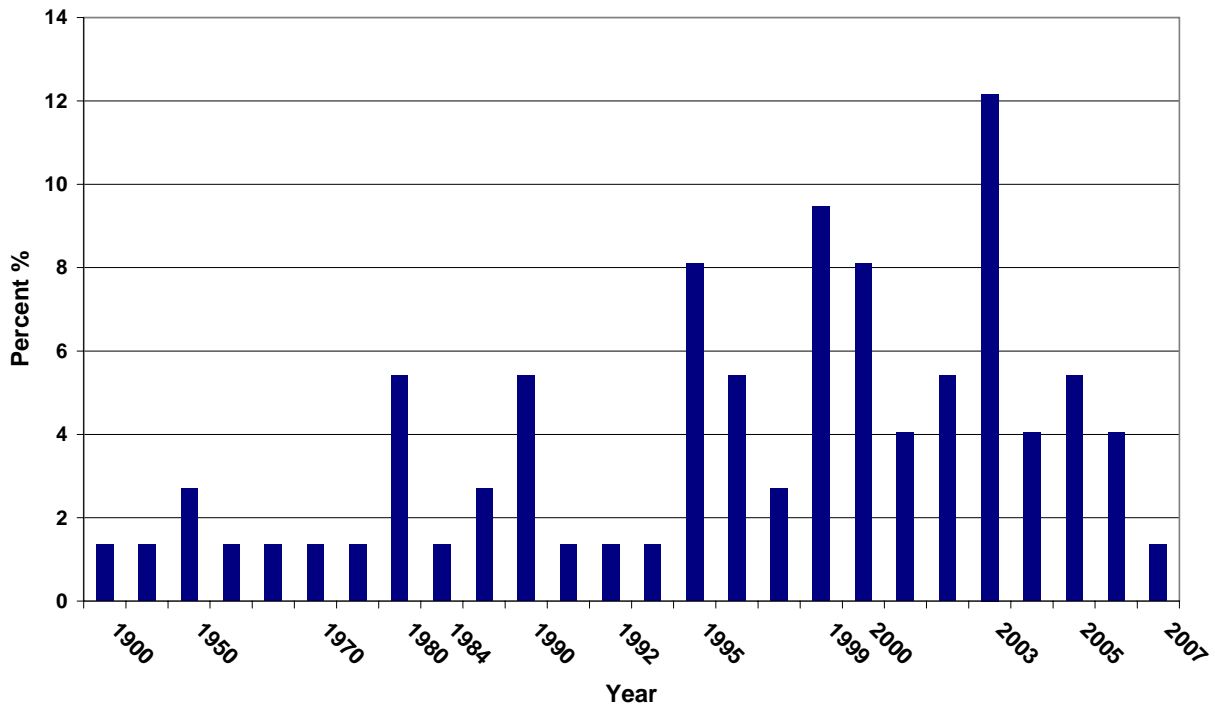
the  $R^2$  provided on the dependent LV when the predictor LV is used or omitted in the structural equation respectively.  $f^2$  values of 0,02, 0,15, and 0,35, can be viewed as a gauge for whether a predictor LV has a small, medium, or large effect at the structural level. The sample reuse technique  $Q^2$  has been argued as fitting the soft modelling approach of PLS “like hand in glove” (Wold, 1982: 30). A blind folding procedure is adapted that omits a part of the data for a particular block of indicators during parameter estimations and then tries to estimate the omitted part using the estimated parameters. As a result, a generalized cross-validation measure and jackknife standard deviations of parameter estimates can be obtained.  $Q^2 > 0$  implies the model has predictive relevance, whereas  $Q^2 < 0$  represents a lack of predictive relevance.

### **Descriptive Statistics**

The following section will present some interesting descriptive data from the conducted survey. An indirect measure on overall CPA level of German companies is the founding year of PA units within the companies. The figures indicate that the situation changed in 1999 when Berlin became the new capital of Germany. A large number of German companies (54%) founded their representative office in 1999 or later, when the German government moved to Berlin (see Fig. 2).

Another indirect measure on overall CPA level is how many human resources are put into PA units. Table 1 shows the development of the number of employees working in PA units. For Germany, in 1999 the mean number was 3,1 employees which increased to 4,8 in 2007; or by 55%. On EU level, the PA employee number even doubled from 1,6 in 1999 to 3,2 in 2007. The high standard deviation is due to the different company sizes in the sample. Large companies with more than 50,000 employees have more PA staff in place. The maximum number of 30 employees also indicates large differences.

**Figure 2: Founding Year of Public Affairs Units** (in %; N=74)



**Table 1: Development of PA Employees: Responsibility for Germany vs. EU** (N=87)

	1999		2007	
	GER	EU	GER	EU
Mean	3,1	1,6	4,8	3,2
Median	1	1	3	2
Standard Deviation	5,2	3,0	5,3	4,7
Maximum Number	30	15	30	30
PA Employee Number overall	185	90	419	250

The last indirect measure on CPA level can be found in Table 2. We asked about the company's total PA budget in 2007. Since this question is considered to be rather sensitive in Germany, the high rate of 84% answers is exceptional. Of those who have answered, 43% spent up to half a billion Euros during the current fiscal year. Between 0,5 billion and 2,5 billion Euros has been spent by 39% of the companies. In 2007, a small but notable number of companies (7%) spend more than 10 billion Euros per year.

**Table 2: Total Public Affairs Budget 2007 (N=86)**

<b>Budget for PA Unit 2007</b>	<b>No.</b>	<b>Sampling Rate in %</b>
Up to 0,5 Bn. Euro	37	<b>43</b>
More than 0,5 up to 1 Bn. Euro	16	<b>19</b>
More than 1 up to 2,5 Bn. Euro	17	<b>20</b>
More than 2,5 up to 5 Bn. Euro	9	<b>11</b>
More than 5 up to 10 Bn. Euro	1	<b>1</b>
More than 10 up to 20 Bn. Euro	4	<b>5</b>
More than 20 Bn. Euro	2	<b>2</b>

In order to give an answer to hypothesis number one, the foundation of PA units and the number of PA employees has both shown a high increase. Both indicators give a first indication that the proposed hypothesis can be approved. To get a third indication of an increase in CPA level between 1999 and 2007, the figures in table 3 will look at PA budget development since 1999 and future budget planning until 2010. With a number of 54%, the majority of companies have increased its PA budget. This huge increase in budget is supported by the fact that 16% of the companies have increased their budget since 1999 by 100 to 400%. The founding of new PA units has certainly supported this high increase for some firms. For the future development of PA budgets, 58% say that they do not further increase their budgets. However, over one-third of the companies have made plans to even further increase their budget, indicating an ongoing investment and therefore increase in CPA level as proposed by hypothesis one. Overall, hypothesis one can be approved with the presented statistics.

**Table 3: Public Affairs Budget Development from 1999-2007 and 2008-2010**

<b>PA Budget 1999-2007</b>	<b>No.</b>	<b>Sampling Rate in %</b>
Increase	47	<b>54</b>
Decrease	6	<b>7</b>
No change	34	<b>39</b>
<b>PA Budget 2008-2010</b>		
Increase	31	<b>35</b>
Decrease	7	<b>8</b>
No change	51	<b>58</b>

### PLS Model for Path-dependence through CPA

Since path dependence of CPA itself is considered to be a latent construct, the aim was to find the adequate items that best represent and explain path dependence through CPA. A latent construct means that one can not directly observe, feel or measure the construct. Hence, one needs to measure it indirectly through the help of several items. Five items, theoretically deducted beforehand and cross validated with the empirical results of the interview data, were chosen from the questionnaire. Table 4 gives an overview of these items.

Item “Path01” indicated the historic dimension of CPA within a company, reflecting phase I of a path dependent process. Phase II is reflected by item “Path02”, in which CPA increases over time. It also shows the tendency to further increases of CPA. All other items reflect phase III which indicates path-dependence. Thereby, a company finds itself trapped into strategic inertia situation. All items had a 7-point Likert scale, where 1 meant “do not agree at all” and 7 meant “totally agree”.

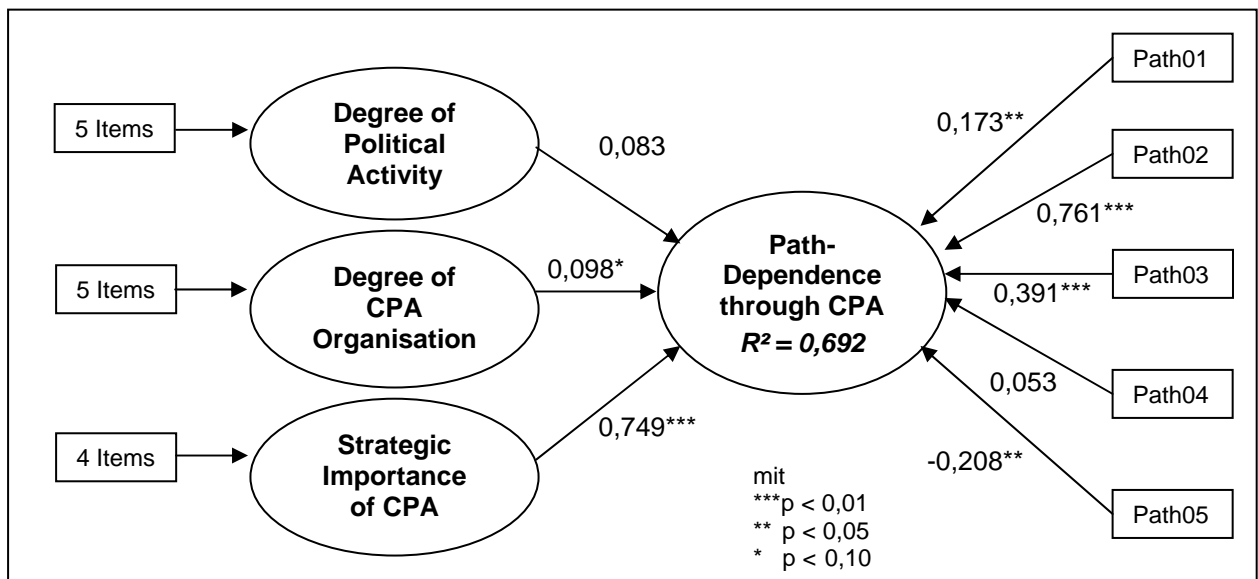
**Table 4: Path-dependency Items in the PLS Model**

Short	Item
Path01	We use often a similar approach for our public affairs management.
Path02	In the future, public affairs management will gain an increasing weight when it comes to strategic decisions for our company.
Path03	Frequently, in our core business we find mutual dependence between politics and our company.
Path04	The influence of political institutions constrains business decisions in our company.
Path05	Frequently, we find different objectives between politics and our company after applying public affairs management.

In order to validate the measurement model, the first test is for multicollinearity between the items of the LV. After looking at the variance inflation factor (VIF) values for all items including the items for the exogenous LV, multicollinearity can be excluded. All VIF values are far lower than the critical value of 10. The highest VIF value is 1,650. Secondly, indicator relevance is tested by first looking at the values of path weights for each indicator and secondly running a t-test for significance. Figure 3 shows the structural model of path-dependence through CPA and states the path weights and R<sup>2</sup> value. Only the path coefficient for the factor “degree of political activity” is not significant. For theoretic reasons, we decided to leave the factor included in the model (Lohmöller, 1989). Also, we find that all path coefficients have the predicted sign. Hence, hypothesis two can be approved. Concerning the items of the endogenous LV, only the item “Path04” does not comply with the Lohmöller’s

(1989: 60f.) critical value of 0,1 for the path coefficients. The highest path weight can be found with item “Path02”, indicating the highest impact on the latent construct. The impact of CPA on future strategic business decisions is significantly high when it explains path-dependence through CPA. This result goes along with the high weight of the factor “strategic importance of CPA” which has a significant weight of 0,749 and the item “Path02” with a significant weight of 0,761. In order to validate the structural model we first find the  $R^2$  value to be exceptionally high with 0,692. This means that through this model we can explain 69,2% of the whole variance of the latent construct “Path-dependence through CPA”. Further, we look at the effect size  $f^2$  of each factor and the Stone-Geisser test  $Q^2$  for predictive relevance of the model. The factors “degree of political activity” (0,02) and “degree of CPA organisation” (0,02) have a small effect towards the LV “Path-dependence through CPA”. As theoretically predicted by hypothesis three, the factor “strategic importance of CPA” has the highest and most substantial effect on the endogenous LV indicated by a effect size of 1,36. The  $Q^2$  value for the model is 0,158. Since this value is considerably greater than zero, the structural model has a reliable predictive relevance. In other words, path-dependence through CPA can be predicted through the impact of all three factors “degree of political activity”, “degree of CPA organisation”, and “strategic importance of CPA”. Summarizing the results of the PLS model, hypotheses two and three are both approved by the PLS model.

**Figure 3: Structural Model of Path-dependence through CPA**



### **Self-reinforcement which Leads to Strategic Inertia through CPA**

When talking about path-dependent processes and the empirical analysis of these processes, the issue of inertia plays a crucial role. The potential of strategic inertia makes it interesting for management research to deal with. Such an inertial situation should from a practical point of view be avoided, but through self-reinforcing mechanisms such a situation is predicted to occur in a path-dependent process. Self-reinforcement is unrealistic to measure as one sole variable which can simply be collected. Since self-reinforcement can have many underlying mechanisms, we choose to focus on no single mechanism, but examine interview statements which in our point of view describe best how CPA can follow a self-reinforcing process and leads to strategic inertia. In order to show the self-reinforcement of CPA we evaluated five core interviews to identify the relevant aspects. The goal of the semi-structured interviews was to find out about the CPA process as such, to investigate how CPA has emerged over time, and to learn about the strategic consequences associated with a company's focus on CPA. Table 5 lists the relevant interview statements. We distinguish between the a phase of self-reinforcement and a phase of strategic inertia in order to provide a better understanding of how and why CPA can narrow a company's strategic option down to a situation with inertial consequences for the overall strategy.

The statements highlight important strategic aspects of CPA for a company's overall business strategy. It shows that CPA is closely linked to other operational business units and marks its mutual dependence. Since CPA often serves as a preventive function towards potential negative future events for the company, it is often used for building a "reputation buffer". The other major goal which increases the strategic value of CPA is its role of influencing political decisions in favour for the company, hoping to gain competitive advantage against others. As a consequence, CPAs are in a constant process of interaction with political actors and other stakeholders. The inertial consequences which arise are multilayer. Short winded PA and public relations campaigns can easily fall back on the company and impose long lasting negative reputation among all stakeholders including politicians. Strategic flexibility decreases dramatically, once a certain strategy has been communicated among the stakeholders. Consequently, a company has to stick with old decisions, since a logic change would impose a loss of trust and reputation. Overall, the degree of freedom to act and react decreases once political issues and actors need to be considered for managerial decisions on the market side. We can conclude that for those reasons and with the presented analysis, hypothesis four can also be approved.

**Table 5: Indications of CPA Self-reinforcement Leading to Strategic Inertia**

Phase	Statements
<b>Self-reinforcement</b>	<p>“(…) especially for those companies, which strongly rely on regulation, e.g. pharmaceutical industry, energy sector, and a whole lot of other sectors, the <b>interplay between politics and managerial action play an ever major role.</b>” (Interview A)</p> <p>„We are <b>closely linked to the operational units</b> of our company. We are asked for support on the political side for certain issues, e.g. regulation or sales. And on the other hand we ask the operation units, if they need support on the political frontier.” (Interview D)</p> <p>“Yes, <b>traditionally business-government relations are very important to us.</b>” (Interview D)</p> <p>“(…) We are <b>building up a false bottom.</b> Because, today the chances that you come a cropper with your business, in terms of image, are high; e.g. Coca-Cola.” (Interview B)</p> <p>“<b>Economy constantly has to work with politics.</b> E.g. issues like social reforms and labour market laws. (...) If the system is going through reforms, even more lobby work is done through the companies. (...) The whole <b>process is enforced through Europeanization and Globalisation.</b> (Interview E)</p> <p>“Whole <b>industry sectors are largely dependent on tax reallocation,</b> e.g. agriculture, solar energy.” (Interview E)</p> <p>“The experience shows that companies of a certain size, need to permanently talk to politicians at higher ranks. (...) If critical issues arise, you can rely on build up trust and the political side has a basic understanding of your business. Therefore, you need <b>constant networking with politicians and the administrative part of it.</b>” (Interview C)</p> <p>A company “(…) can gain a <b>better competitive position</b> (...) not because it has made better managerial decisions, but <b>because it has influenced the surrounding conditions towards its own interests.</b>” (Interview E)</p>
<b>Strategic Inertia</b>	<p>“I have the strong opinion, that if you want to do good marketing in the future, you have to convince the customer: Look, I have something with a value which exceeds the product itself. (...) The stronger a brand has tied up additional values, the better this works. The only way to get these additional values credibly anchored within public opinion is by running a broader network type marketing strategy. The customer really has to recognize: Yes, this is something good or I am part of it. (...) Therefore empty public affairs and PR campaigns are a farce. If this emerges, than you really have a problem for years and you won't get rid of it. <b>If you only miscalculated once, than you will struggle for years;</b> e.g. BP.” (Interview B)</p> <p>“(…) media perception of your action play an ever major role and in certain situation you only stick with decisions, because one agrees that it is not possible to present a total shift in strategy publicly. This would mean a major image, trust, and also a capital market loss. Internally one would possibly say: <b>Actually, we would decide differently, but this can not be communicated, so we stick with the old decision.</b>” (Interview A)</p> <p>“Yes, <b>we do face strategic rigidities and low customer orientation through our tight corporate political activities.</b> (...) If we would get less dependent on politics, we would enjoy greater strategic flexibility and higher market and customer orientation.” (Interview D)</p> <p>“The discussion about stakeholder participation etc. is part of today's the overall business strategy. This has also to do with media attention. <b>A company can quickly go to the dogs, simply because they are closely monitored on what they do.</b> Therefore it has less freedom to act.” (Interview E)</p> <p>“Those companies have a problem, which think that they can easily take business decisions; while de facto the rules of the game – the surrounding conditions for their competition and their market – are constantly changing. Therefore, <b>the degree of freedom which you think you have is not as big as you might think.</b>” (Interview E)</p>



## CONCLUSIONS

The aim of the paper was to empirically analyse strategic inertia of CPA and its negative consequences for the company. Therefore the paper addressed both theoretical and methodological issues relevant to the study of self-reinforcing processes triggered by a path-dependent process. The first part of the paper introduced its theoretic foundation and four hypotheses were developed. By reviewing the CPA literature, we highlighted the literature gap as the potential negative consequences of non-marked engagement in CPA. Path-dependence theory was introduced as useful means for evaluating the self-reinforcing process of CPA which can potential lead to strategic inertia of CPA over time. The second part of the article describes the methodological issues of this paper and presents the underlying empirical data. Using survey data, the first section presents a number of unique CPA variables such as PA employee numbers and PA budget. Among others, both variables are also presented as a time series which show the major increase of CPA between 1999 and 2007 in Germany. Those results approved our first hypothesis. The second empirical part emphasised on the development of a valid structural model for the construct of “Path-dependence through CPA”. Five items for this latent construct deducted from theory and cross validated with the empirical results of the interview data were used as dependent variables in the model. The results showed that the factor “strategic importance” and the item “Path02” have the highest impact on the construct. Using PLS methodology a valid structural model with a high  $R^2$  of 0,692 was presented. The results of the PLS model give prove to hypotheses two and three. The third empirical section used a qualitative data set. Interview statements were presented to show the self-reinforcing process of CPA and its inertial consequences from a strategy point of view. The results were twofold and showed internal and external reasons for the proposed development. Internally, CPAs are closely linked to both strategic decisions and as a support for other operational business units. Externally, we found great dependence on the firm reputation with all stakeholders and on media perception. Both can quickly shift against the favour of the company. These findings give indication that hypothesis four can also be considered approved.

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## APPENDIX

### List of Interviews

- Interview A: General Manager, Public Affairs Consultancy, 14.12.2006
- Interview B: General Manager, Public Private Partnership Consultancy, 23.11.2006
- Interview C: Vice President Government Affairs, Company, 29.11.2006
- Interview D: Head of Associations and Academic Relations, Company, 16.11.2006
- Interview E: Academic Director, Scientific Institute, 15.11.2006