

## **Corporate Political Activity: EU practices**

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### **Abstract**

The article encompasses the issues of corporate political activity. The political environment where a company operates can impose several challenges to its performance such as new taxes or legislation that will incentivize their engagement on Corporate Political Activities (CPA). These activities target political actors and intend to capture advantages or to avoid institutional risks in their own business environments. They can be deployed in the form of lobbying, campaign contributions, and litigation. In this context, access to targeted policymakers is essential to allow their deployment. This article is built on the resource-based view of firms to argue that political knowledge is a valuable resource to increase firms' degree of access to the European Commission. Much attention is given to problems of lobbying activity within different institutional levels as there are several centers of power in Europe. The author draws attention to the fact that according to the institutional body different lobbying strategies are used. This study highlights interesting information that broadens the understanding of corporate political strategies in the European Union. The author comes to the conclusion that communications in the EU should be of an intercultural nature and that this determines the lobbyists' behavior and tactics.

**Key words:** corporate political activity (CPA), governance relations (GR), lobbying, lobbying in the EU, lobbying history, lobbying strategies

### **Main body**

A modern large company or a corporation is, first of all, a product of market relations and competition, which lead, on the one hand, to differentiation in the

business world, and on the other hand – to growth, consolidation and mergers and sometimes even to the formation of giant monopolistic structures.

In modern conditions large business tends to increasingly influence the processes of formation and implementation of public policy related to the regulation of the economy and the distribution of public resources. This type of activity is called "CPA" (corporate political activity). To enable companies to exert such a growing and systemic influence on government decision-making processes, corporations promote economic interests through the creation of regulated communications and public relations systems. This sphere of professional activity, which is referred to "GR" (Government Relations), is a specific type of management activity, a special intersectoral management of interaction between business (as well as other non-governmental actors) with governmental bodies. This is located at the intersection of three basic sectors of society management - the state, business and public organizations. Professional functions for establishing and maintaining such business relations with government agencies are performed by GR divisions of large companies, specialized consulting firms and business associations.

Creating and maintaining a competitive advantage is a major challenge for all strategic managers, but political arenas are often underestimated as a means of creating and maintaining an advantage (Baron, 2013). A wide variety of firms are involved in political activities. These firms influence the government by sponsoring an election campaign, through direct lobbying, appointing government members and legislators to company boards of Directors, voluntary agreements, setting up political action committees, and sometimes even bribery.

Currently, this area of research is becoming increasingly complex and requires further synthesis to understand its important theoretical aspects. The pursuit of competitive advantage through political means can isolate firms from competition and be ethically problematic, for example, it can lead to corruption (Schuler D., Rehbein K., Green C., 2019).

The second reason for the increased interest in the political activities of firms is rooted in the fact that the landscape of relations between business and government

has changed dramatically. The emergence of new market economies, including those with a significant element of state capital, such as China or the Gulf States, indicates the need for a deeper comparative understanding of firms and governments in different institutional contexts (Watkins M., Edwards M., Thakrar U., 2001).

Thus, the object of research is corporate political activity of companies, and the subject is the main theoretical approaches to CPA and the resulting political strategies of companies. The following methods and techniques were used for the research: qualitative text analysis, content analysis, cyclic model, case study, and system approach.

over the past 50 years, scholars in the fields of business and management, political science, and international relations have studied the relationships of large firms with political and regulatory actors: governments, political institutions, and regulators.

Firms' engagement with political actors is referred to as corporate political activity (CPA). The concept of CPA is included in the subject field of GR as a multidimensional, multidisciplinary and intersectoral object of social research and subject of management analysis. To date the literature has developed a basic triad of options for theoretical interpretation and construction of a General system of "GR-universe":

1. GR as a lobbying process of influence and pressure of non-state actors on the work of decision-making centers;
2. GR as a specific type of socio-political communication and type of communication impact, along with related areas of public relations and public affairs;
3. GR as a special type of political management (Degtyaryov A., 2018).

In this study, the author adheres to the definition of GR-activity as a political activity and behavior to influence non-state actors on the course of public administration and the results of public decision-making centers.

Reasons for organizations' CPA:

1. Firms face different laws adopted at both regional and national levels and operate in different political systems, which creates difficulties for companies and increases their costs;
2. the political environment in each market can pose significant threats to firms and negatively affect firms ' strategic decisions and performance, for example, through regulatory measures.
3. political conditions can also create opportunities for business for further development (Puck J., Lawton T., Mohr A., 2018).

Businesses try to create strategic opportunities such as favorable investment conditions, preferential treatment, etc. through corporate political activity. Companies choose attentively a particular strategy for their activities, based on which they build and use certain tactics, depending on a particular case (Zakirov, 2017). In political science and strategic management, a large number of classifications of strategies and tactics of companies, including political ones, are presented.

One of the most common classification is the one of Kristin Oliver and Ingo Holzinger, according to which political strategies can be divided into:

1. Reactive strategies: firms are motivated to protect or increase the value of their strategic assets that will not passively accept impending political changes, but will be consciously focused in their efforts to maximize the value of compliance by effectively and efficiently aligning their internal processes with public policy requirements. For example, firms in a number of highly regulated industries, such as pharmaceuticals, aerospace, and financial services, seek leadership in compliance with legal requirements when developing verifiable processes, data integrity, and rapid access to and retrieval of information in response to policy requirements;
2. Anticipatory strategies: Like reactive strategies, anticipatory policy strategies involve compliance with public policies, but unlike reactive strategies that rely on internal processes, these ones combine and reconfigure internal and external resources to improve external information analysis and knowledge acquisition;

3. Defensive strategies: In contrast to the first two strategies, defensive political strategies are influence strategies used by firms to prevent undesirable changes in the political environment and protect what the firm views as a favorable status quo. When political changes are perceived as a threat or an institutional constraint on a firm's ability to maintain its competitive advantage, firms can exert vigorous influence efforts to protect the future value of their current strategic assets and competencies. This strategy is often used by companies whose management system is quite limited and structured, which limits their ability to make rapid changes;
4. Proactive policy strategies are strategies that shape the fundamental nature of how public policy is defined or developed. Institutional theory assumes that power passes to those organizations that have the greatest ability to shape and manipulate the underlying values and beliefs of important components of their institutional environment. From this perspective, organizations can serve as sources of cognitive or normative influence by creating practices that others are motivated to imitate, by actively participating in professional associations, media activities or by building coalitions and constituencies to review the legitimacy of existing institutional rules, norms, or practices (Oliver C., Holzinger I., 2008).

The corporate political activity strategy of a company depends on particular circumstances, on the company's sphere and mostly on the institutional environment where a firm conducts business. In some countries the CPA's sphere is highly regulated by legislation, but it doesn't bring forth the idea that such an activity is prohibited to exercise in this country. This rather increases the possibilities to influence decisions in a fair way. If we turn to the European Union, its institutional structure is rather complex as there are several levels of decision-making centers. The companies are often at the crossroads when it comes to decide where to act: within the national or supranational level or which body on the supranational level they should lobby.

The reason for the interest of lobbyists in the activities of European officials is rooted in the fact that about 80% of national laws are born within the walls of public institutions in Brussels. The EU creation and development provided for the

transfer of regulatory functions from the national level to the European level. The EU created and liberalized the common market which led to an increase in the regulatory influence of the EU institutions. Such areas as consumer and social policy, environmental policy, agricultural policy, trade, communications, energy, mass media and many others have come under the jurisdiction of the EU. All this generates requests for information for decision-making process and provides more opportunities for interest groups to influence the EU institutions.

Some experts are still inclined to believe that there is a problem of "lobbying overpopulation" in Brussels. As of December 2020, there were 12 099 organizations on the register, about 80000 people who lobby the EU, 7 526 people of which are accredited to the Parliament. Registration is mandatory to obtain a lobbyist's badge to access the European Parliament<sup>1</sup>.

Access to officials for so many lobbyists could not be physically secured. Naturally, small firms began to join specialized associations, which led to a natural consolidation of organizations engaged in lobbying. This created a narrow circle of policy makers and institutionalized big business in the European policy-making process. In turn, European associations began to allow large firms to participate directly in the work, which allowed corporations to represent their interests in the European Commission. The XX century began to be dominated by the trend of giving policy making to groups on special business problems:

Transatlantic Business Council (it includes Pfizer, Intel, Ericsson, Deloitte, Pwc, Philip Morris International, Ernst&Young), created in 1995 on a joint initiative of the European Commission and the US state Department;

The European Round Table is an elite club consisting of 46 Directors of the largest European companies Michelin, Total, Siemens, L' Oreal, Renault, Univeler, Bertelsman.

As a disadvantage of this lobbying institutionalization, it should be noted that access to policy development is restricted to other firms, which is a serious problem for the EU to this day. However, this situation in the EU is not much

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<sup>1</sup> Transparency register. URL: <https://ec.europa.eu/transparencyregister/public/homePage.do> [01.12.2020]

different from the situation in the US or Russia, where lobbyists are also in unequal conditions [Kurchevska, 2002].

To comprehend the processes and procedures of lobbying in the EU it is important to understand the structure and interaction of its institutions. The EU has a unique institutional set-up where:

- the EU's broad priorities are set by the European Council, which brings together national and EU-level leaders
- directly elected MEPs represent European citizens in the European Parliament
- the interests of the EU as a whole are promoted by the European Commission, whose members are appointed by national governments
- governments defend their own country's national interests in the Council of the European Union.

The European Council sets the EU's overall political direction – but has no powers to pass laws. Led by its President – currently (November, 2020) Charles Michel - and comprising national heads of state or government and the President of the Commission, it meets for a few days at a time at least twice every 6 months.

There are three main institutions involved in EU legislation:

- the European Parliament, which represents the EU's citizens and is directly elected by them;
- the Council of the European Union, which represents the governments of the individual member countries. The Presidency of the Council is shared by the member states on a rotating basis.
- the European Commission, which represents the interests of the Union as a whole.

Together, these three institutions produce through the "Ordinary Legislative Procedure" the policies and laws that apply throughout the EU. In principle, the Commission proposes new laws, and the Parliament and Council adopt them. The Commission and the member countries then implement them, and the Commission ensures that the laws are properly applied and implemented.

The European Commission is the only body that has the right to initiate legislation. Even if the idea of a law is born in any other EU body, it must be sent to the European Commission (hereinafter referred to as the Commission) and only after passing through it can be submitted for voting to the Parliament. This is the main working body that prepares all EU decisions, and therefore the Commission is the most interesting EU body for lobbyists. It provides broad access for lobbying groups through Directorates General (DGs).

Separate objects of lobbying should be called an extensive network of committees and expert groups. As of 2012, there were 831 of them, of which 772 were created by the Commission. The committees are divided into three groups: Advisory committees that are most interesting for lobbyists; scientific committees and social dialogue committees (Borev, 2008). They mainly involve officials interacting with experts and interest groups. To participate in the work of the groups, representatives of interests, starting from June 2008, must register voluntarily. Guided by the principle of openness, the Commission proceeds from the position that consultations are the responsibility of European officials and the opportunity to communicate with them should be given to everyone.

All proposals of the Commission for the European Parliament are drawn up in green and white documents (green paper, white paper). The green discussion paper presents a wide range of views on the issue. The white paper contains proposals for the EU, which can then become the basis for the development of a law or a program of action when they reach the European Council.

One of the most effective strategies for lobbying the Commission is considered to be the "bottom-up" strategy. Daniel Guegen claims that up to 80% of the issues that lobbyists deal with have been finally resolved at the Committee level. The bottom-up approach, he believes, is more effective than top-down lobbying. With a bottom-up approach, lobbyists work with experts without anyone noticing, and lobbying influence is based on "expert expertise". "You put forward technical arguments and have an idea who is working with your question at the earliest stage" (Guegen, 2002).



Discussions in the Commission can take a very long time. Therefore, it is important to understand the stage of the discussion and even better to get involved as early as possible. Late inclusion in the process is one of the most common mistakes of the Commission. After a long discussion, the Commission's political decision on this issue may take only a few weeks. This determines the value of timely information about expert group meetings and draft laws, as well as which experts and which stakeholders are involved in this process.

Experience shows that each of the DGs is associated with various lobbying groups: the DG on employment issues – with trade unions; the DG on market issues – with employers. Lobbying groups strive to build long-term relationships with directorates and maintain constant communication. For these purposes, they organize meetings with the Commissioner, participate in expert groups, prepare research documents, invite officials to Lunches, breakfasts, etc.

The European Parliament is elected by the vote of European citizens, it is a co – governing body together with the EU Council, and therefore-a key goal of lobbyists. However, it turns out that parliamentarians are not as closed to communication as other European officials: their staff is very limited, and therefore they are forced to resort to external sources of information. In addition, (and this is probably one of the key functions of European deputies), they are able to "veto" the introduced laws and do not hesitate to use this opportunity.

But still lobbyists believe that the Parliament's functions are limited: It is deprived of the right to initiate legislation. The European Commission and the Council of the EU have the initiative to introduce draft laws, and the deputies can only accept or reject them [Greenwood,2002].

The most active groups in the Parliament are those representing public interests and engaged in environmental protection, protection of social and consumer rights. This is due to the fact that this kind of interests are closest to the voters who elect members of Parliament every four years.

The EU Council is the main decision-making body and consists of 27 Ministers. Depending on the profile of the issue being discussed, different

Ministers are gathered. The relevant European Commissioner also takes part in the meetings of the EU Council, but he does not have the right to vote. The Council of the EU, along with the European Parliament, has a legislative initiative, but is the least accessible of all institutions for lobbying. The EU Council refrains from registering lobbyists and sends all representatives of interest groups to the European Commission. However, Ministers often maintain contacts with lobbying groups from their countries, referring to their legal regulation of lobbying, which opens up some opportunities to influence decisions made in the EU Council.

To sum up, Brussels is a multicultural political platform where diverse southern and northern European mentalities and traditions collide. At all European levels, officials and politicians speak different languages, have different traditions, values and norms. If policy-making in the EU is to be legitimate we must understand how the nature of the issue changes the style of lobbying (what interest supply and what institutions demand) and how lobbying activity changes along the policy cycle. For successful lobbying activities it is necessary to take into account the national culture of the main players and treat each of them with maximum respect. The peculiarity of Euro-lobbying is the constant need to build communication simultaneously in several languages. At the same time, communications should be of an intercultural nature, i.e. the format for discussing any issues should take into account the national culture of the decision-maker. Representatives of the European authorities are united by common work and location, pragmatic use of only a few working languages (English, French, German) and the same expectations. They have a sense of solidarity, but cultural differences continue to play an important role.

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