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Political Strategies for a Globalized World

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Political Strategies for a Globalized World – An Illustration of an Integrated Framework from a Practitioner’s View

Multinational enterprises (MNEs)¹ act on different markets and are therefore confronted with different economic, legal and sociopolitical environments. They must think and act “**glocal**”. Firms need to consider different processes, decision makers, and political cultures when acting both in the market environment and nonmarket (or socio-political) environment. Governmental institutions and their decisions become more important for managers due to issues such as climate change, worker protection, healthcare, sustainability and worldwide standards.² Following that the nonmarket environment is becoming increasingly important and offers firms plenty of opportunities to interact with it. Lobbying, grassroots and litigation strategies are possible opportunities for firms to engage in the nonmarket environment. If firms expand their business to new markets or countries, managers need to decide which strategies fit best to the new environment. Therefore, this study aims to shed light on firms’ challenges when adapting to this environment. My research questions for this study are: (1) How do firms acclimate to non-domestic environments? (2) Which resources are needed to successfully influence the political environment in non-domestic countries?

To answer my research questions I developed a literature-based theoretical framework in the course of my PhD-thesis. The main component of this framework is a model which explains the interactions in the nonmarket environment. It outlines the interactions between firms, interest groups and customers on the so called “demand side” and the governmental institutions (parliaments, governments and courts) on the “supply side” of the public policy market (PPM). To prove the validity of this framework and to answer my first research question I conducted a case study³. Due to the sensitivity of the topic, I anonymized and aggregated all results of the study in such a way that inference to the interviewed firms is prevented. The results of the study will be presented as an aggregated illustration from a practitioner’s view.⁴

¹ But to an increasing extent small and medium sized enterprises (SMEs), too.

² cf. Keim & Hillman (2008: 52); Hillman (2003: 52); Schuler (1996: 720).

³ See methodology below.

⁴ To conduct research in this field I moved to Washington, D.C. to better understand the political environment there. This gave me the opportunity to conduct research in the so-called “capital of lobbying”. In fall 2012 I moved back to Berlin to conduct further interviews for the European perspective.

The purpose of the study is to understand the behavior of firms in their domestic and non-domestic nonmarket environment and to set benchmarks. The first portion of the study adopts the perspective of firms in the U.S., Germany and EU and analyzes their nonmarket involvement in both the domestic and foreign spheres. I then explain the behavior of trade-associations and how they provide their services to their members. The second portion examines the sustainability of the theoretical model and its reputation, legitimacy, and access approaches to explain the public policy market (PPM). Lastly, this study gives guidelines for practitioners for how to develop political resources to influence the public policy shaping process abroad. It shows how to establish a governmental affairs office and how to select employees in a non-domestic environment.”

Main results

- Firms have to consider different political systems on both sides of the Atlantic
- Firms adjust their Political Strategies to the targeted environment
- Hired professionals, consultants and associations help firms acclimate to other countries
- MNEs and SMEs differ in their Political Strategies, especially in foreign markets
- Suppliers of public policies rely on firms’ legitimacy and reputation
- The case study supports the reputation, legitimacy, and access approaches presented in the PPM model.
- Reputation, expertise, image and especially the provision of jobs are important means to getting access to political decision-makers and to influence the process of public policy making

Methodology

I chose the qualitative method of the case study to prove my theoretical model. It is a widely accepted tool that has provided the field of strategic management with “ground-breaking” insights.⁵ Yin stated that the case study is the method of preference if the researcher focuses on a “contemporary phenomenon” and aims to answer “how or why questions”.⁶ Case studies give the scholar the opportunity “to retain the holistic and meaningful characteristics of real-life events”.⁷ They are a reliable way to “test theories and develop explanations” for incidents in reality.⁸ With few exceptions I was not allowed to publish firm specific information. As a result, I will present aggregated data and give examples from practice without mentioning the company names. Nevertheless, the qualitative study will give a deep insight into how firms manage to acclimate to new environments.

In addition to case studies, scholars consider interviews a particularly “highly efficient way to gather rich, empirical data”.⁹ For that reason I applied this approach when speaking to firms. To ensure the validity and appropriateness of the interview guidelines, I tested the questionnaire on a control group prior to collecting data. Subsequently, I conducted 22 semi-structured interviews from November 2011 through May 2012 and from August 2012 through November 2012. Overlapping data collection and data analysis phases gave me the opportunity to include new ideas and improvements in the questionnaire.¹⁰ In order to guarantee the anonymity of my participants I took notes instead of recording interviews and have not disclosed their names, firms, or specific issues. To avoid misrepresentation or bias, interviewees verified all quotes mentioned in this paper. Furthermore, this study includes other data collection methods, such as archival data, to provide a deeper insight.¹¹

⁵ cf. Eisenhardt & GRAEBNER (2007: 26); Eisenhardt (1989: 542);Gibbert, Ruigrok, & Wicki (2008: 1465). And the references to the “ground-breaking insights” e.g. Chandler (1962); Burgelman (1983).

⁶ cf. Yin (2003: 1).

⁷ cf. Yin (2003: 2).

⁸ cf. Dryer (2007: 288).

⁹ Eisenhardt & GRAEBNER (2007: 28).

¹⁰ cf. Bruns, JR. (1989: 161); Eisenhardt (1989: 539).

¹¹ cf. Eisenhardt & GRAEBNER (2007: 28); Eisenhardt (1989: 539).

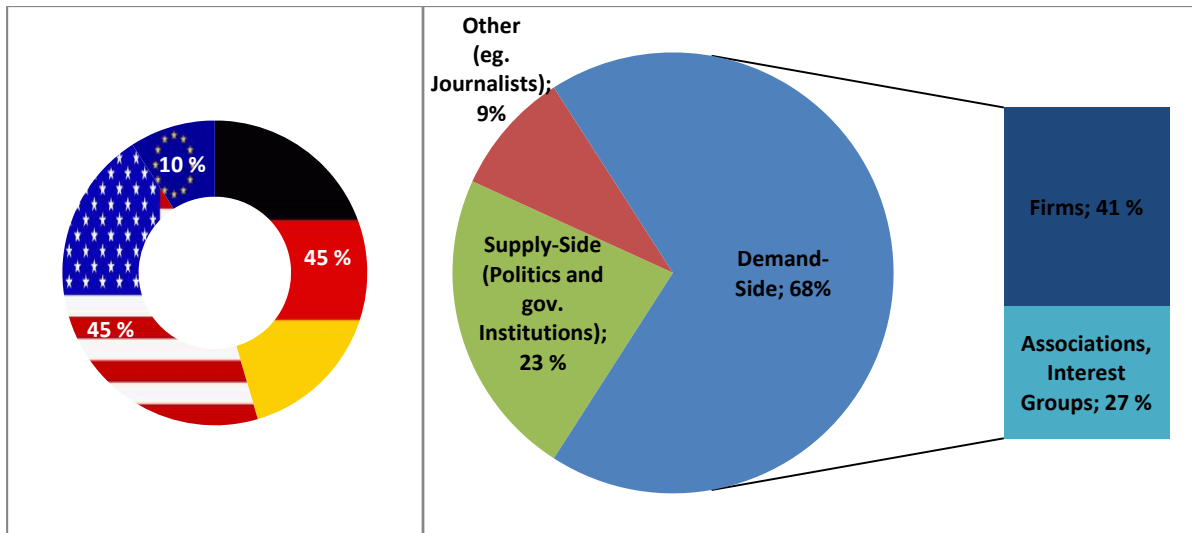


Figure 1: Structure of Interviewees

Internal validity: To assure internal validity, I developed a clear framework, which consists of three parts. The model of the PPM, the political resources approach, and especially the concept of legitimacy and access provide a clear and provable framework for the case study. I cross-verified the findings by applying theory triangulation through conducting interviews with two different groups, firm and association lobbyists.¹² *Construct validity:* To achieve construct validity, the transcripts and drafts were reviewed by not only the participants but also by a non co-authoring academic who also gave insights to the study.¹³ *External validity or generalizability:* The external validity of the model of the PPM is given through conducting the case study in several environments: Germany, the EU and the United States.¹⁴ *Reliability:* To verify reliability, the entire case study was reviewed by two non co-authoring scholars. This included a review of interview protocols, secondary data and drafts.¹⁵

¹² Yin (2003: 97 ff)

¹³ cf. Yin (2003: 35 f.)

¹⁴ cf. Yin (2003: 37).

¹⁵ cf. Yin (2003: 37ff.)

Part I: New country, new markets, different political systems – how to set-up governmental affairs operations abroad

The goal of the first part of the case study is to understand corporate political behavior of firms in their “non-domestic” countries¹⁶ and to contrast it with the Political Strategies (PS) in their domestic countries. The economic and political world is globalizing rapidly, which has a great impact on opportunities for firms in the nonmarket environment. This study explains how companies respond and adjust their Political Strategies to new markets. This study specifically focuses on German firms in the U.S. Further, it gives insights on the public policy shaping process and opportunities to get involved in Germany and the EU.

Differences between the US, EU and Germany

To broaden their business opportunities, firms enter new markets. By doing this, firms are confronted with both a new market and a new nonmarket or social-political environment. This part of the study explains the largest differences between engaging in corporate political activity in the U.S., EU and in Germany. Apart from a minority of study participants, the large majority sees essential differences between the political systems as well as the cultures of these geographical areas. These findings will be discussed in the subsequent sections of this document:

United States of America: The political system of the United States of America is formed by a powerful Congress and powerful states (“congressional system”). Political Strategies have to consider different layers and the political power of single political actors, such as Members of Congress. In return, the political system and culture of the U.S. give firms many opportunities to achieve access to political decision-makers. Compared to its European counterpart, interviewees described the U.S. as a more of an “open democracy” that follows a “bottom-up approach”. Unlike European countries, U.S. social and educational concerns are not centrally organized and funded by the government. Rather, U.S. culture emphasizes self-reliance, which explains why firms engage in local communities.

¹⁶ The domestic country of a MNE is – for that purpose – defined as the country where the company was founded, i.e. where the headquarters are located. Following that, the main markets where firms do their greatest amount of business are not relevant for the definition of “domestic”. Siemens for example was founded in Germany with its headquarters in Germany. Siemens’ domestic country is Germany even though Siemens only generates 15 % of its turnover with German customers. Siemens AG (2012: 87).

Accordingly, companies show a high level of involvement in societal engagement to close this gap. This gives them the opportunity to gain reputation, legitimacy and access. However, the current administration forces federal standards that integrate a higher amount of redistribution. Overall, this is not a new approach to American politics but rather a continuation of the New Deal policies, initiated by President Franklin D. Roosevelt in the 1930s.¹⁷

Still, interviewees confirmed that U.S. politics is “more closely connected to business”. This might be rooted in the American campaign finance system, which largely relies on private and more importantly corporate donations. Furthermore, the movement of personnel between governmental and private jobs also called the revolving door helps to build networks between the governmental and the private sector. Closely connected is the earmark system, which could not be found in Germany. Earmarks in the United States are legislative provisions directing approved funds to specific projects. Under the rules of Article 1 Section 9 of the United States’ Constitution, Congress is required to pass legislation directing all appropriations of money drawn from the U.S. Treasury. This gives Congress, as well as each individual Member of Congress, the opportunity to control money spent. Through earmarks, money can be directed to projects in the Congressmen’s electorates. Considering the power of the members of Congress and a missing Whip, earmarks are sometimes necessary to get bills approved in the American legislative chambers. This system makes it necessary for firms that pursue PS to consider the opportunities of single Congressmembers. Furthermore, it helps the incumbents raise money for their campaigns.¹⁸

Germany: In Germany, a representative of a parliamentary system, one can see a “top-down approach” in politics with a powerful federal level and administration. However, the parliaments in Germany have far-reaching rules that the constitution protects. Notably in the recent history the federal

¹⁷ cf. Rappaport (2010).

¹⁸ The definition of earmark: “The term “congressional earmark” means a provision or report language included primarily at the request of a Member, Delegate, Resident Commissioner, or Senator providing, authorizing or recommending a specific amount of discretionary budget authority, credit authority, or other spending authority for a contract, loan, loan guarantee, grant, loan authority, or other expenditure with or to an entity, or targeted to a specific State, locality or Congressional district, other than through a statutory or administrative formula-driven or competitive award process.”

The importance of earmarks is questioned and the practice of earmarks is banned the start of the 112th congress (Rule XXI – Restrictions on certain bills). U.S. Government Printing Office (2011).

constitutional court frequently dismissed laws violating this basic principle.¹⁹ In contrast to its American counterpart, the single representative in Germany is relatively powerless. The four major reasons are: (1) Whip and party discipline, (2) list elections (about half of the members of the parliaments not directly elected), (3) smaller electoral districts than the ones found in the U.S. and finally (4) fewer opportunities for German politicians to direct funds to their own electorate (no earmark system). Furthermore, social and educational concerns are widely organized and financed by the state, which has a result in higher taxes and social costs.²⁰ As such companies have fewer access points and opportunities to build their reputation and legitimacy. The top-down approach of German politics has to be considered when thinking about shaping PS, for example by choosing governmental departments and party leaders as a main target.

Table 1: Comparison USA vs. Germany

	Pol. System	Governing Type	Classification	Member's influence	Power allocation
USA	Congressional	Bottom up	Open	High	Powerful states
Germany	Parliamentary	Top down	Closed	Low	Powerful Fed. Gov.

European Union: This case study does not give a uniform picture regarding the European Union. Some participants assume access “more limited” and European politics more “detached”. Others see more access points and opportunities to influence the European politics due to the European institutions’ lack of resources (through expertise-related reputation – see Part II). The member states are still of high importance, sometimes it is useful to understand the EU not as a “union but more as 27 members trying to reach common goals”. All participants of the case study see changes due to the Lisbon treaty and the debt crisis. However, the majority of the study participants believe that the EU is still a supranational bureaucracy distanced from markets and citizens. Even though it is not possible to directly compare a supranational institution to institutions at the country level, the political processes

¹⁹ The federal constitutional court stopped the so called 9 person secret committee that was designed to approve bail-outs for Euro-group members. Bundesverfassungsgericht der Bundesrepublik Deutschland (2011)

²⁰ Total tax revenue as percentage of GDP in 2009: Germany 37.3 % USA 24.1% (OECD). OECD (2011).

of the EU will be an important part of this study due to their ever increasing importance in the international community.

How firms acclimate to a new environment

It is challenging for foreign firms to enter a new market with the right resources, capacities, and access points to compete with domestic firms when engaging with in the PPM. In this part of the case study, professionals address how firms manage to engage in the nonmarket environment of domestic and non-domestic countries. To use the words from the questionnaire, “how firms manage to acclimate to the nonmarket environment of another country.”

Countries have different political systems (see above), cultures and traditions. Firms that intend to enter new markets have to consider these differences in order to build up specific political resources. Firms need country and environment-specific political resources to engage in the particular nonmarket environment. Consequently, foreign firms are not – or not to the same degree as domestic actors – able to benefit from public policies, i.e. from subsidies, standards or legal help.

The easiest opportunity to understand and benefit from a “new” nonmarket environment is to employ “insiders”. This allows firms to exploit their political resources, benefitting from networks (access) and experience. This explains why most firms rely on domestic professionals; it gives the firms the opportunity to quickly understand the nonmarket environment and to get access to nonmarket sources and information. Accordingly, the large majority of employees in Governmental Affairs Departments (GAD), in most cases all of them, are right from the spot (Americans in the U.S. and Germans in Germany). This is useful for two reasons.

First, it allows the firms to gather country-specific political resources. Simultaneously, firms build up their own political resource base making them more independent of consultants and expensive lobbyists. Participants of the case study confirmed this process. When firms enter a new market and decide to engage in the nonmarket environment, they largely rely on consultants. In the next phase, they develop their own political resource base, hiring in-house lobbyists and learning from consultants. In the last phase, the firms reduce their contracts with consultants to save money.

However, as the case study also shows, consultants maintain an important role for two reasons. First, they are needed if firms face specific problems at the federal level. Second, on the state level, because here it is in most cases not efficient to build up own specific resources.

Second, it gives the firm the opportunity to behave “country adequately”. Interviewees from German firms, who are active in the U.S., emphasized that they “act like an American company” while doing business in the U.S. They emphasized that the only way to succeed in a foreign country is to adapt to its norms and culture. To sum up, *understand the country its culture and live it*. Or as the bishop of Milan Aurelius Ambrosius said: *si fueris Rōmae, Rōmānō vīvitō mōre; si fueris alibī, vīvitō sicut ibi*²¹ meaning when in Rome, do as the Romans do.

Case: This behavior can be explained through the example of the American affiliate of Siemens. Siemens USA employs approximately 60,000 people in the U.S., and is active in every American state. Each year, the Siemens Foundation invests \$7 million for educational initiatives in the areas of science, technology, engineering and math. Another and typical U.S.-engagement is the Siemens’ “Caring Hands” Program. It “mobilizes employees to donate their time and talents to worthy causes to carry out Siemens' commitment to impact the communities in which we live and work through volunteerism”. Furthermore, Siemens has invested \$25 billion in the U.S. for business operations. The Siemens “Answers” campaign which aims to provide Siemens’ solutions to challenges of today’s society is a good example of how to successfully build an image and reputation.²² Finally, the comparison of the corporate responsibility section of the Siemens webpage for the U.S. and for Germany shows how Siemens adapts to the culture of the respective country. In the U.S., Siemens focuses, as described above, on social engagement by the firm and its employees on a municipal level, notably in education. In Germany, on the other hand, companies generally do not donate to public goods such as education as such programs are organized and funded by the state. The state allocates a higher portion of its funds to such programs compared to the U.S. Instead, other issues dominate the view of social responsibility in German society. For that reason, Siemens Germany focuses on sustainability and environmental engagement in its domestic market.²³

Companies have various opportunities to adapt to the cultural specifics of the target countries. All German firms in the U.S. hired Americans in D.C. and all American firms in Germany hired Germans.

²¹ If you were in Rome, live in the Roman way; if you are elsewhere, live as they do there.

²² cf. Siemens USA (2012)

²³ cf. Siemens Deutschland

Furthermore, most firms hire consultants and law firms on the spot to achieve access to political decision makers and to learn how to interact in the socio-political environment in this specific environment (“Yes, we hire consultants”). Hiring politicians upon retiring from their political careers is another way to gain access and understand the PPM processes. Examples include former German chancellor Gerhard Schröder, who worked for Gazprom; former German Minister of State Joseph Martin Fischer, who worked for RWE Nabucco Pipeline; and for the Madeleine Albright group. The educational background of a potential employee is not a decisive factor during the hiring process. Rather, firms seek to benefit from an applicant’s networks.²⁴

European Implications: While not initially the main focus of the study, the following results materialized while researching. Due to the fact that the EU does have a weak parliament, some argue no “real” European politics, it is difficult for firms to identify to **what** they must acclimate. European politics struggles to synthesize 27 different political cultures within a complex structure. Nonetheless, European politics is increasingly important to firms, particularly due to their responsibility for economic and trade policies (single European market), competition regulations as well as energy, consumer, and environment protection.²⁵ For that reason I strongly recommend to build up European-specific political resources. The interviewees assert that firms need to understand the interactions between the European and the national level to successfully engage in the European nonmarket environment.

For that reason, firms need to understand the domestic political systems and the culture of EU-decision-makers. In order to successfully acclimate at the EU level, firms must understand the intricate “multi-layer formal and informal system” of EU-politics. To test how participants’ firms acclimate, I asked the participants of the case study to explain how to get in touch with commissioners or other decision makers. The answer to this question had the most revealing implications for the European portion of this study. The participants explained that effective communication is dependent upon the politician’s country of origin. For example, when meeting a French decision-maker, one “has to speak French”. Still, the outcome of the talk might be disappointing because due to the centralized political

²⁴ cf. Stiftung Haus der Geschichte der Bundesrepublik Deutschland (2012)

²⁵ cf. EU Council (2007).

culture in France, every detail has to be “discussed with the Élysée Palace in Paris”. In the southern European countries, informal networks are extremely important as to “know a friend from college might be more promising than being the representative of a large firm or important association”. In Germany, the Länder (states) are very important on the European level because they provide access points for firms and associations. Such as in the Scandinavian countries and in contrast to France, languages are a minor problem; speaking English is sufficient.

Who is doing the job?

After explaining how firms engage in the nonmarket, I would like to shed light on the people who are working in this field. Therefore, every interviewee responded to questions about his or her educational and professional background. A large majority of employees in governmental affairs departments (GAD) studied social sciences (> 80 %), a large subsample of whom were lawyers (60 %). Only a few are natural scientists (< 20 %). Furthermore, two-thirds of all GAD-employees have a lobbying background (defined as working in public affairs for other companies, in consulting firms, in associations or in governmental positions. The remaining worked in other positions for the same company.

How to interpret these results? Keim & Hillman²⁶ succinctly summarize the importance of similar results, asserting that *managers understand markets but not how the rules are made*. Nevertheless, managers are also responsible for the outcome in the nonmarket environment.²⁷ Results from this case study show that the top management of MNEs believe the best solution in practice is to “buy” or integrate nonmarket expertise into their companies. They also prefer to hire employees with a nonmarket-related educational and working background. In the words of Keim & Hillman, these nonmarket experts make the management more “familiar” with the processes in the nonmarket environment.²⁸

²⁶ cf. Keim & Hillman (2008: 48).

²⁷ cf. Baron (1995: 48)

²⁸ cf. Keim & Hillman (2008: 48).

These results lead directly to my model of the public policy market (PPM)²⁹ and the necessary political resources for entry, which is discussed in Part II of this study. The study clearly confirms its theoretical estimations that firms can build up specific political resources by hiring professionals. Employees with a “lobbying background” own large informal networks to nonmarket decision-makers which can increase the firm’s political resources in general, and its access in particular. Conversely, experts from within the company only rarely have personal networks to the nonmarket environment. Their impact on the firm’s resource base is minor for that reason. In summary: firms hire personnel with a governmental affairs background in order to increase their political resource base and to understand foreign political cultures, which helps to acclimate to a new environment.

However, the results of the educational and working background of governmental affairs staff may lead to a false conclusion. The governmental affairs departments (GAD) do not only employ lawyers and lobbyists as engineers and other experts are also part of the teams. The findings of the case study do not reveal the complete composition of firms’ “lobbying offices” as only the directors of these departments agreed to interview. To gather more information, I also asked the interviewees about the organizational setup of the governmental affairs department and how it fits within the firm’s overall structural framework. Accordingly, the interview results show that governmental affairs departments rely on the information of both in-house and external experts, especially litigation and standardization experts who are part of the team in the offices in the capitals (Washington D.C., Berlin, and Brussels). Finally, according to the results of the study, GAD can be found in high levels of the firms’ hierarchies. Most firms’ GADs report directly to the management board.

How to communicate cultural differences to the Headquarters

The case study analyzes how non-domestic GADs communicate their job to their headquarters. This is “sometimes quite difficult,” as an interviewee explained, because the lobbying culture in the U.S. is very different from that in Germany. “Lobbying is big business in the U.S. and part of the game”, a representative of a German-based multinational enterprise told me. In contrast to Germany and the

²⁹ See Part II.

EU,³⁰ lobbying activities are widely visible due to the Lobbying Disclosure Act³¹. To gain understanding in their headquarters, the GAD staff has to explain *how to lobby* in the non-domestic countries. One opportunity to legitimize the GAD's behavior is to show "what the competitors do". One participant acknowledged that it is a "constant debate with the HQ," especially due to the high costs in Washington D.C. According to the results of the case study, firms with non-domestic CEOs or CEOs who have worked in another country, especially in the U.S., have fewer problems justifying the existence of GAD. A lobbyist from a German technology conglomerate generalized this problem, saying "GAD can only survive if they are able to show that they are beneficial for the business units".

³⁰ EU transparency register: Code of conduct, see Official Journal of the European Union (2011); In Germany only a voluntary self-commitment, see Deutscher Rat für public relations (2004).

³¹ LEGISLATIVE HISTORY-S. 1060 (H.R. 2564) (S. 101) (1995).

Conclusion

The first part of the study gives an overview of what firms need to do to acclimate to a new socio-political environment. First and foremost, managers need to understand the structure of the new nonmarket environment; they need to understand how the **specific** rules are made.³² Therefore, firms have to analyze the socio-political environment because different political systems and cultures require different Political Strategies. This means that firms need to develop specific political resources in response. The study compares the political systems of Germany and the U.S., explaining that choosing the appropriate resources depends upon different environments. The U.S. congressional system, with powerful states and fewer whips, opens several access points for firms to deliver information and to influence the public policy shaping process. On the other side, the parliamentary system in Germany, with a powerful executive branch, diminishes the importance of the single member of the parliament and increases the importance of the federal cabinet and the departments. Understanding this, firms need to adjust their PS and develop specific political resources. In this regard I gave the examples of hiring retired politicians to create access points to public policy decision makers.

To understand the environment and to develop political resources, most firms in the study followed the “buying expertise” approach. For this approach, firms hire employees and consultants on the spot to get both an understanding of the socio-political environment and achieve access to decision makers and interest groups (who is doing the job). Governmental affairs professionals with experience from the spot and personal networks to governmental institutions are the employees firms prefer when initiating involvement in non-domestic countries.

Finally, the study gives explanations for how firms should behave in the environment of a supranational body, using the EU as an example. Here, it is important to understand the role played by several national (several nationalities) and political layers (several parties). The study showed that even decision makers in supranational bodies follow the political cultures of their home-countries, something that firms should consider. For example if a manager needs to deal with a European

³² With reference to Keim & Hillman (2008: 48).

decision-maker with a French background, the Political Strategies should be crafted to French standards.

Part II: The Model of the Public Policy Market – Reputation, Legitimacy, and Access

Introduction: The Concept of the Public Policy Market (PPM)

From the viewpoint of a company the nonmarket environment is difficult to understand.³³ Decisions in public policy markets are made on the basis of incomplete and biased information, pressure from several groups and institutions, and the political opinions and self-interests of the political actors.³⁴ In

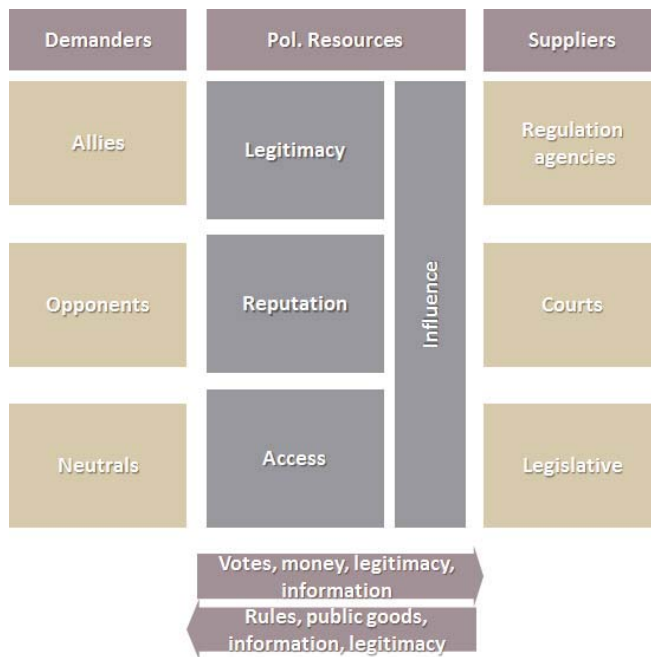


Figure 2: The Model of the Public Policy Market (PPM)

particular, this is prevalent after elections when a new majority takes office and must implement profound changes. In addition, multinational enterprises act in a globalized world and hence are confronted with different political systems and cultures. In response, schools of strategic management and public policy developed several Political Strategies to improve a firm's competitiveness. Dozens of empirical studies have tried to reveal a connection between political strategies and firm performance.³⁵

However, the results are contradictory due to the lack of an overarching framework, the complex interrelations of the market and nonmarket environment, and a wide range of research approaches.³⁶

This study corrects other study's drawbacks by offering a different approach. First, I developed the public policy market with the demanders such as the firms and customers confederated to allies and opponents on the one side, and the suppliers such as the regulation agencies, courts and legislation on the other (see figure 1). Second, I compare two different governmental systems: parliamentary system in Germany and congressional system in the U.S., to identify the differences in structure, culture and rules. Third, I use Porter's market analysis to examine the market structure of an industry, describing

³³ cf. Hillman & Zardkoohi (1999: 68).

³⁴ cf. BEYERS (2004: 218); Lord (2000: 292).

³⁵ Overview and criticisms at: Baumgartner & Leech (1996).

³⁶ cf. Hillman & Zardkoohi (1999: 69 ff).

the market power of suppliers and customers as well as the pattern of supply chains affected by the strategic (nonmarket) issue.³⁷ Fourth, I analyze the industry structure on the nonmarket layer, including the legal framework as well as the connections and contradictions between market and nonmarket groups involved in this issue.³⁸ The result of this process is a comprehensive understanding of the composition of the forces on the demand side of the public policy model, comprising allies, opponents and neutral groups/society. Furthermore, allies in the public policy market can be competitors in the market environment. Since there is no anti-trust law on public policy layer, forming a “nonmarket” cartel can be a beneficial political behavior.³⁹

The structure of the demanders changes over time. In particular, the group of neutrals, including interest groups, parties, activists, consumers and other parts of the society, heavily influences the effectiveness of Political Strategies. Depending on the salience and complexity of the strategic (nonmarket) issue, parts of the neutral population become involved in the allies or opponents group.⁴⁰ This shows how external effects on the market environment can be internalized via the nonmarket environment, particularly when interest groups exert pressure on legislation and laws change. These market interactions and their effect on the public policy market depend primarily on the governmental system and the political culture of the country – something firms must consider.

To enter the public policy market, the firm or the strategic group of firms/associations must build up specific political resources such as legitimacy, reputation and access to achieve influence (entry-barriers to the market – cf. figure 2).⁴¹ In this part of this study, I explain how firms gain these specific political resources (reputation, legitimacy and access) through specific processes and the importance of these resources for engaging in the nonmarket environment to prove the preconditions of the PPM model. Below, I discuss the role of the political resource’s reputation.

³⁷ cf. Barnett (2006: 1753) with further references, Porter (2008).

³⁸ cf. Baron (1995).

³⁹ cf. Baron (1995: 61); Boddewyn & Brewer (1994: 121).

⁴⁰ cf. Salorio, Boddewyn, & Dahan (2005: 44 ff.)

⁴¹ cf. Bonardi, Hillman, & Keim (2005); Dahan (2005b: 15).

Reputation

Proposition 1: *Reputation is the basis for success in the market and nonmarket environment; it is the key or the sine qua non to enter the public policy market.*⁴²

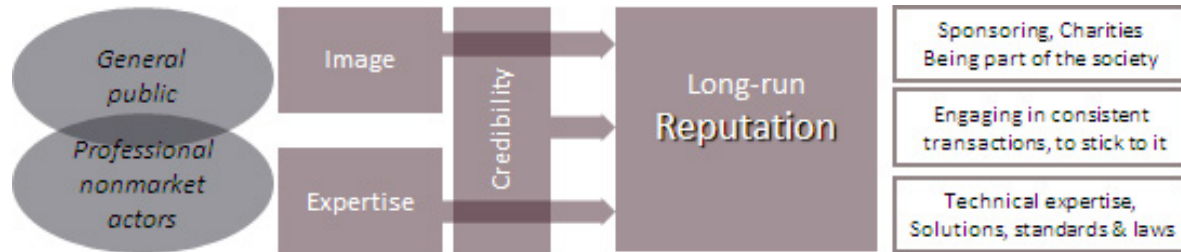


Figure 2: Process to build up reputation

All interviewees rated reputation as the most important resource and precondition to apply to Political Strategies. For this reason, this study undoubtedly proves this proposition. As explained in the theoretical section, reputation is constituted by three drivers: image, expertise and credibility (see figure 3). Further elaboration will clarify each of these three drivers.

Image: Image, in contrast to long-term oriented reputation, focuses on the general public's short-term perception of a firm or product.⁴³ Image-related activities of firms mentioned in the study include sponsorships, marketing-campaigns, charities (being "part of the society") and investments in education (especially in the U.S. on the municipal layer), in employees and the firms' equipment. From image building initiatives, companies expect to gain long term reputation, legitimacy, and access to political decision makers. The other important aspects of reputation building are expertise and credibility.

Expertise: The second aspect is expertise-related reputation which is needed to get heard and to (finally) influence nonmarket decision-makers.⁴⁴ Interviewees frequently mentioned that "technical expertise is the key" to shaping public policy processes. This is closely connected to the literature, e.g. Dahan (2005). He assumes that political reputation is built on the long run in relationships with

⁴² And can be used as a means to build legitimacy.

⁴³ cf. Dahan (2005a: 44).

⁴⁴ Further results about this issue are provided in the access-section of the case study.

professional nonmarket actors.⁴⁵ The results of the study show that all actors increase their reputation through the following activities: “providing technical expertise”, “giving reliable information”, “giving solutions for political problems”, “helping to set standards and laws” and explaining the outcome of policies to the market.

Another opportunity to enhance a firm’s reputation is to provide quality products or services. A firm can gain a good reputation by developing and producing high caliber products such as cars, machines or trusted services. Product reputation is always connected to a specific group (e.g. car buyers, accountants, lawyers) and varies in its endurance. A special reputation advantage with regard to experience is enjoyed by German firms, particularly German manufacturers: Due to the high standard of German products during the last few decades, “Made in Germany” strongly supports expertise-related reputation.

Credibility: Finally, credibility is integral to building reputation. Firms that believe “credibility is crucial” know it is important to always be “honest, reliable, and competent“. “Honesty in providing information” and to “stick to what you have said before” are also of high importance to engage in PS. Only “one piece of wrong information can destroy the firm’s reputation for years” and for that reason exclude the firm from the PPM. This aligns with the credibility approach of my theoretical explanations and fits to Mahon’s definition of credibility. He assumes that firms trying to gain credible reputation need to engage in *consistent credibility transactions*.⁴⁶

As the theoretical model predicted, the interviewees confirmed that credibility is important and closely connected to both image and expertise. All three aspects have to be considered jointly in order to generate long-term reputation. Even though image is a short-term concept the firm has to stick to it and the image strategy must be appealing and fit the firm. Image-building activities should not be short-term reactions to scandals or other firm “misbehaviors”. Furthermore, image strategies have to fit to the firm; e.g. funding of engineering-scholarships from manufacturers. The Siemens case exemplifies how to effectively build a reputation through image and credibility. Figure 3 illustrates the

⁴⁵ cf. Dahan (2005a: 44).

⁴⁶ cf. MAHON & Wartick (2003: 27 ff.)

impact of credibility on image and expertise building strategies. Researchers must consider the long term practical implications of reputation building

Implications for MNEs and smaller firms (SMEs): I found large differences between how firms gain reputation and how they use their reputation to engage in the nonmarket environment. Size matters if firms enter the PPM. I differentiate between two groups on the market: multi-domestic/global firms (MNEs) and small or medium firms (SMEs), either foreign or domestic. For the former, it is relatively easy to interact in the nonmarket environment because (1) they enjoy reputation from various transactions in the past and (2) it is easy for them to build reputation because their actions are visible to a wide range of actors on the PPM. To quote a lobbyist of a big car-manufacturer: “Reputation is no problem for us, we are well known”.

For the latter, to gain reputation is more difficult due to their non-visibility to a broad public. For SMEs, image-building activities, such as sponsoring, can be “useless”, as a representative of a German middle-sized technology company stated. This confirms the theory that image is related to the general public. Consequently, smaller firms should focus on professional nonmarket actors to combat low visibility. For example, they should focus on building expertise-related reputation and credibility.⁴⁷ Study results also confirm this behavior of SMEs. In contrast to small firms, large companies work on a widely-accepted and recognized reputation. As such, they can invest a lot of money into philanthropic activities. In contrast to SMEs, MNEs’ philanthropic activities do not have to be connected to their business or local environment. Examples of alternatives include sponsoring museums, festivals and concerts. In contrast, smaller firms focus on educational activities to invest in their own future workforce.

Legitimacy

The second political resource in the PPM model is legitimacy. Based on the case study findings I propose:

Proposition 2: *Legitimacy is needed to gain access and to influence nonmarket decision-makers.*

⁴⁷ See figure 3.

According to the theoretical model, firms' engagement in the nonmarket environment can be legitimized through a) reputation (expertise, credibility and in a less amount image) and through b) organizational and legal legitimacy. Both concepts are explained in the following.

A) An ever changing environment in which governmental institutions have to tackle various challenges such as standardizations, environmental regulations and global privacy laws gives firms the opportunity to build legitimacy through reputation.⁴⁸ Governmental institutions need input from the markets; politicians are reliant on trusted information from market actors. Firms that enjoy a mostly expertise-related reputation (see above) are invited to official hearings and to unofficial background talks with politicians and other decision makers. Because of their reputation these firms are "legitimized" to consult governmental institutions. This theoretical approach is largely confirmed by the study. Interviewees emphasized the importance of offering trusted information to the nonmarket environment. The "politicians want and need to know how changes in laws and regulations affect the markets" or which changes in the legal framework are needed to solve specific challenges. Consulting the government or just forwarding information is only legitimate if the submitted information is truthful, which refers to the credibility aspect (cf. figure 2). Firms work to increase their own reputation to become trusted sources of information for the supply side of public policies (regulation agencies, courts, legislative etc.), to gain legitimacy, to increase access and to influence favorable decision making. When neglecting the importance of reputation, the firm loses its reputation and the ability to interact on the nonmarket environment in its own interest.

B) Firms enjoy legitimacy if they contribute to society's goals such as employment, investments, education and the supply of needed goods (organizational legitimacy⁴⁹). Following laws, regulations and customs (legal legitimacy⁵⁰) also enhances legitimacy. Theoretically, the concept of organizational legitimacy is rooted in the understanding that *organizations are legitimate if they produce socially acceptable goals in a socially acceptable manner*. Organizations are following this approach

⁴⁸ cf. Meznar (2002).

⁴⁹ cf. Bigelow & Stone (1995: 183); Demil & Bensédine (2005: 59); Meyer & Rowan (1977); Powell (1985); Zucker (1987).

⁵⁰ cf. Fallon, JR. (2005)

legitimate if they conform to prevailing (social) norms, practices, and beliefs of parts of the society.⁵¹ For that reason, firms' actions need to be "desirable, proper, or appropriate within some socially constructed system".⁵²

In contrast to organizational legitimacy, legal legitimacy is easier to understand.⁵³ In accordance with the literature, legal legitimacy is based on *complying with laws and regulations*.⁵⁴ Accordingly, organizations that stick to the legal environment by following rules are legitimized by even these actions. But what does this mean in practice?

Firms' working conditions and products have to stick to the country's particular laws and regulations. Political Strategies, such as lobbying or grassroots initiatives, have to follow all the conditions of the legal framework (e.g. no bribery, disclosure of donators etc.). Furthermore, firms (organizations) need to offer goods and investments that society demands. The interviewees named a number of means to build legitimacy in different countries. "Providing jobs", "educating its employees", "making investments", "following rules and standards", offering "needed solutions and products", and finally by being a "part of the society". The study confirms both theoretical approaches.

Based on legitimacy, either built through reputation or directly granted through legitimacy the next step in the PPM is to gain access. For that reason, I asked the participants of the study how they gain access to the nonmarket environment.

Access

Proposition 3: Access allows firms to submit information in a direct way and is the precondition to influence the nonmarket environment. Access can be bought (lobbyists, employees), granted by law (legitimacy) or developed through reputation. Developments in media and IT give firms further indirect access opportunities (voice approach).

⁵¹ cf. Bigelow & Stone (1995: 183); Demil & Bensédriane (2005: 59); Meyer & Rowan (1977); Powell (1985); Zucker (1987).

⁵² cf. Suchman (1995: 574).

⁵³ Organizational legitimacy of the "lawmakers" is constitutional for legal legitimacy.

⁵⁴ cf. Fallon, JR. (2005: 1794).

Firms use a wide range of means to get in touch with nonmarket decision-makers (see figure 4). The

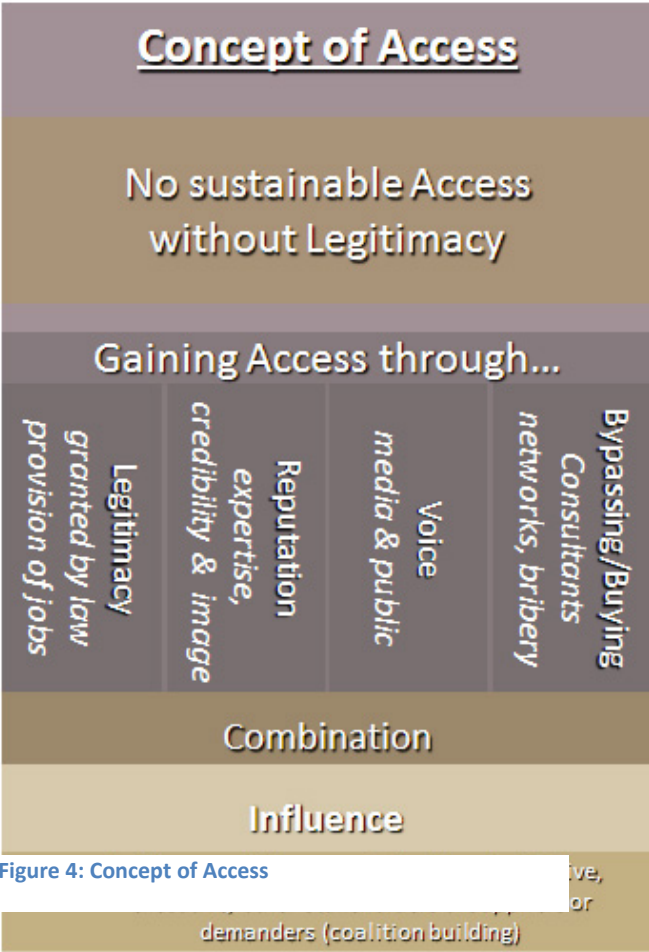


Figure 4: Concept of Access

theoretical model differentiates between the four ways to achieve access to public policy decision makers. Reputation and Legitimacy as long-term strategies to get access have been discussed above. The following section will address voice and buying strategies.

Buying access (=hiring in-house professional or mandate consultants), is a very common and quick way to get in touch with decision-makers. Accordingly, most of the interviewees confirmed that they use professional lobbyists to get access. Furthermore, they see their employees' networks as a fertile source for access. The other and in contrast to the former strategies

indirect ways to transmit information are subsumed under the voice approach. Firms can use the media, their employees and customers, or even the general public, to gain access to nonmarket decision-makers. Examples are grassroots and employee's initiatives or the social networks and interest groups.

The ways in which firms can deliver their information depends on their own political resource base, the targeted policy or institution and finally the political culture in the destination country. The case study confirms the assumptions of the theoretical model. Big differences stem from the political cultures in the countries. The political system of the U.S. is described by most participants as "open" – gaining access is evaluated as "relatively easy". "Governmental hearings", "meetings with politicians before hearings" and "social events" are the most frequently mentioned opportunities to get in touch with decision makers.

Germany paints a different picture: in order to increase access, firms must trust in associations and hire former politicians. The answers of interviewees concerning the European Union give a diffuse picture. On the one hand interviewees consider the “national track” to be fruitful. On the other hand, European institutions often lack own in-house resources and therefore more likely grant direct access to firms who are renowned for their expertise in order to gather needed information.⁵⁵

In summary, firms adapt to the political culture and “prefer direct access” to nonmarket decision-makers. In other words, they build up own internal political resources, including reputation and legitimacy rather than buying strategies on the long run (see part I). “Interviewees confirm that reputation is the key to access.” “Buying access doesn’t help. Access has to come from the expert side”, a participant from a German high-tech company mentioned. Decision-makers provide access in general if they need information and in particular to those firms that in the decision-makers’ point of view are credible.

Implications for MNEs and SMEs: As described above in the reputation section, firms have to be distinguished into two groups: global/multi-domestic firms (MNEs) and a large group of SMEs. The former group does not have problems to get access because of their high visibility; “big firms don’t have to pay for access”, as a lobbyist of a MNE explained. The latter group tries to settle this disadvantage through “coalition building”, “founding of associations” and “gaining visibility by attending hearings and hosting events”, as the representatives of smaller firms and associations contributed. Figure 1 helps to understand how firms can build coalitions and which actors in the PPM they have to consider. Especially smaller firms have to identify (possible) allies and enemies to develop and combine political resources to shape appropriate strategies.

Example of an access strategy: Providing jobs: Results of this study show that job provisions are the most important contributor to achieving access. Particularly in the U.S., this is rooted in two reasons: First, the direct election of Members of Congress forms a strong bond between politicians and their constituency.⁵⁶ Second, the provision of jobs is of high importance due to the currently high

⁵⁵ cf. BOUWEN (2002); Hauser (2011); Taminiou & Wilts (2006).

⁵⁶ Further, do not forget that House-members have to be reelected every 2 years.

unemployment rate in the USA.⁵⁷ To give a quote from the study, a common claim from lobbyists to governmental officials is, “we need your help because we employ XYZ of your constituents”. Study participants from larger firms in the case study agreed that providing jobs is “the most important thing to get in touch with decision-makers”. That is a reason why especially large firms establish plants national wide to gain the support of many Congressmen.⁵⁸

“Large firms use threats as a powerful tactic to influence public policy. The threat of cutting jobs, for example, is a powerful argument as laws come into effect. Accordingly, the study confirms the high importance of job provision through firms as a means to enter the PPM and to influence the political outcome. Though small companies do not have the possibility to threaten the politicians with mass layoffs, they have the opportunity to form coalitions with other firms and to set up representative offices in various electorates and states to gain power. However, “in the end it is facts that count,” as a representative of a telecommunication company said – the firm that employs the most voters and provides most valuable and credible expertise has the most influence on the decision-makers.

Influence

To confirm the outcome of the model of the public policy market (PPM) I asked actors from the supply side (governmental agencies) how they grant access to firms and other “demanders” and which preconditions these actors have to fulfill to get heard (influence). They confirmed the model and emphasized the importance of the political resources, legitimacy and reputation when granting access. The study showed the importance of the organizational legitimacy of firms to get heard, for example, through the provision of jobs or the development of infrastructure. Furthermore, reputation and technical expertise are also “door openers” to decision makers, which is confirmed by the supply side. Actors in governmental institutions gladly accept the cooperation with firms and NGOs, for example, if they develop draft laws and standards as a basis for discussions.

⁵⁷ Bureau of Labor Statistics .

⁵⁸ Which is an outcome of the electoral system in the US. Especially firms in sectors which are highly dependent on governmental contracts such as military and infrastructure spread their settlements over several states. See also Part I.

They further confirmed that personal contacts and professional lobbyists (networks) can open doors and accordingly confirmed the buying/bypassing access strategies. They grant access for known “lobbyists” on a personal basis, especially to former colleagues (“revolving door”) on a self-interested and on an “empathetic” level. However, to be heard, the precondition to influence the public policy shaping process, and even more than just access, firms need to be legitimized (“legitimacy counts!”). To quote one interviewee: “we only help them if there is something in stake such as jobs, investments or other governmental goals”.

Conclusion

The case study’s findings underpin the concepts of reputation, legitimacy, and access. Different behaviors were found due to different countries (U.S., EU and Germany) as expected in the set-up of the study. Evidence shows too that differences exist between the two types of firms. MNE and SME show distinct behaviors in gaining reputation and access. These findings have to be considered in their Political Strategies. Furthermore, when firms enter new markets, they have to understand the processes in the market and nonmarket environment. For that reason, most firms rely on locally hired professionals and consultants to get access and to build up their own political resource base. The provision of jobs is seen as the most important contribution by firms to gain access and influence.

As any theoretical attempt to explain the real world, the model of the public policy market is a simplification of the reality. The interactions on the nonmarket environment as well as the political resources and their differentiation are derived theoretically. In practice, the barriers between different political resources are blurred, even the segmentation of the market and nonmarket environments are fluid. Particular political resources are unobservable in their pure form. Rather reputation, legitimacy and access tend to be interconnected and condition one another. Furthermore, a clear definition of the respective public policy market with its actors and resources is not as straightforward as in theory. The interconnectedness and dynamism of the issues lead to a situation in which a firm has to deal with “multiple” public policy markets at the same time.

However, the results of the study not only confirm my theoretical approach but also show firms and other practitioners ways how to shape Political Strategies and which political resources are necessary

to enter new markets. Further research is needed to understand the processes on the European level and its interactions with the member states. However, due to the high impact of governmental influence on the markets, Political Strategies are an interesting research field with high practical implications. Further research can use this theoretical framework to better understand processes in the nonmarket environment.

Appendix:

Interview Guidelines

The main questions of the interview questionnaire are as follows:

1. The changing political environment has significant and increasing effects on the opportunities of firms (regulations, laws, subsidies, controlling resources...) doing business. Against the background of these developments, how does the political environment affect the strategies of your firm in the U.S. respectively Germany/EU?
2. To get involved in the political environment specific political resources are needed (legitimacy, reputation, access). How do you build up your political resource base in the U.S.? How do you gain access to political decision-makers in the U.S. on the several layers? How does the provision of jobs in the U.S. change the strategic opportunities?
3. How do you explain the need for political strategies in the U.S. to your headquarters?

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